

MU F1Q Preview

Micron Technology (MU, \$33.78 -0.98, Buy, Target Price \$50, FY15: \$3.39 on \$17.8B, FY16: \$3.67 on \$17.5B)

F1Q Preview: MU is scheduled to announce November-ended F1Q earnings after the close today, and I expect the company to exceed my expectations, but generally meet consensus expectations (plus or minus) for both F1Q results and F2Q guidance. The good news is that memory product market prices remain favorable by eroding at very slow rates; but the bad news is that I fear analyst expectations are (finally) racing ahead of what prudence would govern.

My earnings model painstakingly digests bit growth, ASP changes and cost reductions for both DRAM and NAND on a quarterly basis—and my revenue for the quarter is below the mid-point of management guidance. While I am comfortable that my lower-than-consensus estimates are likely to be exceeded, I am not convinced that consensus can or will be: market prices have held up, but they were expected to hold up; there may be some limited upside for bit growth, but guidance was already fairly robust with DRAM in the high-single digit percentage growth and NAND in the high-teens; although I think there is a better probability for more significant possible gross margin expansion given modest cost-per-bit reductions in the low single-digits for both products. This makes me more comfortable that consensus EPS can be met or exceeded, although I fear consensus revenue may be a challenge.

Nevertheless, DRAM market conditions (and NAND, to a lesser extent) continue to remain very favorable from a supplier perspective. The question for MU investors isn't whether business is good, but rather how good. I remain very positive on the shares at current price levels where MU trades well below the average price-earnings ratio of its peers, and is actually the lowest among all of them by a considerable margin—even by my low estimates.

| <i>pro forma EPS</i> | 1QF15 | 2QFY15 | FY15 | FY16 |
|----------------------|--------------|---------------|-------------|-------------|
| Tokeneke | \$0.80 | \$0.85 | \$3.39 | \$3.67 |
| Consensus | \$0.92 | \$0.91 | \$3.75 | \$4.19 |
| High Estimate | \$1.05 | \$1.02 | \$4.26 | \$5.25 |
| Low Estimate | \$0.80 | \$0.73 | \$3.22 | \$2.60 |

| <i>Revenue, 27 estimates</i> | 1QF15 | 2QFY15 | FY15 | FY16 |
|------------------------------|--------------|---------------|-------------|-------------|
| Tokeneke | 4,485 | 4,452 | 17,802 | 17,483 |
| Consensus | 4,620 | 4,530 | 18,510 | 19,640 |
| High Estimate | 4,740 | 4,940 | 20,410 | 23,440 |
| Low Estimate | 4,450 | 4,220 | 17,440 | 17,070 |

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