INITIATION OF COVERAGE | AI MEMORY | 26 OCTOBER 2026

Micron Technology

NASDAQ: MU

Memory demand. Durable cash returns.

AI expands the memory opportunity. The investment case depends on how long strong pricing survives rising supply and capital requirements.

Recommendation	Target / horizon	Reference close	Implied upside
BUY - High risk	$1,360.00 / 12-18 months	$903.70 / 26 Oct 2026	50.5%

Investment conclusion

We initiate Micron with a BUY - High risk recommendation. Our $1,360.00 target rounds Base intrinsic value of $1,360.22 to the nearest $5. Probability-weighted value is $1,227.05. The opportunity rests on sustained memory demand, successful HBM delivery and attractive cash returns after substantial reinvestment. The reference is a dated regular-session close, not a live quote.

Base starts at management's next-quarter guidance and extends strong conditions through FY28 before a phased pricing normalization. That durability is an analyst judgment. Capacity expansion, weaker pricing or a slower AI investment cycle could compress returns well before the terminal period.

Base case - Dilikoglu Research estimates	Value
FY27 revenue	$262.41bn
FY27 net cash capex	$54.00bn
FY27 unlevered free cash flow	$127.40bn
Terminal share of enterprise value	39.2%

Publication: October 26, 2026. Financial opening: September 3, 2026. Forecast: FY27-FY36. The 12-18 month target horizon is a research realization convention, not a guaranteed return or mechanically compounded future price.

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Investment thesis

Scarcity creates earnings; reinvestment and competition determine their duration.

Memory intensity supports the opportunity

AI workloads require both high bandwidth and larger memory capacity. Micron participates through high-bandwidth memory (HBM), conventional dynamic random-access memory (DRAM) and NAND flash storage. Faster compute alone cannot remove data-movement constraints. Product mix and customer qualification therefore matter alongside industry bit demand.

HBM is part of the manufacturing system

HBM consumes DRAM resources and requires advanced packaging. We model HBM inside DRAM, with a shared wafer constraint and a separate packaging ceiling. Adding HBM revenue to total DRAM would count the same opportunity twice. Estimated capacity indexes are analytical constraints, not disclosed wafer counts.

Durability is the central judgment

Customer agreements improve visibility, but do not establish a perpetual scarcity margin. Base assumes phased pricing declines beginning in FY29; the Bear case allows an earlier reversal. New supply, productivity improvements and customer bargaining power can alter pricing even while AI demand grows.

Scenario	Probability	Intrinsic value
Failure	10%	$100.23
Bear	25%	$483.78
Base	45%	$1,360.22
Bull	20%	$2,419.91

Probabilities are Dilikoglu Research analyst judgments. The target follows Base, while probability-weighted value summarizes these selected scenarios. Neither is a guarantee or a statement that downside cannot be substantial.

Operating forecast

Guidance anchors the first quarter; the remaining path is independently estimated.

Management guides FY27 Q1 revenue to $61.5bn, plus or minus $1.5bn, with 85.95% GAAP gross margin, $2.31bn GAAP operating expense and a 15.5% tax rate. Base follows these anchors. Later quarterly growth, margins and full-year results are DR estimates. [Q4 results]

FY27	Revenue $bn	GAAP-basis GM	Net capex $bn
FY27 Q1	61.50	85.95%	11.50
FY27 Q2	64.58	86.50%	13.50
FY27 Q3	67.16	87.00%	14.00
FY27 Q4	69.17	87.50%	15.00

The annual forecast includes compensation expense without a stock-compensation cash add-back. Quarterly cash flow reconciles to the annual forecast, with a final-quarter working-capital convention and tax true-up. It is not a prediction of individual customer collection dates.

Fiscal year	Revenue $bn	Gross margin	Free cash flow to firm $bn
2027	262.41	86.8%	127.40
2028	298.03	86.5%	149.28
2029	323.45	85.3%	163.83
2030	343.28	83.8%	174.49
2031	356.30	82.8%	181.02
2032	369.25	74.6%	160.50
2033	382.08	66.3%	148.52
2034	394.76	58.1%	134.31
2035	407.23	49.8%	119.08
2036	419.44	41.6%	103.96

FY32-FY36 transition estimates gradually move returns toward normalized economics. Free cash flow to the firm (FCFF) is an unlevered valuation measure; it differs from company-reported free cash flow and cash available for dividends.

Capacity, pricing and reinvestment

The model links shipments and margins to a finite production base.

Base assumption	DR treatment
Q4 HBM allocation	$8.4bn estimate within disclosed DRAM; $6-11bn sensitivity.
FY27 shipment indexes	HBM 1.50x; other DRAM 1.12x; NAND 1.15x versus annualized Q4.
Subsequent annual volume growth	20% / 12% / 12%, subject to supply constraints.
Full annual average selling price (ASP) declines	HBM 6%; other DRAM 10%; NAND 10%. FY29/30/31 apply 50/75/100% of these declines.
Capital investment	FY27 $54bn net; FY28-31 floors $58/60/58/56bn.
Normalized product margins	HBM 50%; other DRAM 40%; NAND 35%; capped by achieved FY31 margin.

Reported Q4 spans 14 weeks. The operating anchor annualizes by 52/14, avoiding an inflated four-quarter run rate. Costs rise with delivered output and the production footprint; a price decline reduces gross margin rather than preserving it automatically.

New facilities and packaging ramps contribute only through assumed commissioning. Cash capex is a simplified proxy for net asset additions; depreciation follows asset cohorts, is charged to earnings and added back once in cash flow. The forecast does not separately deduct capital payables as debt after including their settlement in cash investment.

The October Indium investment is part of the existing up-to-$3bn supply-chain program. Its undisclosed individual consideration is not added a second time to the model's full program reserve. We assign no separate operating premium to the announcement. [Indium investment]

Cash and equity claims

Strong reported liquidity is not entirely unencumbered equity value.

Opening bridge - USD bn	Amount
Cash and marketable investments	73.453
Less funded debt	(5.179)
Reported net cash	68.274
Less customer deposits	(12.747)
Less net tax claims	(14.811)
Less strategic cash / other reserves	(3.250)
Adjusted opening liquidity	37.466
Separate estimated investment recovery	2.150

Opening receivable, payable, tax and uncommissioned-asset balances are drawn from the FY26 annual filing. Operating working capital excludes capital and tax balances. Customer deposits are treated as financing-like claims at face value; no future deposit windfall is assumed. This conservative treatment is not a detailed contract-by-contract release schedule. [FY26 10-K]

Existing nonmarketable investments have a reported $1.30bn carrying value; DR assigns 50% recovery. The separate $3bn prospective strategic reserve also receives 50% recovery. These recovery values are estimates, not cash or observable sale prices. Funded investments are not deducted again.

The diluted denominator is 1.15bn shares, consistent with Q1 guidance. The basic/award split is a proxy, not a verified period-end security ledger. The new $35.16bn repurchase authorization does not reduce forecast shares: execution is discretionary and subject to restrictions. [FY26 10-K; Q4 results]

Adjusted liquidity is a stress measure, not a current bank balance or covenant certification. Financing friction is charged only when forecast reserves fall below the minimum.

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Valuation and market expectations

The upside rests on earnings duration, not a higher headline multiple.

Base valuation bridge	USD bn
Explicit cash-flow present value	926.64
Terminal present value	598.00
Enterprise value	1524.64
Equity value	1564.26

Base uses a 10% weighted-average cost of capital (WACC), 3% perpetual growth and 16% terminal return on invested capital (ROIC). Terminal cash flow deducts reinvestment required by that growth. Dividing equity value by 1.15bn diluted shares gives $1,360.22. The $1,360.00 target implies 50.5% upside to $903.70. Rating thresholds are BUY above +15%, SELL below -15%, otherwise HOLD; dividends are excluded.

Base intrinsic value is 50.5% above the reference and probability-weighted value is 35.8% above it. Holding the operating forecast fixed, approximately 14.86% WACC reproduces the reference. This is a reverse sensitivity, not evidence of investors' actual assumptions.

Separate stress - other inputs unchanged	Base value
Net capex floors +20%	$1,303.55
Pricing normalization begins FY28	$1,172.35
WACC 12%	$1,117.53
Zero terminal growth	$1,263.82
Terminal product margins -10 points	$1,186.00
No annual operating growth after FY27	$774.33

The normalized earnings sensitivity gives $1,449.16 but shares the operating forecast; it is not independent corroboration. A 53-day discount unwind moves the valuation date to October 26 without claiming that the opening balance sheet is a verified current cash position.

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Scenario distribution and thesis tests

Strong central returns coexist with meaningful downside.

20,000 draws; seed 20261003	USD per share
MEAN	$1,288.44
MEDIAN	$1,181.52
P10	$227.18
P25	$529.01
P75	$1,763.37
P90	$2,538.93

Conditional scenario	Median
Failure	$93.31
Bear	$488.07
Base	$1,365.39
Bull	$2,457.00

Under the chosen distributions, 38.9% of draws fall below the reference and 54.4% exceed it by more than 20%. These are model frequencies, not empirically calibrated return probabilities. Correlated pricing, execution, cost, capex and discount-rate changes are rerun through the operating model; compounding and the equity floor produce skew.

Catalysts and falsifiers

Execution against Q1 guidance, HBM qualification and packaging ramps, and evidence of repeat demand can strengthen confidence. Average selling prices 15% below forecast or gross margins five percentage points below forecast for two consecutive quarters would weaken the thesis. A two-quarter packaging delay, net capex 20% above plan without higher output, material contract defaults or accelerated deposit refunds would require re-underwriting. Growing demand alone does not validate the return on new capacity.

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Sources, limitations and disclosures

Independent research with explicit estimation risk.

FY25 Form 10-K: three-year GAAP cycle history | 2025-10-03
Read FY25 Form 10-K: three-year GAAP cycle history

FY26 Q4 results, year-end balance sheet and GAAP Q1 guidance | 2026-09-30
Read FY26 Q4 results, year-end balance sheet and GAAP Q1 guidance

FY26 Q4 prepared remarks: FY27 outlook, SCAs and capacity | 2026-09-30
Read FY26 Q4 prepared remarks: FY27 outlook, SCAs and capacity

FY26 Q4 earnings deck: cash, D&A and reconciliations | 2026-09-30
Read FY26 Q4 earnings deck: cash, D&A and reconciliations

FY26 Form 10-K: audited year-end notes and subsequent repurchase authorization | 2026-10-09
Read FY26 Form 10-K: audited year-end notes and subsequent repurchase authorization

Indium strategic investment within existing supply-chain envelope | 2026-10-20
Read Indium strategic investment within existing supply-chain envelope

Reference: October 26 regular-session close of $903.70. Source: Investing.com closing quote.

Analytical limits

Reported facts, management outlook and analyst estimates are separately identified in the accompanying model register. HBM allocation, physical capacity indexes, contract durability, future costs, asset lives, cash timing and terminal returns are estimated. Individual customer price floors and delivery schedules are unavailable. No legal or engineering assurance is implied.

The Base forecast deliberately preserves strong conditions through FY28. A faster supply response, competitive price reductions or lower demand would weaken that premise. The model’s normalized earnings check shares its forecasts and cannot independently validate them. Simplified settlement schedules and a proxy share ledger remain limitations.

Conflicts and use of research

Tugay Dilikoğlu reports no Micron securities holdings, other material interest in Micron, or compensation from Micron or any third party for this research.

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Published October 26, 2026. DILIKOGLU RESEARCH | dilikogluresearch.com | research@dilikogluresearch.com