

## Micron Technology F3Q09 Earnings Preview

*Meet or Beat Loss Estimates on Pricing Strength, Possible Specialty DRAM Rebound Upside*

Diluted Shares(mil) :	773.9	<u>Closing Price 6/24/09</u>	<u>fye August</u>	<u>FY08 act</u>	<u>FY09</u>	<u>FY10</u>
Market Cap(\$mil) :	\$3,978	\$5.14	Revenue(\$mil)	\$5,841	\$5,156	\$7,384
Avg Volume(,000) :	23,834		EPS	(\$1.25)	(\$2.37)	\$0.19
Net Cash/Share:	(\$2.54)	<u>Recommendation/Target</u>	Price/Sales	0.7	0.8	0.5
Tangible Book/Share	\$5.63	Buy, \$10.	Price/EPS	NM	NM	27.1

*Micron Technology is a leading supplier of DRAM and NAND memory products, as well as CMOS image sensors. It has recently partnered with Nanya in Taiwan to manufacture DRAMs and announced a 65% divestiture of Aptina, its CMOS image sensor business.*

**Summary:** MU is scheduled to announce May-ended F3Q09 after the close today, with a conference call beginning at 4:30pm EDT. I expect the company to better my expected loss of (\$0.54) per share and approximate published estimates averaging (\$0.43) primarily due to DRAM and NAND market price strength in the fiscal March-April-May timeframe, as well as possible incremental upside due to a rebound in specialty DRAM shipments that accounted for unexpected weakness in the prior quarter. My target price remains \$10.

**Market Price Strength:** DRAM and NAND market prices have been strong over the last three months (see graphs on the following page): commodity PC DRAM prices appear to have improved by one-third from approximately \$0.75 to an average around \$1.00 for the specified 1-gigabit device—which is significantly better than the +15% assumption in my model; and NAND prices for 16-gigabit MLC appear to have grown by 15% to about \$3.50 from around \$3.00—which is slightly better than the +10% assumption in my model. Tweaking my model with these adjustments would put me a few cents south of the consensus loss of (\$0.43). However, recall that this data only provides a rough guideline: the DRAM chart is only relevant to the 26% of sales from commodity PC DRAMs; and MU sells half of its NAND product, that accounted for 43% of sales last quarter, to partner Intel at close to cost. I have also modeled a seasonal revenue recovery of 35% for the company's image sensors, but at 8% of sales in the prior quarter and a deal pending to divest 65% of this business, it is rendered increasingly inconsequential.

**Upside Potential:** Specialty DRAMs accounted for 23% of sales in the prior quarter—as well as unexpected weakness at that time. This business serving low-power cell phone handset and high-performance networking and telecom applications is generally more profitable and less volatile than commodity PC DRAMs, and a rebound in this segment could easily add several nickels and dimes of upside to the quarter.

In addition, my expectations for the current F4Q09 call for more tempered improvements: DRAM bits up by 10%, cost down by 9%, and ASPs flat; and NAND bits up by 20%, cost down by 17%, and ASPs up by 5%. My loss estimate for F4Q of (\$0.30) per share is close to the current consensus of (\$0.29) and these relatively incremental improvements could certainly be improved upon. The bar is set at a very achievable level.

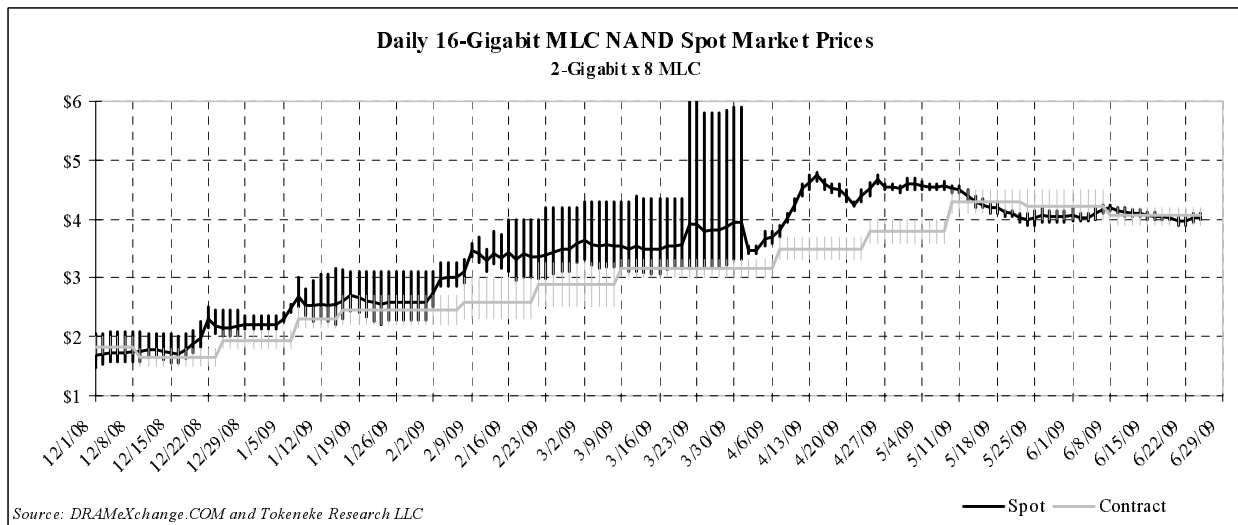
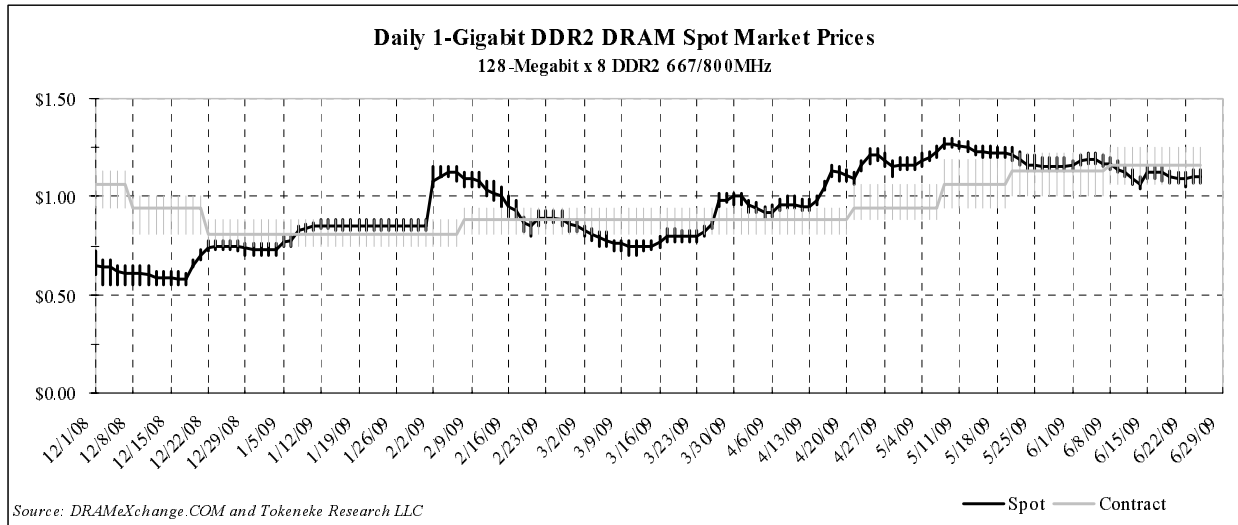
**Reiterate Buy:** I continue to recommend MU as a Buy with a 12-month target price of \$10 based on two-times sales, although the favorable risk-reward opportunity at current price levels is certainly NOT for the faint of heart.

Metric	FY3Q Est.
DRAM Bits Shipped	8.0%
NAND Bits Shipped	18.0%
DRAM ASP change	15.0%
NAND ASP change	10.0%
DRAM Cost/bit change *	-7.0%
NAND Cost/bit change *	-17.0%
Revenue (\$ mil)	1,264
Revenue Growth	27.3%
Gross Margin *	-10.8%
Opn Expenses (\$ mil)*	265
Taxes (\$ mil)	10
Diluted Shares (mil)	773.9
EPS (excl. charges)	(\$0.54)

\*adjusted for inventory revaluation and charge

—Dan K. Scovel  
Semiconductor Analyst

	EPS			
FYE August	FY3Q09	FY4Q09	FY09	FY10
Tokeneke	(\$0.54)	(\$0.30)	(\$2.72)	\$0.19
Consensus	(\$0.43)	(\$0.29)	(\$2.33)	(\$0.46)
High Estimate	(\$0.25)	(\$0.11)	(\$2.12)	\$0.50
Low Estimate	(\$0.64)	(\$0.60)	(\$2.47)	(\$1.75)



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