Business Progress Report for Micron: major goals, and last quarter's progress.

Micron Technology is America's leading memory-chip company, and one of the "big three" such companies in the world. Micron believes that we are at the very beginning of an explosion in the amount of memory and storage needed in the next 5-10 years—and Outlook agrees. (By 2021, the amount of data used in cloud storage alone is expected to triple, and that is a conservative estimate.) We are at the beginning of the artificial intelligence (AI) trend (where faster computers with much more memory are analyzing volumes of information so large that "useful" data was previously unreachable—like needles in haystacks.) In hundreds of industries from medicine to factory production, we aren't yet fully able to realize the impact this will have on our everyday life in the future—but American business is "sold" on AI's benefits, and is clearly investing to take advantage of them.

Micron has been acting very effectively (and with real speed) to make itself the "go to" company in the middle of these long-term trends. To do that, the company must make progress every quarter toward these major goals:

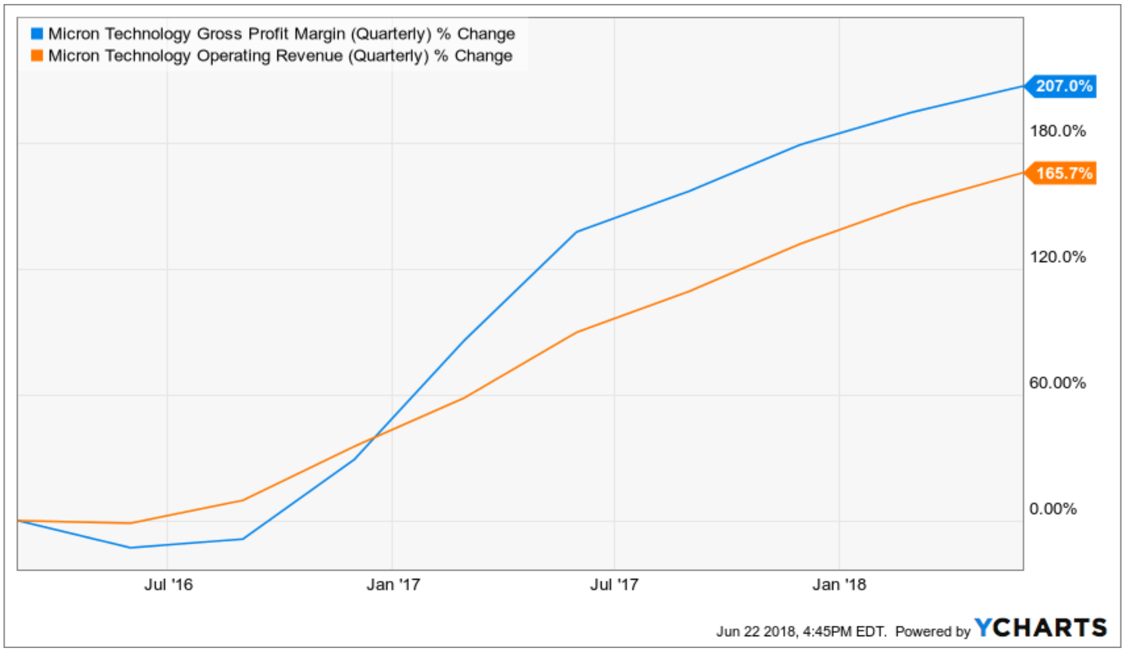
- Lower factory-production costs, to catch up with Samsung (the global memory leader), so that down-cycles in memory prices won't hurt profits as badly as in the past.

- Lower debt and increase cash reserves and cash flow during today's "good times," again so that memory price downcycles can't hurt Micron as in the past.

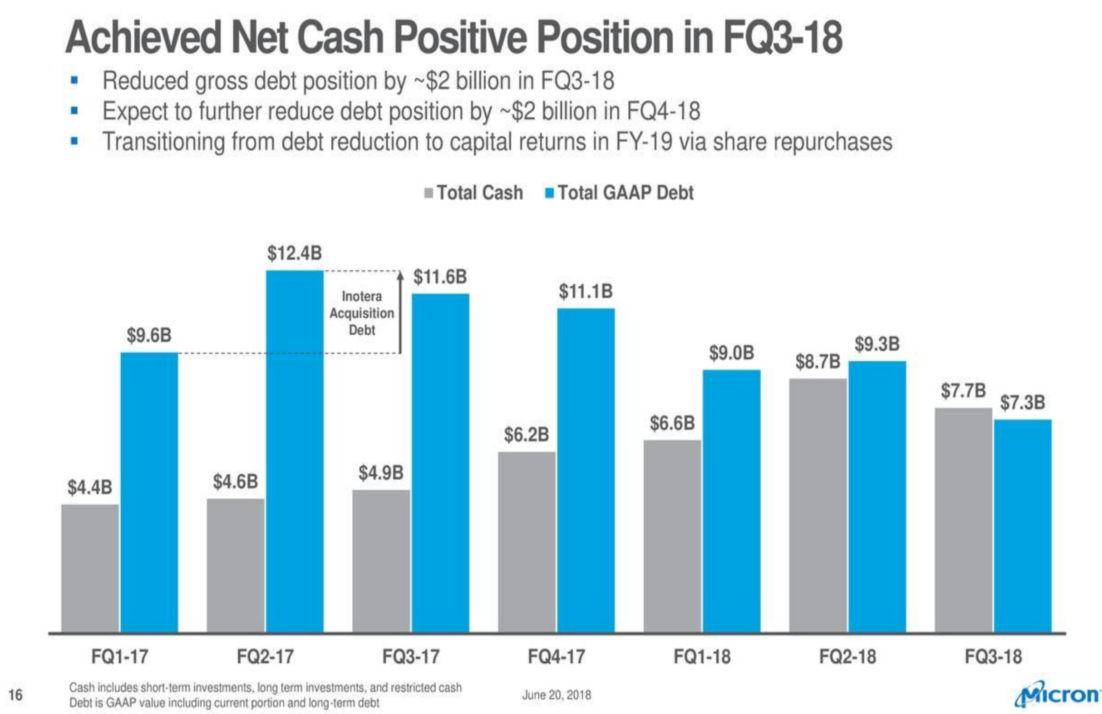
- Introduce, faster than anyone else, the more sophisticated and more customized kinds of memory devices needed by "AI" and cloud storage, which are much more profitable than the devices of the past.

Micron showed excellent progress toward all three goals last week.

First, the "lowering costs" goal (where the explosive growth in revenue—orange line—is exceeded by the growth in profit margin, as a percentage—blue line.)



Next, the "improve debt and cash" goal. This chart is really impressive. See how cash reserves (gray bar) exceeds total debt (blue bar) for the first time ever.



The third goal—new products, basically—is hard to picture in a graph. Here is what Micron told us about two of its high-impact future products:

- On the technology side, Micron shipped the world's first QLC-based SSD (a higher capacity storage drive ideal for applications like media streaming). Micron, and most industry experts, believe "solid state drives" (SSD's) will replace a great portion of the world's "hard disk drives" (HDD's) in the next 5 to 10 years.

- Micron is continuing progress on its revolutionary 3D XPoint technology venture with Intel, a combination storage and memory solution unlike anything currently on the market, expecting a 2019 launch. Micron, Intel and the other two memory companies have been pretty secretive about this new memory technology for the past several years, but Micron seems to be in the lead right now, when it comes to eventually actually selling the finished thing.

Both before and after Micron's earnings report last week, the market's typical roller-coaster ride has been wilder than ever. But the most obvious thing we can say about the market's treatment of Micron is that the market is still valuing the company as if it's made no significant improvements in its financial strength, cost-effective production, or future technology, over the past few years. It's hard justify that point of view, given the facts above. We think Micron will always rocket up and down, but we also think this company is really worth hanging onto, regardless of that ride.

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