Micron Technology F2Q09 Earnings Preview

Meet or Beat Loss Estimates on Pricing Strength and Possible Production Upside

MU is scheduled to announce February-ended F2Q09 after the close today, with a conference call beginning at 4:30pm EDT. I expect the company to meet or better my expected loss of ($0.67) per share and/or published estimates averaging ($0.64) primarily due to DRAM and NAND market price strength in the Dec-Jan-Feb timeframe, as well as possible bit production upside due to conservative guidance. My target price remains $12.

As you can see in the DRAM and NAND market price graphs on the following page, the trend has been favorable to a significant degree for MU over the last three months. However, this data only provides a rough guideline: the DRAM chart is only relevant to the 25% of sales from commodity PC DRAMs; and MU sells half of its NAND product, that accounts for 38% of sales, to partner Intel at close to cost. Nevertheless, specialty DRAMs accounting for 25% of sales are more profitable and typically experience much less market price volatility than PC DRAMs, and the Intel portion of NAND that was selling at cost may well have been higher than market price for at least part of the quarter. Also, image sensors at 13% of sales could experience seasonal (and macroeconomic) weakness beyond the -20% contraction in sales baked into my estimate. Despite all these caveats, ASPs have been strong.

Management also guided for declining bit production last quarter due to manufacturing slowdowns around both the Christmas and Chinese New Year holiday seasons amid market price weakness. I assume shipments declined by 10% for both DRAM and NAND product, although I would not be surprised if the company decided to outperform this estimate due to favorable market price movement during the period. We shall see.

I am also expecting fairly robust F3Q guidance for both DRAM and NAND in terms of bit shipments and cost reductions catching-up for the holiday slowdowns, as well as very favorable market pricing as experienced during the first month of the period. However, the following is already baked into my model: DRAM bits up by 20%, cost down by 18%, and ASPs flat; and NAND bits up by 35%, cost down by 25%, and ASPs up by 15%. The bad news is that my loss estimate for F3Q of ($0.41) per share is close to the current consensus of ($0.44), so bettering these estimates that already assume a meaningful near-term recovery will be sporting. The bar is set pretty high.

The big issue in the marketplace is the $800M-worth of Taiwanese government money at stake in the newly formed Taiwan Memory Company (TMC) intended to attract DRAM technology to Taiwan under an intellectual property business model, and subcontract manufacturing to Taiwan DRAM makers. The headlines say the Elpida has been chosen over Micron, but that discussions continue. Unfortunately, management will probably not be able to comment much about this highly fluid—and extremely entertaining—situation.

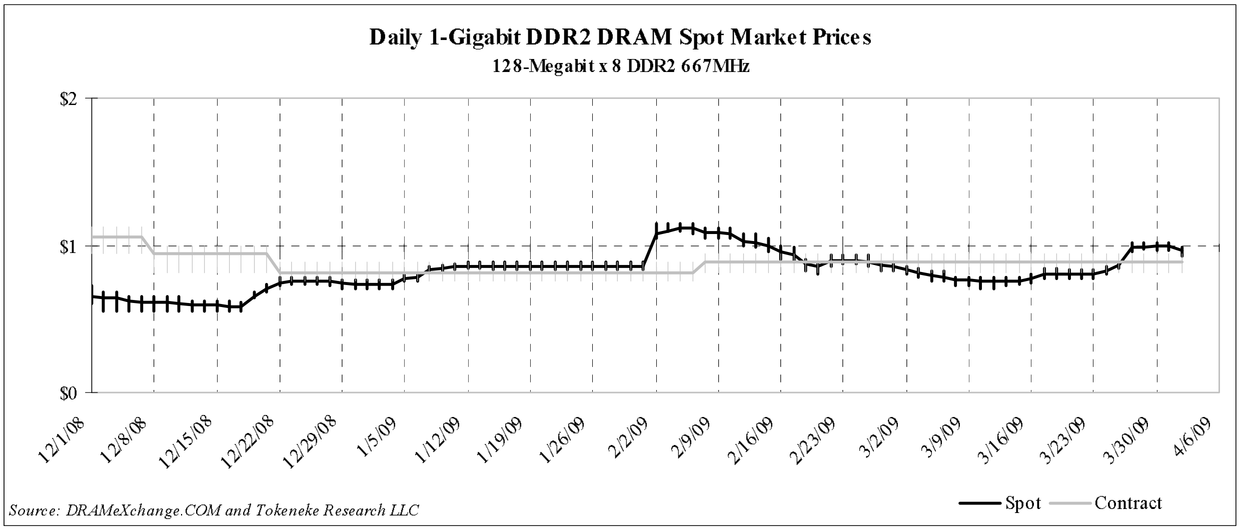
My guess is that Micron is unwilling to turn over enough of its 17,300 US and 2,600 foreign patents to get access to any of that Taiwanese money, and it will be difficult to accommodate both Elpida and Micron given different DRAM cell technology. While the market is viewing the TMC-Elpida deal as a loss for Micron, I am tempted to give management the benefit of the doubt to walk away from an unfavorable deal. If I were to chose between the last standing Japanese DRAM maker who now has the Taiwanese government as a 10% shareholder, and Micron with deep-pocket partners Intel and Formosa Plastics (via it recent joint-venture with Nanya in Taiwan), my money is with Micron.

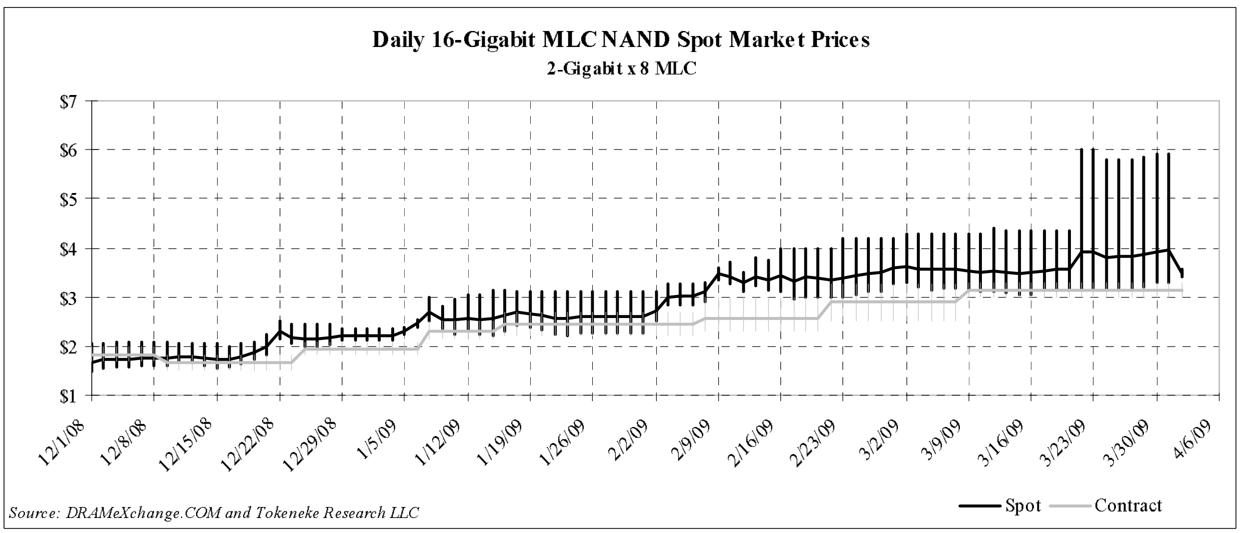
I continue to recommend MU as a Buy with a 12-month target price of $12 based on two-times sales, although the favorable risk-reward opportunity at current price levels is certainly NOT for the faint of heart.

—Dan K. Scovel
Semiconductor Analyst

Metric	F2Q Est.
DRAM Bits Shipped	-10.0%
NAND Bits Shipped	-10.0%
DRAM ASP change	-10.0%
NAND ASP change	-10.0%
DRAM Cost/bit change *	0.0%
NAND Cost/bit change *	-13.0%
Revenue *($ mil)*	1,134
Revenue Growth	-19.1%
Gross Margin	-20.4%
Opn Expenses *($ mil)*	269
Taxes *($ mil)*	10
Diluted Shares *(mil)*	773.3
EPS *(excl. charges)*	($0.67)

	EPS		
FYE August	**FY2Q09**	**FY09**	**FY10**
Tokeneke	($0.67)	($2.18)	$0.19
Consensus	($0.64)	($2.18)	($0.64)
High Estimate	($0.36)	($1.50)	$0.50
Low Estimate	($0.90)	($2.58)	($1.84)





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