# The Outlook: Oct. 24, 2018

***When the word "ridiculous" actually fits: the Micron example.***

Outlook has remarked a few times that the media always presents the market as something which "thinks" fairly well—that is, there's always some kind of reasonable cause for whatever the market did yesterday, or is doing at the moment. So it's not easy for investors to decide (as Outlook so strongly advises its clients) that the market is very often absolutely terrible at anything approaching "reasonable thought," and its behavior should never guide our thinking. Let's glance at Micron, this afternoon—then see how we feel about the market's judgment.

**Micron, 3 Years: Operating Cash Flow (Orange) and Share Price (Blue)**


Micron's operating cash flow has grown from $1 billion/quarter to $5 billion/quarter in 3 years. The company has saved a good deal of that cash, and Micron will spend $10 billion to repurchase its own shares, over the next year or two. At current market prices, that $10 billion is now around 25% of the company—an incredible figure. To illustrate the power of that kind of share buyback, if Micron's total earnings stays exactly the same from beginning to end of the $10 billion repurchase, the 25% buyback will increase per-share earnings by 33%. It's the same Micron earnings volume divided up among far fewer shares.

Micron's buyback plan—and its power to carry out the plan, given its cash on hand and conservatively-estimated future free cash flow—are no secret at all. The market knows it . . . but the market's speculating crowd also knows that for a little while, fear can always overpower real-world facts, when the crowd gets some momentum behind a fearful "run" on stocks. Those "real-world facts" are clear, and powerful, for every one of our companies—but in Micron's case, this market's disconnect from that reality is so ridiculous that we really do have to see it, to believe it.

Within a few years—not many years—we expect Micron to be trading at $120 or better. It's worth that value right now, with its current $10 to $11 per-share annual earnings rate . . . which is a price/earnings ratio of about 3.5 times, today. A P/E of 3.5 makes sense for a company at some risk of bankruptcy—pretty soon—or a company very likely to see its earnings plunge from $11/share to, say, $2 or $3 per share, and have little hope of growing back from that abysmal level, for the foreseeable future. Now, there is room for argument about any future event: we can't know the future, so reasonable people can come up with different opinions about what's likely to happen, concerning a company's business performance or anything else. But there is a range for reasonable opinions, even if that range might stretch from "sharply positive" to "sharply negative." People being what they are, there will usually be just a few opinions falling far outside that range—from people who looked at the same facts as everyone else, but somehow reasoned to a mind-bogglingly extreme prediction from those facts. The word for that kind of opinion is "ridiculous." An example would be, "China is feeling pretty annoyed about the U.S. trade war, at the moment, so we can expect a pre-emptive missile launch from Beijing tomorrow afternoon."

The opinion that Micron Technologies will go bankrupt; or see its earnings fall below zero or, at best, to $2/share; and never recover with renewed growth in the foreseeable future—falls into exactly the same category. It's not reasonable. It's ridiculous. The actual range of reasonable opinions—sharply positive to sharply negative—is more like this: "Micron will buy back 25% of its shares in one year" (sharply positive) to "Micron will take three years, maybe even more, to finish that buyback" (sharply negative.) And when it comes to Micron's ability to rekindle strong growth no matter what sharply negative event might happen tomorrow, it is not easy to find anyone who doubts the major growth in global memory demand over the next decade. That global demand is just too obvious to reason against, as is Micron's ability to share in it.

It's hard to overstate Outlook's confidence in this company's long-term future. The foundation for that confidence is outstanding financial strength, built by Micron over these past few years. Micron is going to spend that $10 billion retiring its shares, and it's going to earn today's $11 and much more, in the years ahead, no matter what happens this quarter or next year. That means the market will eventually give Micron that $120 value, or more, with a probability approaching certainty, and we'll look back at today's price and shake our heads in wonder . . . as we've done a great many times over the years, when contemplating so many of the market's past "judgments."


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