

# Otto Analytics

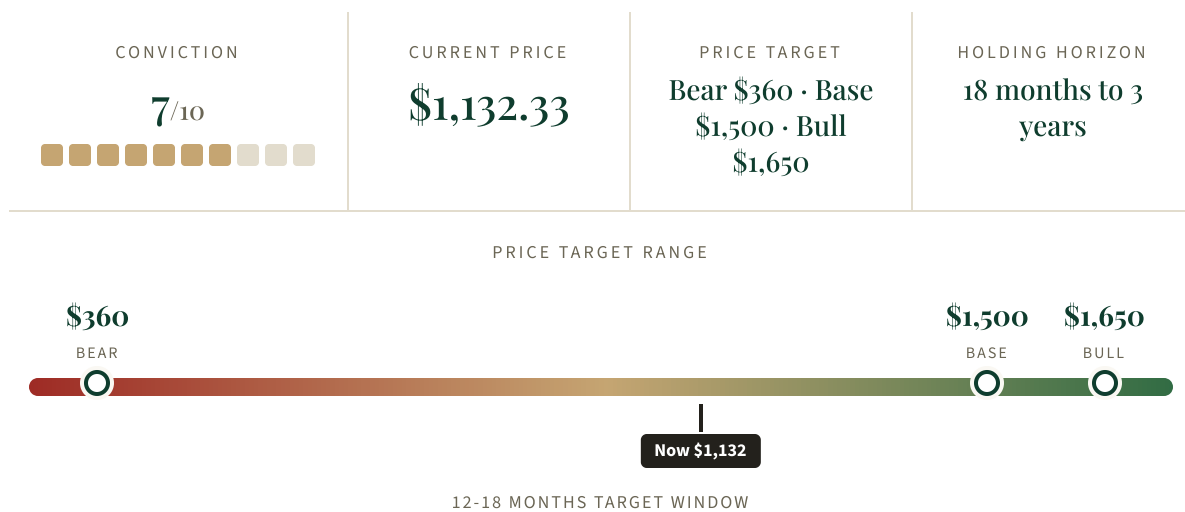
FRONTIER INFRASTRUCTURE · CONVICTION RESEARCH



## MU Micron Technology, Inc.

● ACCUMULATE / WATCH

INVESTMENT MEMORANDUM | JUNE 27, 2026



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### Thesis

Micron is the only American maker of the memory that every AI accelerator now requires, and HBM has turned a commodity seller into a contracted infrastructure supplier with 2026 capacity sold out years in advance. The business is firing at a level it has never reached: the May quarter alone booked \$41.5 billion in revenue at an 84.6% gross margin and \$28.2 billion in net income, with the balance sheet swinging to a net cash position over the first nine months of the fiscal year. The catch is the chart, not the company: the stock is up roughly 800% in a year and trades 41% above its 50-day average, and the margins powering today's earnings sit at a cyclical all-time high, so the right move is to own the thesis and accumulate into weakness, not chase the all-time high.

## The Debate

### ▲ BULL CASE

#### From commodity to contract

Memory stopped being a pure commodity at the high end. Every NVIDIA Blackwell rack needs eight HBM stacks and the next-generation Rubin platform moves to twelve, pushing HBM toward 55-60% of a GPU's bill of materials. That makes Micron a mandatory supplier with no substitute, and all three HBM makers sold out their entire 2026 capacity before the first quarter closed. Micron books that demand under multi-year strategic customer agreements, structured as take-or-pay commitments with fixed or banded pricing, a structural break from the quarterly spot haggling that defined memory for forty years.

#### The financial transformation

The financial transformation is real and cash-backed. The May quarter posted \$41.5 billion in revenue, up 346% year over year and 74% sequentially, the fifth consecutive record quarter. Gross margin reached 84.6%, up from 37.7% a year ago, and net income was \$28.2 billion. Across the first nine months of the fiscal year, operating cash flow was \$45.7 billion against \$19.6 billion of capital expenditure, and the balance sheet moved from a net debt position to roughly \$24 billion net cash. This is not an accounting mirage; retained earnings nearly doubled over the nine months.

#### The moat

The moat widened where it counts. Micron holds the number three seat in a three-player DRAM oligopoly that controls 95% of global supply, a structure no fourth entrant can crack given that a leading-edge fab costs \$15-30 billion and takes three to five years. On HBM4 it began volume production a quarter early for NVIDIA's Rubin platform, and it designs the base-die logic in house while competitors outsource it. As the only US-based DRAM maker, it carries a \$6.4 billion CHIPS grant and national-security designation that the Korean incumbents cannot replicate on American soil. The macro backdrop is the most favorable in the

### ▼ BEAR CASE

#### Brutal cyclicality

Memory is the most violently cyclical large-cap business in public markets, and the current boom is the largest in Micron's history, which argues for a proportional bust, not a milder one. The Skeptic lays out the kill scenario plainly: a simultaneous AI capex pause, a commodity DRAM and NAND glut as all three players expand, and HBM share loss to SK Hynix. The vulnerability is not the revenue multiple, which is unremarkable for a name with this growth; it is the margin. Today's earnings rest on an 84.6% gross margin that is a cyclical all-time high, up from 37.7% just a year ago, and Micron's gross margin has gone negative at past troughs. When pricing normalizes, revenue can hold while margins compress violently and earnings fall far faster than the top line. The history is not theoretical: Micron fell 96% in the 2000-2002 bust, 89% in 2008-2009, and posted a \$5.8 billion loss as recently as FY2023 when revenue dropped 49% in a single year.

#### The competitive picture

The competitive picture is not settled at the top. SK Hynix pioneered HBM3E and still holds the majority share of the highest-margin product; Micron entered third. If Hynix keeps the HBM4 lead, Micron stays the minority supplier in the exact segment that justifies its margins. China's CXMT is advancing in commodity DRAM and can pressure trough pricing. And the entry timing is poor on its own terms: the stock is 166% above its 200-day average with a fresh post-high distribution day on 1.6x volume. Two of the eight analysts, the Skeptic and the Insider, flagged the entry, not the business, as the problem.

company's history: AI infrastructure spending, domestic industrial policy, and a declining-rate environment that eases a heavy capex load all point the same direction.

## The Verdict

### CIO JUDGMENT

The bull case wins on the business and gets disciplined on the price. Take the bear points in order.

#### On cyclicality

This is the strongest bear argument and it is correct in principle, so the answer is not to deny it but to size and structure for it. What is genuinely different this cycle is the multi-year contract book. A meaningful slice of demand is now committed under take-or-pay strategic customer agreements with fixed or banded pricing rather than repriced every quarter, and Micron expects those agreements to hold gross margins above prior-cycle peaks even at their floor pricing. That does not eliminate the cycle, it dampens a meaningful slice of it through at least 2027. The cycle risk is real for 2028 and beyond; it is not an imminent 2026 threat with capacity already sold out.

#### On HBM share loss

Micron being number three is a known fact, not a new risk, and it is improving, not deteriorating. Volume HBM<sub>4</sub> production a quarter ahead of schedule and in-house base-die design are the opposite of a company falling behind. The bear needs Micron to lose ground from here; the evidence shows it gaining.

#### On valuation

The real valuation concern is not the revenue multiple, it is that you are buying at peak-cycle margins, and that is why this is an Accumulate and not a Strong Buy. The stock trades at roughly 8x the May quarter's annualized revenue run-rate and around 12x revenue on a nine-month annualized basis, neither of which is stretched for this growth rate. What is stretched is the margin underpinning the earnings: at an 84.6% gross margin sitting at a cyclical high, the forward earnings that look cheap are cheap precisely because the market correctly discounts that peak margins are not permanent. You are not overpaying on revenue, you are paying for earnings built on margins that mean-revert. The resolution is entry discipline. The thesis is a buy; this exact price, 41% above the 50-day after an 800% run and at peak margins, is not the place to commit full capital.

That is what holds conviction at 7 rather than 9. The business deserves a high score. The chart says accumulate on weakness toward the \$800-1,100 structural support zones, not chase the high.

Conviction in the company is strong; conviction in today's entry is not, and the framework keeps those two separate.

## Key Metrics

METRIC	VALUE	NOTE
Revenue (FQ3'26)	\$41.46B	quarter ended May 28, 2026; +346% YoY, +74% QoQ; 5th straight record
Revenue (9mo FY26)	\$78.96B	first nine months of fiscal 2026
Gross Margin (FQ3'26)	84.6%	vs 37.7% a year ago; cyclical all-time high
Gross Margin (9mo FY26)	76.6%	blended across the nine months
Operating Margin (FQ3'26)	80.4%	quarter basis
Net Income (FQ3'26)	\$28.24B	quarter basis; diluted EPS \$24.67
Net Income (9mo FY26)	\$47.27B	nine-month basis; diluted EPS \$41.40
Net Margin (FQ3'26)	68.1%	quarter basis
Operating Cash Flow (9mo)	\$45.70B	nine-month basis
FCF (9mo)	\$26.10B	OCF \$45.7B less capex \$19.6B
P/E (TTM, GAAP)	25.6x	deceptive at cycle peak; weight forward
Forward P/E	~8x	low multiple = market pricing peak earnings
P/S (FQ3 annualized)	~7.7x	May quarter revenue run-rate basis
P/S (9mo annualized)	~12.1x	more conservative; smooths the ramp
Rule of 40	massive pass	growth + margin far above the 40 threshold
Net Cash	+\$24.41B	cash & investments \$30.1B less debt \$5.7B; swung from net debt over 9mo
CapEx (9mo)	\$19.6B	heavy fab build; ~\$27B full-year guided net of incentives
Shares Outstanding	1.129B	as of June 17, 2026

## Position Sizing

**2%**  
RECOMMENDED

**3%**  
HARD CAP

### Why this is sized small

Micron is a high-beta, high-correlation expression of the AI-infrastructure trade, not a diversifier within it. The same hyperscaler demand that drives the leading accelerator names drives Micron's HBM book, so a position here tends to move with an existing AI-compute sleeve rather than offset it. At a beta of 2.08, it also moves harder than the accelerator names in both directions. A starter position with a firm cap is the disciplined way to own a name whose upside is real but whose volatility and correlation are both elevated.

### The correlation caution

If you already hold the large AI-accelerator names, the dominant GPU vendor, the leading foundry, or similar, recognize that adding Micron concentrates that exposure rather than spreading it. The HBM thesis is the same secular AI-capex bet, one layer down the stack. The more accelerator exposure already in the book, the smaller the incremental Micron position should be, because the binding risk is the aggregate AI-infrastructure weight, not any single ticker. Size Micron against that combined exposure, not in isolation.

### What earns it a slot at all

The feature that justifies a dedicated position, rather than treating Micron as redundant accelerator beta, is its US-only optionality. As the sole domestic DRAM maker carrying a CHIPS grant and national-security designation, it is structurally advantaged if China or Taiwan risk escalates, an edge the accelerator names do not provide. That asymmetric, largely unpriced edge is the reason to hold some, even while the correlation argument caps how much.

### The downside frame

Worst-case drawdown in a full cycle roll is on the order of 65-75% from current levels, toward the high-\$200s to high-\$300s, consistent with the \$360 bear target and Micron's own history through prior memory busts. The precise floor depends on entry. The discipline follows directly: keep the first tranche small, never fund near the all-time high, and reserve the bulk of any intended position for the \$800-1,100 weakness zones. Liquidity is not a constraint at roughly 52 million shares a day.

## Analyst Scorecard

6 Bull			2 Neutral		
ANALYST	RATING	TAKE			
<b>Visionary</b>	<b>BULLISH</b>	Micron is the mandatory US memory node for AI compute, with HBM sold out through 2028 at ~40% CAGR.			
<b>Operator</b>	<b>BULLISH</b>	moat genuinely upgraded via HBM qualification lock-in, multi-year contracts, and CHIPS designation, though most of the book is still commodity.			
<b>Skeptic</b>	<b>NEUTRAL</b>	secular trend is real, but peak-cycle margins at an all-time high invite a severe earnings de-rating when the cycle turns.			

ANALYST	RATING	TAKE
<b>Quant</b>	<b>BULLISH</b>	forward earnings near 8x, Rule of 40 far above threshold, ~\$24B net cash; fairly valued in the base case with real upside.
<b>Macro Man</b>	<b>BULLISH</b>	AI supercycle, CHIPS Act, and easing rates form the most favorable macro backdrop in Micron's history.
<b>Insider</b>	<b>NEUTRAL</b>	selling is overwhelmingly mechanical 10b5-1, but zero open-market buying into an 800% run tempers the signal.
<b>Risk Manager</b>	<b>BULLISH</b>	cycle-aware; compelling long with strict triggers and a hard correlation cap; volatility demands discipline.
<b>Technician</b>	<b>BULLISH</b>	confirmed uptrend with massive relative strength, but parabolic extension and a fresh distribution day make the entry unfavorable here.

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