

Inside Micron: major goals, and last quarter's progress.

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As the first of Outlook's companies to report earnings during the Virus Shutdown, Micron gives us an interesting glimpse at how real companies are being affected by and reacting to our current reality. To the question, "How will all this affect your future earnings?", Micron's answer is no surprise: "There's too much uncertainty to make a prediction, but we are taking steps every day to minimize whatever the impact may be". China's shutdown occurred halfway through the company's last quarter. While Micron saw steep declines in phone and auto purchases by Chinese consumers, it also saw added demand for memory from data centers due to higher levels of gaming, e-commerce, and work-from-home activity, which more than offset phone and auto weakness. This trend should continue in the next few months as other countries implemented their own shutdowns after China's.

In terms of its business operations, Micron hasn't seen much disruption so far from the virus. Its manufacturing activity has continued, with added safety protocols of course. It has increased inventory of raw materials to minimize the impact of potential supply chain delays and is looking at ways to source parts from multiple locations to reduce dependence on one supplier. It also is moving some production earmarked for the smartphone market to the data center market, in anticipation of greater demand in the near future.

Aside from virus implications, Micron performed quite outstandingly last quarter, showing progress on multiple fronts. Management still believes this past quarter is the trough for the last downcycle . . . or would have been the trough, if not for the virus shutdowns. Revenue decreased 18% from a year ago, the smallest decrease since the downturn started. Compared to the last cycle's trough in 2016, quarterly revenue was 65% higher and gross margins were 11% higher. It was the latest in many demonstrations, by Micron, of its amazing gains in profitability and financial strength over the last few years. NAND pricing increased from a quarter ago, while DRAM pricing remained flat. In the mobile sector, despite seasonal and coronavirus weakness, Micron's mobile DRAM products had record revenue. It became the first company to introduce a new generation of mobile NAND for customers like Xiaomi to use in its 5G smartphones. Micron used to lag its competitors in the mobile segment; now it leads them.

Despite many unknowns surrounding future virus scenarios, Micron has worked through its latest "normal cyclical downturn" quite successfully, and has begun to emerge on the other side as a stronger company. Perhaps that is why it has outperformed both the market and its peers both over the last year and since the start of the official bear market. Whatever challenges lie ahead, we have exceptional confidence in Micron's strength and future performance in the years ahead.

Micron vs. S&P 500 and Peers, The Last Year



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