# Micron Technology

## F4Q26 (Aug-Qtr) Preview: Expect Another Beat-and-Raise on Continued Pricing Momentum; Material Step-Up in SCA Coverage Likely; Capital Return Framework Post 12/9 In Focus; Reit OW

**Overweight**

**MU, MU US**
Price (25 Sep 26):$1,082.28
**Price Target (Dec-27):$1,540.00**

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MU is set to report Aug-Qtr (F4Q26) earnings on Wednesday (Sept 30), and we see the setup as constructive with multiple beat-and-raise levers still in play against a memory backdrop that remains structurally tight across both DRAM and NAND. On the print itself, we think MU is well-positioned to deliver Aug-Qtr revenue, gross margin, and EPS ahead of Street $51.4B/86.2%/$31.73, with pricing momentum through the quarter still tracking robust despite mgmt's prior commentary on a "meaningful moderation in the rate of price increases" - in our view, moderation here reflects a strategic decision to preserve customer relationships and cement long-term SCA commitments rather than any demand-side softening, a nuance we think investors will increasingly appreciate as the SCA framework rolls out. On DRAM/HBM despec, our own analysis (as laid out in our global team's recent Memory Market Update) indicates that even after fully accounting for the despec, the industry S-D gap remains materially in shortage through CY27 and extends through CY28 (JPMe HBM S-D shortage of -20%/-19%/-16% in CY26E/27E/28E, with accumulated shortage widening to 23 weeks by CY28E), which we think supports an upward bias to pricing into CY27-28. On the Nov-Qtr (F1Q27) guide, our expectation is that mgmt raises the bar again given (1) recent company commentary that aggregate demand signals from customers have "increased even further" since the last print, (2) mgmt's newly-elevated CY27 view (now expected to be "even tighter" than CY26, vs. prior "beyond CY27" framing), and (3) continued HBM4 ramp momentum (12-high tracking 2x faster than HBM3E; >$1B already shipped as of May-Q). That said, the more meaningful development we expect from the print is on the SCA and capital return fronts - we think the market underappreciates the pace at which SCA coverage is compounding, and our base case is that forward bit production coverage now likely sits in the 35%+ range (up from ~20%/~33% of DRAM/NAND volumes disclosed on the last call), with strong potential that coverage is already tracking in the 50%+ range. Layered on top, the 12/9/26 second anniversary of MU's CHIPS Act definitive agreements represents a key structural inflection - post that date, mgmt is committed to returning 100% of excess cash to shareholders (buybacks the primary vehicle), and we would expect more clarity on the timing, cadence, and initial sizing of the capital return program, in our view a substantial value-unlock lever that has yet to be fully priced in. All said, we head into the print constructive on both the near-term results and the medium-term earnings power narrative, which we think continues to be underappreciated relative to the durability the SCA framework provides. We reiterate our OW rating and $1,540 PT.

- **Aug-Qtr setup constructive with upside potential; GM/EPS beat likely, driven by pricing momentum despite moderating growth.** We see multiple levers still in play for continued upside vs. Street rev/GM/EPS consensus of $51.4B/86.2%/$31.73 (with buy side bogeys tracking only moderately ahead of Street, based on our investor conversations), with pricing still tracking to strong Q/Q growth (albeit moderating relative to outsized May-Q sequentials), and mix continuing to skew favorably as the HBM4 12-high ramp accelerates

**See page 5 for analyst certification and important disclosures.**

(>$1B shipped as of May-Q, tracking 2x faster than HBM3E 12-high). We anticipate DRAM ASPs rising 20%+ sequentially in the Aug-Q, with NAND ASPs likely up in the 20% Q/Q range as high-capacity eSSD tightness persists. Bit shipment growth remains constrained given MU's (and the industry's) limited ability to grow supply, though we would expect modest sequential improvement as the HBM4 12-high ramp scales. Data center revenue is likely to continue setting records (handily exceeding May-Q's record ~$100B+ annualized run-rate), with CMBU and CDBU both expected to expand further and DC SSD revenue likely tracking above $5B again after more than doubling Q/Q in May-Q. GM has continued upside to MU's guided ~86% (and Street 86.1%) given (1) less pricing moderation than initially telegraphed, (2) continued mix benefit from HBM4 12-high, and (3) operating leverage on slightly higher opex ($1.65B guide, +8% Q/Q vs. revenue up >20% Q/Q).

- **Nov-Qtr guide expected to raise the bar again with mgmt commentary setting up FY27 as an even tighter year than FY26.** Nov-Qtr (F1Q27) guidance is where we expect the more meaningful upside vs. Street to materialize, with our view that mgmt is likely to guide well above current Street consensus (rev/GM/EPS $56.3B/86.5%/$35.71), underpinned by: (1) mgmt's recent commentary that aggregate demand signals from customers have "increased even further" since the May-Q print, with mgmt now explicitly framing CY27 as "even tighter" than CY26 (vs. prior "beyond CY27" characterization) - a notable escalation, (2) MU's raised CY27 HBM TAM to "easily crossing $100B" (up from prior CY28 timing), consistent with our global team's recent HBM model update pointing to a $160B/$282B CY27E/28E TAM on 54%/25% blended ASP hikes, (3) continued HBM4 ramp with mgmt targeting HBM share consistent with overall DRAM share (~23%), and (4) initial contribution from newly-signed SCAs flowing through the P&L, providing an incremental leg of pricing/volume visibility. On the pricing debate, we would push back on the despec-driven bear case that pricing is at risk of moderating meaningfully as we head into CY27. Our own S-D analysis indicates HBM S-D remains materially in shortage through our forecast period (-20% in CY26E, -19% in CY27E, -16% in CY28E), with accumulated shortage widening to 23 weeks by CY28E even after fully accounting for the despec that has emerged. In our view, this supports an upward bias to pricing (relative to current levels), and we would expect Nov-Qtr GM% to sustain in the mid-80s+ range with continued mix tailwinds from HBM4 12-high.
- **SCA coverage likely stepping to 35%+ (with potential for 50%+); capital return framework post 12/9/26 also in focus as additional value-unlock lever.** MU's May-Q disclosure of 16 SCAs (~20% of DRAM volume, ~33% of NAND volume; $100B RPO at floor pricing across 14 of the 16; $22B of cash and cash-like commitments including $18B of cash deposits, of which ~$10B expected to hit the balance sheet in F4Q alone) represented in our view a step-change in MU's business model. Since then, mgmt's recent commentary that "since our earnings, we have signed more SCAs" points to continued momentum, and our base case is that SCA coverage of bit production now likely sits in the 35%+ range across DRAM and NAND (up from the ~20% DRAM/~33% NAND volume disclosed on the last call) with strong potential that coverage has already progressed to the 50%+ range. We expect the print (and the associated RPO disclosure in the 10-K) to provide meaningful incremental clarity on the pace of SCA signings, cumulative RPO under contract, and the associated cash deposit build. Importantly, at the floor pricing embedded in these agreements, gross margins are set to remain "well above peak margins in any past cycle" (~62% GM prior peak), effectively establishing what we view as a materially higher and more durable margin floor than at any prior point in MU's history, and one that in our view is not fully captured in the stock given the historically cyclical framing investors have applied to memory. On capital returns, the 12/9/26 second anniversary of MU's CHIPS Act definitive agreements represents a pivot-point - post that date, MU has committed to returning 100% of excess cash to shareholders "over time" (buybacks the primary vehicle, with continued modest dividend growth as a secondary

lever). Cash generation is running at record levels ($24B+ FCF expected in Aug-Q alone; up >30% from ~$18.3B in May-Q), and we would expect mgmt to provide more clarity on the timing, cadence, and initial sizing of the capital return program, which in our view represents a substantial value-unlock lever, particularly given the potential magnitude of buyback capacity relative to cumulative FCF approaching $200B for the 6 quarters through year-end CY27, when layered on top of continued SCA-driven earnings visibility.

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# Investment Thesis, Valuation and Risks

## Micron Technology *(Overweight; Price Target: $1,540.00)*

**Investment Thesis**

- Longer term, the company's increasing product (DRAM, NAND, NOR) and end-market diversification should dampen revenue/earnings volatility and also position the company to do well in markets (handset) that require multiple types of memory.
- Micron should benefit from secular trends in data center DRAM (HBM), which should help it reduce volatility to commodity DRAM. Post the Elpida acquisition, we believe Micron will be positioned well to benefit from secular trends in mobility, networking, and cloud computing.
- New technology, divestiture of non-core assets, and cost-cutting efforts should help it improve gross margins and profitability in the coming quarters.

**Valuation**
Our Dec-27 PT of $1540 is based on 10x (10-yr median P/E multiple) $154 of EPS in FY28E.

**Risks to Rating and Price Target**

- Micron competes in extremely competitive markets – operational execution is critical.
- Any sudden weakness in demand outlook for PCs could reduce our estimates on DRAM price recovery and memory content growth.
- An aggressive ASP decline combined with lower per gigabit manufacturing cost reduction could cause us to lower our revenue and earnings estimates.
- Any imbalance in DRAM and NAND supply/demand could cause us to lower our revenue and earnings estimates.
- Our NAND demand assumptions could change the overall growth for the sector if we continue to see a further supply/demand disconnect.
- Any macroeconomic-driven demand softness could potentially result in lower demand for Micron's products and could impact revenues/profitability profile for the company.

