

## The Outlook: Dec. 22, 2016

***Micron carries out the plan. Market amazed.***

**Micron, 2016: What Happened. (Up 63%. Up 143% since May 13<sup>th</sup>.)**



**Micron, 5 Years: Why it happened.**



Here's what a fairly typical Wall Street analyst said today about Micron Technology, following its dramatically better-than-expected Quarterly Earnings report yesterday.

***Needham and Co. Upgrades Micron 2 Levels to "Buy."***

*Following Micron Technology's (NASDAQ:[MU](#)) [strong Q1 reporting and Q2 forecasting](#), [analyst Rajvindra Gill](#) elevates from Underperform (which means "Sell"), citing regained customer positioning in 20nm, successful migration to 3D NAND (2nd-generation 64-layer), improved DRAM pricing climate, extensive range of product targets (cloud computing, data centers, networking,*

*graphics, automotive/ADAS), ongoing cost conversions in DRAM and 3D NAND, and gross margins he believes may near 36% in late 2017, leading to EPS of \$3.30.*

And here is Outlook's simplified version of Mr. Gill's remarks:

Mr. Gill's many reasons amounted to the fact that Micron is doing exactly what it's been saying it would do for the past 2 years, though of course he didn't put it that way. While company management can be fooled about the cycles to which the company is subject, and can make mistakes, most of the time they have good plans for handling problems and improving their firms, and carry them out pretty well. Wall Street analysts, on the other hand, are regularly fooled about both the cycles and about management's effectiveness in fixing problems. They miss the cycles, then they don't think the cycles will ever turn around, and finally they don't believe management will succeed until the success is too obvious to ignore.

CEO Mark Durcan got to the heart of it in his remarks when he said, roughly, "Our factory production costs will be falling significantly through 2017; demand is strengthening or already quite strong across most of our memory-chip markets; our several major new products are on schedule and, so far, supporting our high expectations for them in the longer-term future."

The bottom chart gets to the heart of Micron's story. The memory chip market more-or-less collapsed through 2015 and early 2016. It surprised nearly everyone, which is perfectly normal in that business. Micron had launched itself into a major spending program to upgrade its factories and develop solid-state (and other) chips which are extremely likely to rule the market in the years ahead, and which are far more customized to particular uses than anything the memory chip industry has seen in its prior lifetime. That orange "Research and Development" spending-per-share line shows how Mr. Durcan and team ignored the damage the company was enduring from that falling chip cycle, and stuck with the long-term plan. The spending would pay off eventually.

After enduring both the damage to earnings and the slings and arrows from Wall Street's many armchair quarterbacks, the past couple of quarter's facts-on-the-ground began to make it seem Mr. Durcan would be correct. This quarter's facts-on-the-ground changed things from "seem correct" to "is correct."

Micron rose 12% today. It will continue its roller-coaster ride . . . but the tracks are going uphill, on balance, not down.

© Dave Raub  
Outlook Capital Management, LLC  
125 S. Wilke Road, Suite 200E  
Arlington Heights, IL 60005  
[847-797-0600](tel:847-797-0600)

*The remarks above aren't a general recommendation to buy or sell particular securities. Such decisions should only be made in the context of an investor's own circumstances. Stocks and bonds carry the risk of loss.*