

Mossberg's Investor Digest

Best Idea Profile:

Micron Technology, Inc. (NASDAQ:MU)

DESCRIPTION:

Micron Technology is an advanced memory and semiconductor technology company. Its DRAM components, NAND Flash and NOR Flash memory products are used in everything from computing, networking, and server equipment; to consumer, mobile, automotive, and industrial applications. Founded in 1978, the company has operations in North America, Central America, Europe, Middle East, and Asia. It is headquartered in Boise, Idaho, and employs approximately 20,000 people.

KEY INVESTMENT CONSIDERATIONS:

Upcoming Acquisition – Micron stands to reap big benefits from its upcoming acquisition of Elpida Memory, Inc., a previous competitor in Japan that went bankrupt last year. There are still some roadblocks, or more likely, curves in the road, to getting this acquisition completed. When it receives final approval there will be immediate impacts to Micron. The company will gain operating efficiency, as it moves capacities around for a better mix of DRAM and NAND. It will produce back-end efficiencies as the strong operations at Micron are adapted to the outsourced and expensive Elpida operations. Lastly, this will benefit the capital intensity required to grow. Through this acquisition Micron is buying good facilities for cents on the dollar, resulting in upgrades that cost much less than a greenfield addition.

Industry Consolidation – After 15 years of consolidation and extreme competition, the market has been reduced from 20 players to only three: Samsung, Hynix and Micron. In part this has resulted from fewer governmental subsidies. For instance, the recent bankruptcies of Japanese players would probably not have happened in the past because the Japanese government would subsidize the companies. These subsidies have stopped.

Industry Growth – Growth in smartphone and tablet markets, as well as rekindled notebook growth, will fuel profound shortages for memory. Including all cell phones (smartphones and lower end phones), the amount of DRAM in each is increasing from 420 mb to 750 mb next year. Tablets' use of memory is growing exponentially as well. People in less developed countries are now finding the disposable income to buy devices that connect them to the internet. This worldwide trend will drive mobile memory demand for at least three to five years.

Smarter About Building Capacity – With the memory industry essentially now an oligopoly, Micron is well situated. Management states that it is in a different scenario now. "We don't have the arms race going on anymore," meaning the competitive environment of the past four decades has changed. There is no longer a new country lining up to add memory capacity with irrational capital. The remaining competitors can defend their market share without sacrificing profitability. The positive price environment for memory is particularly surprising during what is seasonally a slow sales period. Historically, high demand and a positive price environment have resulted in overbuilding of capacity. This is not expected this time around given the changed environment, the increased difficulty to add capacity, and the mentality of the remaining competitors.

VALUATION:

Street estimates for earnings are likely to rise when the Elpida acquisition closes as the added capacity ramps up analysts' earnings models. Over the next three to five years, with increasing pricing power and greater efficiencies of scale, Micro has \$1 to \$2 of earnings power. Stock is trading near its 12-month high but has room to increase as the company completes the acquisition and market dynamics continue to improve.

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Investment Data (as of 5/29/13)

Recent Price	\$11.78
52-Week Range	\$5.16 - \$11.88
Fiscal Year End	Aug 29
Dividend	NA
Yield	NA
Shares Outstanding	1.0 B
Average Trading Volume (3 mos)	32 M
Market Capitalization	\$12.2 B
Cash	\$2.2 B
Long-term Debt	\$3.7 B
Enterprise Value (EV)	\$13.4 B
Book Value	\$7.04
TTM Revenue	\$8.1 B
P/ Revenue	1.5x
TTM EPS	\$(1.12)
P/ EPS	NA
TTM EBITDA	\$1.5 B
EV/ EBITDA	8.9x

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