



## ANALYST QUICK NOTES

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### Micron Technology Inc. (NGS: MU: BUY)

Target Price: \$28

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3/22/2017

#### Thesis

- MU is the most-volatile name in our Technology universe.
- Five-year price range of \$5-\$36.
  - Sensitive to pricing for DRAM (2/3 of revenue) and NAND (1/3 of revenue).
- Memory pricing stabilizing in NAND, DRAM.
- Technology transitions (3D NAND, small form factor DRAM) are largely complete.
  - DRAM shifting from PC to mobile/data center, PC improving.
  - NAND benefiting from rising SSD demand, 3D shift.
- BUY to \$28.

#### MU to report fiscal 2Q17 on Thursday 3/23/17 after the bell

- Street expects: revenue of \$4.64 billion, EPS of \$0.84.
- Argus expects: revenue of \$4.56 billion, EPS of \$0.80.
  - At consensus, revenue up 55%; year-earlier EPS of (\$0.05).

#### Guidance for fiscal 3Q17 will be important

- Investors anticipate continued momentum, and will be looking for sequential improvement for 3Q17 – but not as much as in 2Q.
- For 3Q17 (ended May 2017), Street expects revenue of \$4.7 billion and EPS of \$0.88.
- Argus expects revenue of \$4.8 billion, EPS of \$0.86.
  - At consensus, revenue up 66%; year-earlier EPS of (\$0.08).

## **The Memory industry**

- 3D NAND. Amid overall strong demand, NAND bit growth increased 45% in 2016 and is expected to grow by a similar amount in 2017.
- AMAT expects water fabrication shipments for 2017 to grow about 5% off the calendar 2016 base.
- AMAT CEO Dickerson: While demand growth has been focused in NAND, AMAT sees room for demand growth in DRAM in 2017.

## **NAND volumes growing based mainly on 3D NAND transition**

- Bit growth FY15-FY17:
  - 30%-45% in NAND.
  - Handset and client SSD still biggest.
  - Enterprise SSD, data center & IoT fastest growing.

## **DRAM: Diversification of end-markets is the key driver**

- DRAM: By 2019, server and mobile will each be bigger users of DRAM than PC.
  - Server: 2-times as big as PC.
  - Handset: 1.5-times as big as PC.

## **Conclusion**

- Micron remains a volatile name in Argus' hardware technology coverage
  - Investing for long-term in NAND; managing DRAM as emphasis shifts from PC to data center/mobile.
  - With continued momentum ahead, MU seems attractive on future cash flow growth and valuation.
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