

SanDisk 1Q Pretty Good

| SNDK | | <i>SanDisk</i> | | |
|-------------|---------|----------------|----------|------------------------|
| Qtr: | 1Q | Grade: | <i>B</i> | Growth(qtr-qtr) |
| Rev: | 1,511.9 | Rev: | + | Rev: -12.5% |
| GM: | 51.2% | EPS: | +++ | Fcst: +3+8% |
| EPS: | \$1.44 | Fcst: | + | Div: \$0.225 |

SanDisk (*SNDK*, \$75.85 +0.51, *Rated Long—but Upside Incremental in my latest Semiconductor Investment Ideas*)
1Q Earnings: Late yesterday *SNDK* announced fairly impressive 1Q results, exceeding consensus for reported revenue and guidance and exceeding the high-end of the range for reported pro forma EPS. Gross margin upside was due to favorable product mix as enterprise-class SSD sales doubled over the prior year, as well as better-than-expected retail sales.

Bit sales dropped by -8% and ASPs declined by -3% for the seasonally soft period, and revenue by channel was split 65% commercial and 35% retail reflecting seasonal retail softness, but also relative commercial strength over the longer-term. Sales by product type included: removable (memory cards and USB flash drives) at 40%; embedded (stand-alone chips attached to a board) at 20%; SSDs (both enterprise and retail) at 28% and up by +61% on the year; license and royalties at 6%; and other at 5%. Segments offering above-corporate-average gross margins include enterprise SSDs and retail sales, while client SSDs and embedded trend below-average. An unnamed major customer will be converting to a customized embedded solution this year which does not benefit gross margin, although margin guidance for the year was raised to 47-49% up from 45-48% previously.

The shares currently trade at 2.5-times sales and 12.4-times EPS based on 2015 expectations, and I believe upside potential approximating 15% (or a bit more) is significantly more likely than downside risk. Why? Because: NAND markets are growing; then next two quarters offer a seasonal tailwind; and *SNDK* is a leading NAND supplier with a near-term strategy emphasizing profitability of product mix as it consciously expands volume production below expected industry bit growth this year of +35+40%. It is betting the incremental loss of market volume share will be more than compensated by less competitive market prices and a richer product mix—which is pretty much what appears to be occurring, in my opinion (notwithstanding gymnastics from that major customer).

—Dan K. Scovel
Semiconductor Analyst

LEGEND

| | | Grade |
|-----|---|---------------|
| +++ | exceeded the high-end of the range | A all +++ |
| ++ | above consensus, within the high-end of the range | B all + |
| + | slightly above consensus | C all o/+ |
| o | met consensus | D mixed -/o/+ |
| - | slightly below consensus | E all o/- |
| -- | missed consensus, within the low-end of the range | F all - |
| --- | missed the low-end of the range | |

Tokeneke Research LLC
Rowayton, CT 06853
dscovel@tokenekeresearch.com
www.tokenekeresearch.com
 203-554-4621

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