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RESEARCH

Micron Technology (MU): The Memory Bottleneck Powering the AI Boom

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Micron makes the high-bandwidth memory (HBM) and advanced DRAM that every major AI accelerator needs. Right now the company cannot supply enough of it. That simple shortage has turned a classic cyclical semiconductor name into one of the strongest earnings growth stories in the market.

Key Takeaways

- AI chips are memory-hungry. Each new generation of GPU needs far more HBM stacks, and demand still exceeds supply by a wide margin.
- Micron's entire 2026 HBM output is sold out under multi-year take-or-pay contracts. Roughly $100 billion of minimum committed revenue is already locked in through 2030, backed by $22 billion in customer cash deposits.
- Fiscal Q3 revenue hit $41.5 billion (up 346% year-over-year). Gross margins reached ~85%. Q4 guidance points to ~$50 billion in revenue and ~$31 in non-GAAP EPS.
- Forward earnings multiple sits in the mid-single digits on current run-rate power — unusual for a company growing this fast with multi-year visibility.
- The old "memory is purely cyclical" playbook is breaking. Long-term customer agreements and structural AI demand are flattening the downside of the traditional cycle.

The Two-Minute Story

You do not need a PhD in semiconductors to understand Micron today.

Think of an AI data center as a high-performance car. The GPU is the engine. High-bandwidth memory is the fuel line and the high-octane gas. Without enough of it, the engine cannot run at full speed.

Right now the fuel line is the bottleneck. Customers (hyperscalers and AI chip makers) keep saying the same thing: the number-one constraint on AI build-outs is not power, not land, and not even advanced logic wafers — it is DRAM and HBM. Micron is one of only three companies in the world that can produce this memory at scale, and the only major U.S.-based producer.

That is the entire thesis in plain English.

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What Changed

For decades Micron lived and died by the classic memory cycle: feast when prices rose, famine when capacity flooded the market. AI has altered the equation in two important ways:

1. **Volume and mix** – HBM and high-capacity server DRAM now command premium prices and much higher margins than commodity PC or smartphone memory.

2. **Contract structure** – Micron has signed 16 strategic customer agreements that lock in volume and pricing for years. These are not the short-term spot deals of the past. They give the company rare multi-year visibility.

The result is record revenue, record margins, and free cash flow that is already running at tens of billions of dollars per quarter.

The Numbers That Matter

- Fiscal Q3 2026: $41.46 billion revenue, non-GAAP EPS $25.11, gross margin ~85%.

- Q4 guidance: ~$50 billion revenue (±$1 billion), ~86% gross margin, ~$31 non-GAAP EPS.

- HBM4 is ramping roughly twice as fast as the prior generation and has already generated more than $1 billion in revenue.

- Data-center related revenue is now the dominant driver and continues to expand faster than the rest of the business.

At current prices the stock trades at a low-single-digit multiple of this new earnings power. That is the kind of gap between growth and valuation that used to show up more often in smaller companies, not in a name that has already become a trillion-dollar-scale business.

Where the Opportunity Sits

The biggest near-term opportunity is simply continued execution on the sold-out HBM book and the gradual shift of more of the overall DRAM business into higher-value, contracted products. Longer term, three things could keep the growth going:

- Larger AI models and longer context windows keep raising memory intensity even as models become more efficient.

- Inference demand (running the models after training) is still in early innings and is memory-heavy.

- New capacity takes years and billions of dollars to bring online, so the tight supply environment is likely to last well into 2027–2028.

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Risks Worth Watching

Memory will never be completely free of cyclical pressure. New capacity from Micron, Samsung, and SK Hynix will eventually arrive. If AI spending slows sharply or if customers decide they over-ordered, pricing power will moderate. Capex is also rising (now guided above $25 billion for the current fiscal year), so free-cash-flow conversion will not stay at today's extreme levels forever.

Those are real risks. They are also the same risks that have kept many investors on the sidelines while the company has delivered consecutive blow-out quarters.

Bottom Line

Micron is no longer just another memory company riding a temporary up-cycle. It has become a critical supplier of the scarce input that the entire AI build-out requires, and it has locked a meaningful portion of that demand into multi-year contracts.

For investors who like businesses they can understand, strong earnings growth, and a valuation that has not fully caught up to the new reality, Micron currently offers one of the clearer setups in the semiconductor group.

The story is straightforward: the AI boom needs more high-performance memory than the industry can currently deliver, and Micron is one of the few companies that can help close that gap.