

The Outlook: September 27, 2017

Micron “spectacular”: in the real world and the market world.

The Question of the Day—from the desk of Outlook’s Theresa Kroll—is: “Today Micron stock exploded, up 9%, after last night’s spectacular quarterly earnings report. Only 3 months ago, after an equally spectacular quarterly earnings report, Micron nose-dived—down 10%. What’s going on?”

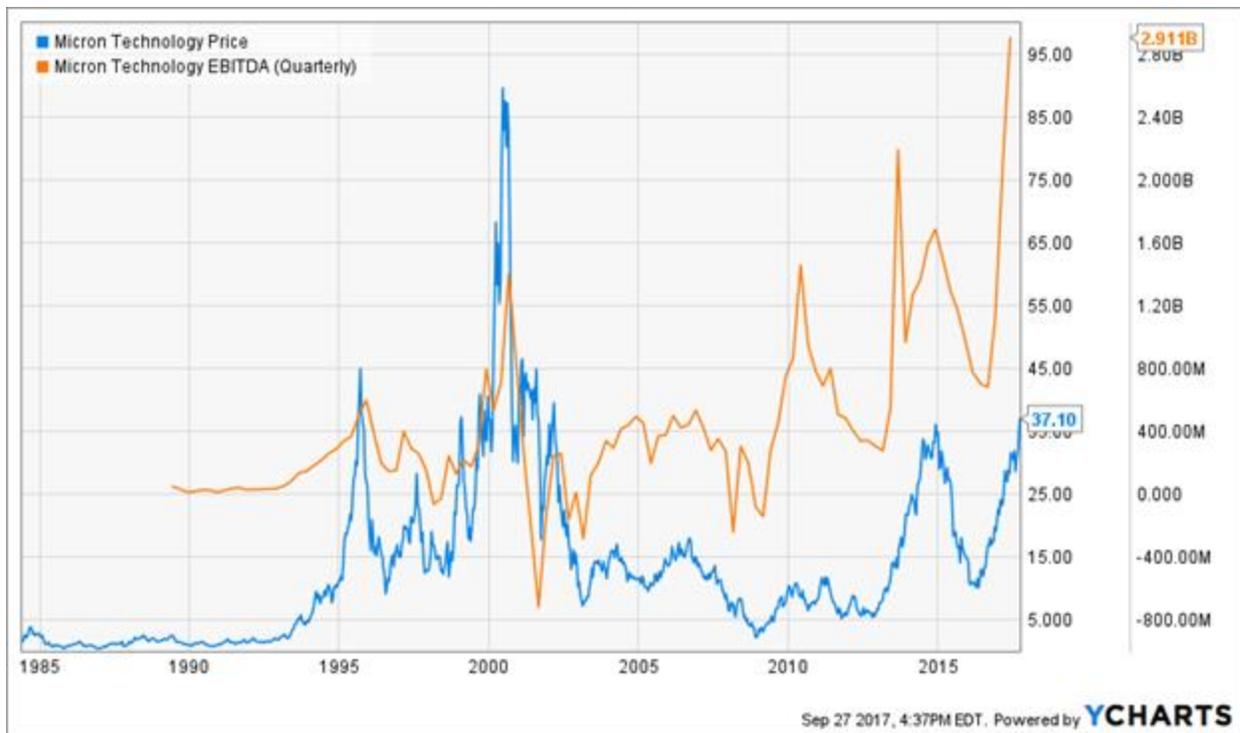
The answer to this question tells us some profound things about the nature of the market’s world, and the nature of the business world—which is a different world entirely, thank goodness. Let’s begin by glancing at the pictures.

Micron: 6 Months



That’s Micron plunging 10% (right in the middle of the chart) after its spectacular June earnings report. At the far right, that’s Micron rocketing 9%, after yesterday’s spectacular earnings report. Now let’s step back a bit.

Micron: 15 Years



The yellow line—roughly, cash flow from operations, which captures both the firm’s sales and its efforts to control its manufacturing and other costs—is Micron operating in the business world. And of course the blue line is Micron’s stock, being operated upon by the market’s world. As Outlook clients understand very well by now, the memory chip business is “Rough” with a capital “R.” Chip sales and chip prices rocket up and rocket down—and the men and women running memory companies know perfectly well that neither they, nor anyone else, can be sure about when that roller coaster will change direction.

That “Rough” picture has bankrupted a lot of memory companies, these past 15 years . . . but not Micron. See how that yellow line moves? Each spiked bottom is higher than the last bottom. Each spiked top is higher than the last top. Why? Because Micron’s people knew that to survive those regular plunges in sales, they simply had to make their factories work better: advancing technological processes, lowering production costs. They did just that, which is why operating cash flow got better and better, both at the exhilarating sales tops and the abysmal sales bottoms.

So that 15-year yellow line tells an extraordinary story about how dramatically Micron has been improving itself in the business world—the real world. But what is the market world’s opinion about that real world? Does it disbelieve it? Does it ignore it? Does it care about it?

Now we’re getting to the heart of the matter. The market is big. It’s “big” on a galactic scale, pretty much; so big it’s hard for most of us to imagine it . . . and most non-professionals’ impressions of it are very small, relative to the reality. But big as it is, something in the neighborhood of 90%, or more, of all the trades occurring in the market each day, hour and minute are triggered by people who only care a little bit about that “real world of business,” but care enormously about how the rest of the 90% might instantly react to any passing bit of news, for a few minutes, hours or days. Yup . . . they’re speculators. So 3 months ago, a spectacular Micron earnings report triggered a million speculating fingers jammed on the “Sell” button—because the market’s general impression about the nature of Micron was

still: “Just an eternal roller coaster business, so our business is all about getting out of the stock on top of one of those spiked peaks—because today’s good news is probably the last good news.” And Micron fell a lot, rose a bit, then fell even more, and the million were probably feeling clever. But then, on no “new news” at all, Micron began climbing again, until yesterday’s spectacular earnings report, and obviously a million fingers jammed on the “Buy” button.

Why? Well, Outlook’s opinion is that the million had a couple of months to ponder the real-world facts behind Micron’s 15-year yellow line of up-trending cash flow. The result of that “pondering” (if we can dignify it with that term) was a slightly changed general impression: “OK, maybe Micron’s a tiny bit better than the eternal roller coaster of the past.” For a million speculators, that’s enough to shift to the “Buy” button . . . then sit poised, finger ready, to go back to “Sell” at a moment’s notice.

Micron has a new CEO, Sanjay Mehrota, a highly-regarded veteran of the memory business. He said a lot of interesting things about Micron yesterday, but to Outlook here’s what mattered most. (It’s long and lingo-packed, just skim it and note the underlined words.)

*As I begin my first new fiscal year as CEO, I would like to outline our strategic priorities. First, we are focused on driving our cost competitiveness to best-in-class levels, primarily by **accelerating** the percentage of our output on leading edge technology, in both DRAM and NAND. Second, we will drive execution excellence, delivering solutions to customers **quickly**, predictably and in line with their product launch windows. Third, we will **accelerate** our transition to high value solutions. We intend to lead the industry in deploying disruptive memory and storage solutions. Fourth, we will leverage the full breadth of our capabilities to develop deeper collaboration and partnerships with marquee customers, maximizing our value in the market. And finally, we are strengthening our focus on our teams, investing in the best talent and driving a winning culture. We believe our diligent emphasis on the **speed and urgency** with which we execute these strategic priorities will have a transformative effect on our market competitiveness and financial performance. I look forward to sharing the results of our progress with you in the year ahead.*

“Speed kills.” That’s a saying in the track-and-field world, which means that whether you throw the discus or run the marathon, the faster you can sprint the better you’ll be. As Outlook has noted a few times, the principle is good for just about every field of human endeavor: from war to business to sports. (George S. Patton: “A decent plan executed right now is infinitely better than a brilliant plan executed . . . later.”) So Outlook has been happy to hear Mr. Mehrota pounding on the same drum in just about every statement he’s made, since he took Micron’s top job a few months ago. “We will be fast.” That’s the kind of command, from the top, which every single employee understands. Micron began transforming itself years ago—which is why Outlook invested in it. The improvement is dramatically obvious today . . . and it’s still accelerating.

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