Micron Technology F3Q09 Earnings Preview

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

Diluted Shares *(mil)*:	773.9
Market Cap *($mil)*:	$3,978
Avg Volume *(,000)*:	23,834
Net Cash/Share:	($2.54)
Tangible Book/Share	$5.63

Closing Price 6/24/09
$5.14

Recommendation/Target
Buy, $10.

fye August	FY08 *act*	FY09	FY10
Revenue *($mil)*	$5,841	$5,156	$7,384
EPS	($1.25)	($2.37)	$0.19
Price/Sales	0.7	0.8	0.5
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.

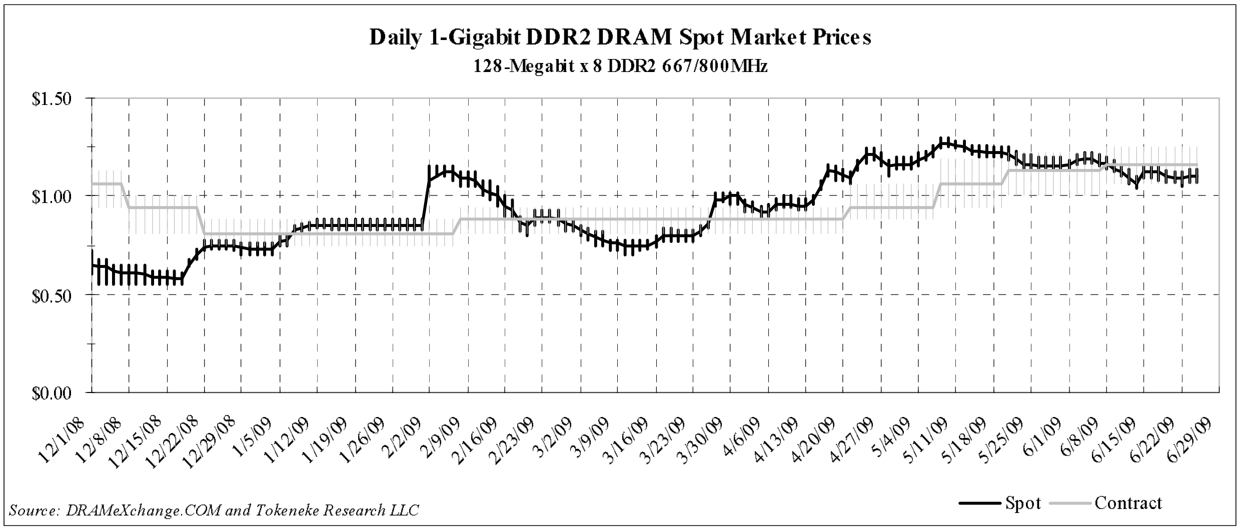
Reiterate Buy: I continue to recommend MU as a Buy with a 12-month target price of $10 based on two-times sales, although the favorable risk-reward opportunity at current price levels is certainly NOT for the faint of heart.

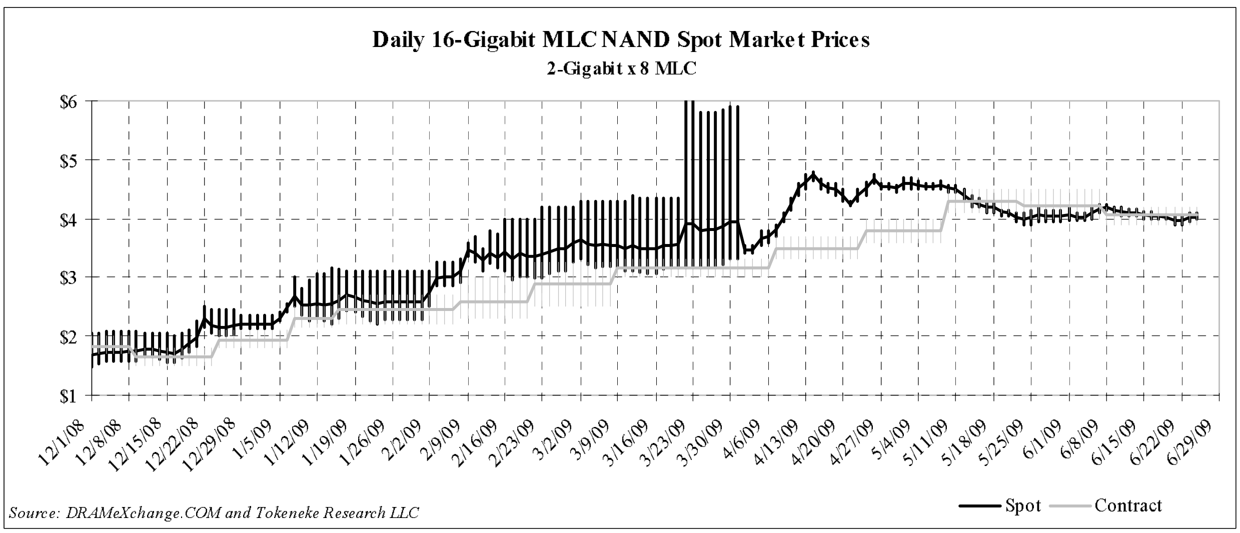
Metric	FY3Q Est.
DRAM Bits Shipped	8.0%
NAND Bits Shipped	18.0%
DRAM ASP change	15.0%
NAND ASP change	10.0%
DRAM Cost/bit change *	-7.0%
NAND Cost/bit change *	-17.0%
Revenue *($ mil)*	1,264
Revenue Growth	27.3%
Gross Margin *	-10.8%
Opn Expenses *($ mil)**	265
Taxes *($ mil)*	10
Diluted Shares *(mil)*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

**adjusted for inventory revaluation and charg*

—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)





Tokeneke Research LLC
dscovel@tokenekeresearch.com
www.tokenekeresearch.com
203-604-0183 *phone*
203-554-4621 *cell*

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