TRIVARIATE RESEARCH

THE MOST IMPORTANT STOCK IN THE MARKET? SIMULATING MICRON'S PEAK AND NORMALIZED EARNINGS

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RESEARCH SUMMARY

Background: In some ways, Micron has become the most important stock in the market – a proxy for the AI cycle and risk-taking. Hence, we addressed the challenge of forecasting peak and normalized EPS in today's research.

The problem: The bottom-up consensus forecasts show that Micron's EPS will be ~$180/share at the top of the AI cycle. We simulated 10,000 possible earnings paths through the full cycle — the boom and the downturn after it — and looked at the whole distribution to gauge reasonable potential assumptions for MU's future EPS path.

Methodology: Our modeling forecast projects future earnings in two pieces: revenue × net margin (share count held fixed). Each is modeled as its own boom-bust cycle, and the two swing together (~96% correlated) — the way memory cycles have behaved historically. Net buybacks continuing from MU would RAISE our normalized EPS presented here.

- Cycle behavior comes from history: We fit our model to MU EPS from 2016–2023 (the consolidated 3-player era) — we assess how long cycles run (~4 years), how hard they swing, how fast booms fade. The current super-cycle itself is deliberately excluded from the fit, so a one-off event isn't mistaken for the normal rhythm.
- The near term is pinned to consensus: Every project path from our modeling approach centers on consensus estimates, and the spread around them is sized by actual analyst disagreement — tight next quarter, progressively wider out to 2028. Once estimates run out, the fitted cycle takes over fully.

INVESTMENT CONCLUSIONS

- Two key variables express how the paths can deviate from consensus (set both neutral and the model reproduces consensus):
  - **λ — "how structural":** This is the amplitude dial. How much of the AI demand uplift sticks in the long-term trend vs. fades back toward commodity memory. This impacts where the revenue trend and mid-cycle margins settle. $\lambda = 1 \rightarrow$ consensus; $\lambda < 1 \rightarrow$ fades back toward the old commodity trend; $\lambda > 1 \rightarrow$ revenue trend settles above.
  - **S — "how long":** This is the periodicity dial. How durable this boom is vs. a normal memory cycle. Stretches the time spent near the top and pushes the next downturn later. $S = 1 \rightarrow$ consensus timing / historical rhythm. $S = 2 \rightarrow$ descent plays out twice as slowly.
- Output: We then get normalized, peak, and probability of losing money at trough.

Conclusion:

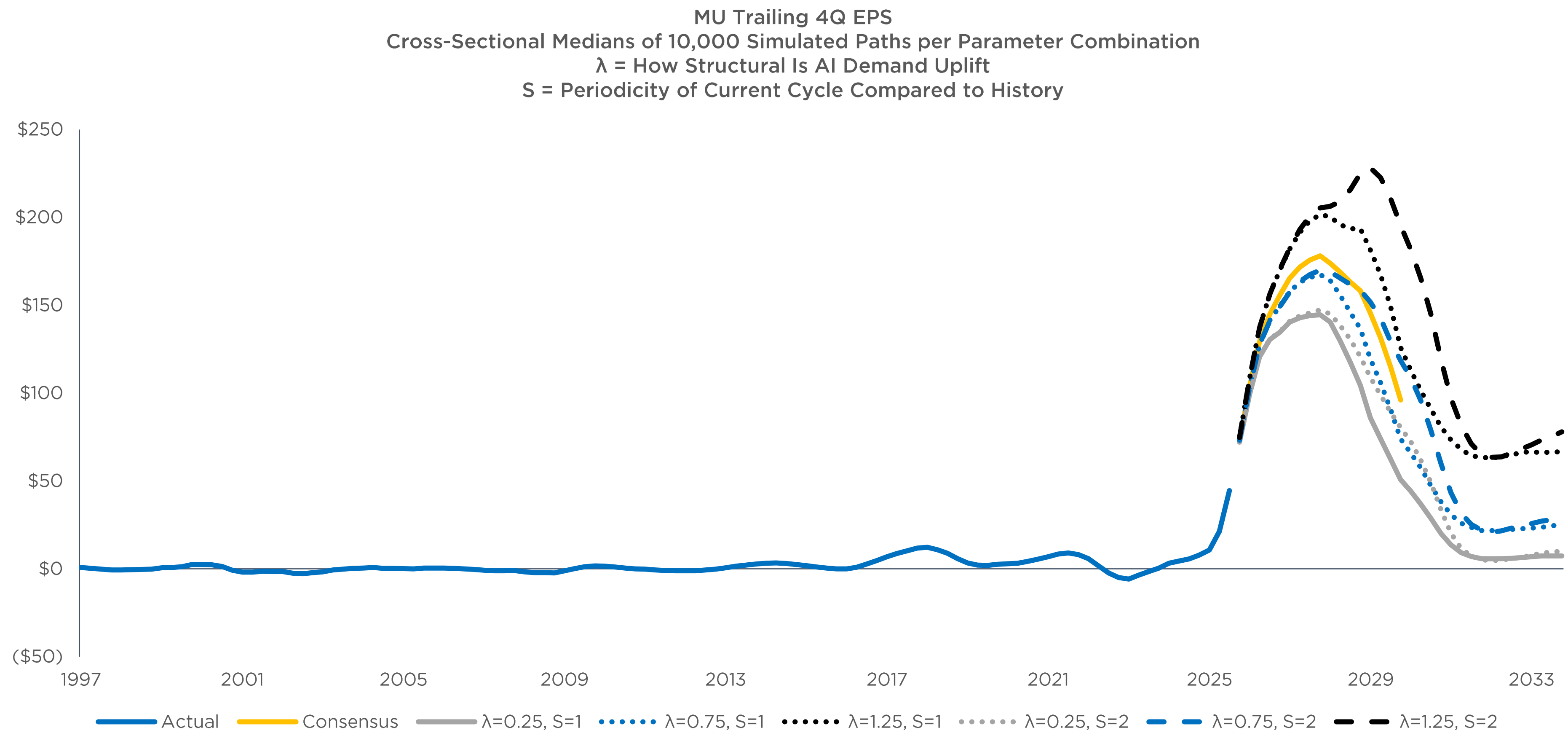
Normalized EPS: With MU trading just above $900 today, this implies the stock is trading at less than 11x normalized EPS. This seems low to us for the only US producer of a critical product in the AI supply chain.

Peak EPS: Under a λ=0.75 and S=2 scenario, peak EPS this cycle would center around $194. A wide range in outcomes seems to be that $156 is the bear case in peak earnings. Using this as a base case – twice as long as normal – and 75% structural uplift – the consensus view of $178 appears to underestimate peak EPS relative to our forecasted distribution of outcomes. At just over $900 a share, MU appears to be trading at 5x peak EPS. That seems low to us, particularly if earnings don't quickly and massively erode from the peak.

Bottom line: We think MU is a buy, from a simulated peak and normalized EPS perspective. We certainly would not want a big underweight here to hurt our performance.

SIMULATED EPS PEAKS FOR MICRON: MIDDLE OF '28 TO END OF '29?

The bottom-up consensus EPS estimates for MU's EPS are shown in yellow. We estimated MU's future earnings with many combinations, but below we show six of them (3 different cycle magnitudes crossed with 2 different cycle durations). Each line represents the median of 10,000 simulations for earnings under the magnitude /duration scenario. Roughly, in gray, we show that if 25% of this cycle is a structural improvement and this cycle has the same duration as previous ones, a cycle peak around $147 in EPS in the middle of 2028 is the base case. However, if the profit trend settles 25% higher than the current outlook and the cycle lasts twice as long as history, peak earnings could be above $225 near the end of 2029 (see below).



Source: Trivariate Research

$82-$86 IN NORMALIZED EPS SEEMS LIKE A REASONABLE BASE CASE

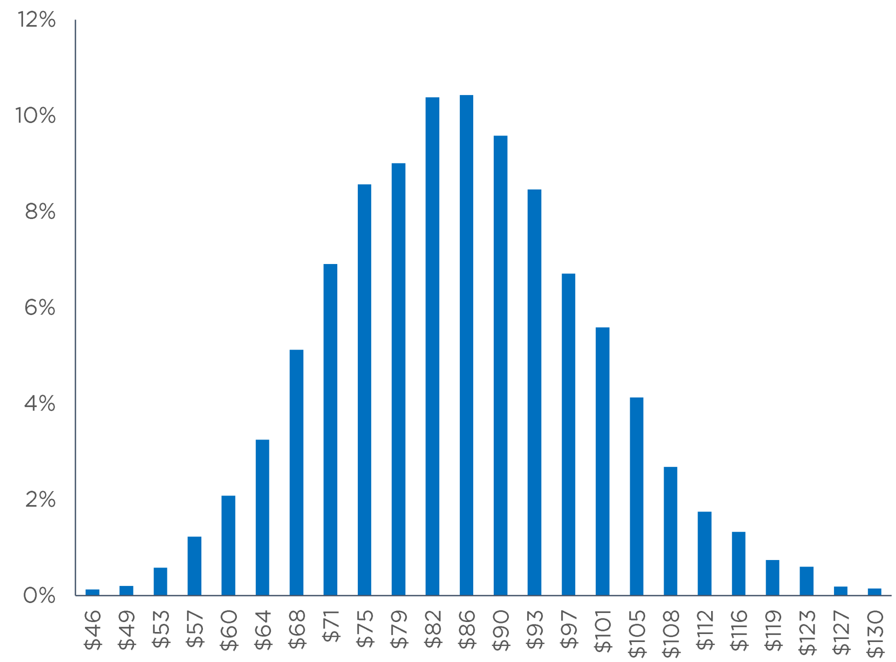
We show the median "normalized" EPS for each of the 10,000 simulations for each duration and magnitude combination (left). Using the same "base case" scenario of λ=0.75 and S=2.0 (right), we show the distribution of "normalized" EPS, with $82 and $86 having the most likely outcomes. Normalized EPS of $75 to $115 seems to encompass the highest probability range of outcomes based on what we believe today. <u>With MU trading just above $900 today, this implies the stock is trading at less than 11x normalized EPS. This seems low to us for the only US producer of a critical product in the AI supply chain.</u>

MU Implied Normalized EPS For Current Cycle
(Based on 10,000 Simulations Per Parameter Combination)

	S = Periodicity of Current Cycle Compared to History				
λ = How Structural Is AI Demand Uplift	S = 1.0	S = 1.5	S = 2.0	S = 2.5	S = 3
λ = 0.25	$63	$67	$69	$70	$71
λ = 0.5	$69	$74	$76	$77	$78
λ = 0.75	$78	$83	$85	$86	$87
λ = 1.0	$89	$95	$97	$99	$100
λ = 1.25	$101	$110	$113	$115	$116
λ = 1.5	$116	$128	$135	$139	$140
λ = 1.75	$134	$154	$163	$168	$170
λ = 2.0	$159	$188	$199	$206	$211

Source: Trivariate Research

MU Cycle-Normalized EPS
Distribution Across 10,000 Simulations
λ = 0.75 (How Structural Is AI Demand Uplift)
S = 2.0 (Periodicity of Current Cycle Compared to History)



Source: Trivariate Research

WE THINK THE CONSENSUS MIGHT UNDERESTIMATE PEAK MU EPS

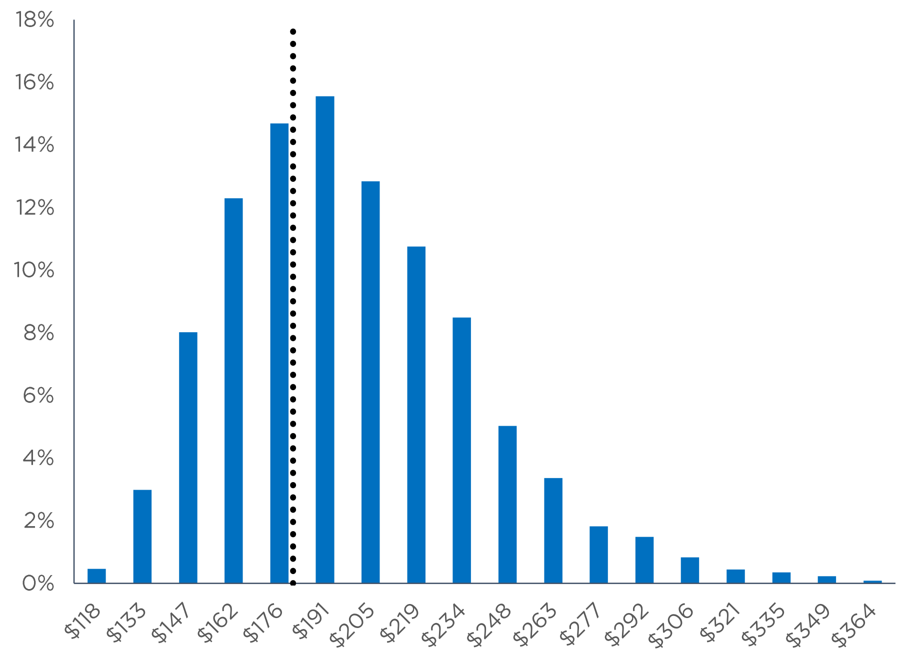
The median peak EPS under various duration and magnitude scenarios is shown on the left. It seems reasonable this cycle would be longer than normal, but perhaps not reasonable that all the improvement is structural. Under a λ=0.75 and S=2 scenario, peak EPS this cycle would center around $194. A wide range in outcomes seems to be that $156 is the bear case in peak earnings. Using this as a base case – twice as long as normal – and 75% structural uplift – we show the distribution of 10,000 outcomes for peak earnings below for this one scenario (right). <u>The consensus view (black dotted line) of $178 appears to underestimate peak EPS. At just over $900 a share, MU appears to be trading at 5x peak EPS. That seems low to us, particularly if earnings don't quickly and massively erode from the peak.</u>

MU Implied Peak EPS For Current Cycle
(Based on 10,000 Simulations Per Parameter Combination)

λ = How Structural Is AI Demand Uplift	S = Periodicity of Current Cycle Compared to History: S = 1.0	S = 1.5	S = 2.0	S = 2.5	S = 3
λ = 0.25	$156	$160	$161	$162	$162
λ = 0.5	$169	$174	$176	$177	$178
λ = 0.75	$184	$190	$194	$197	$197
λ = 1.0	$205	$217	$223	$227	$228
λ = 1.25	$234	$255	$264	$272	$276
λ = 1.5	$274	$310	$340	$355	$360
λ = 1.75	$327	$403	$450	$469	$481
λ = 2.0	$410	$539	$592	$618	$643

Source: Trivariate Research

MU Peak EPS
Distribution Across 10,000 Simulations
λ = 0.75 (How Structural Is AI Demand Uplift)
S = 2.0 (Periodicity of Current Cycle Compared to History)



Source: Trivariate Research

20% CHANCE MICRON LOSES MONEY AT THE NEXT TROUGH?

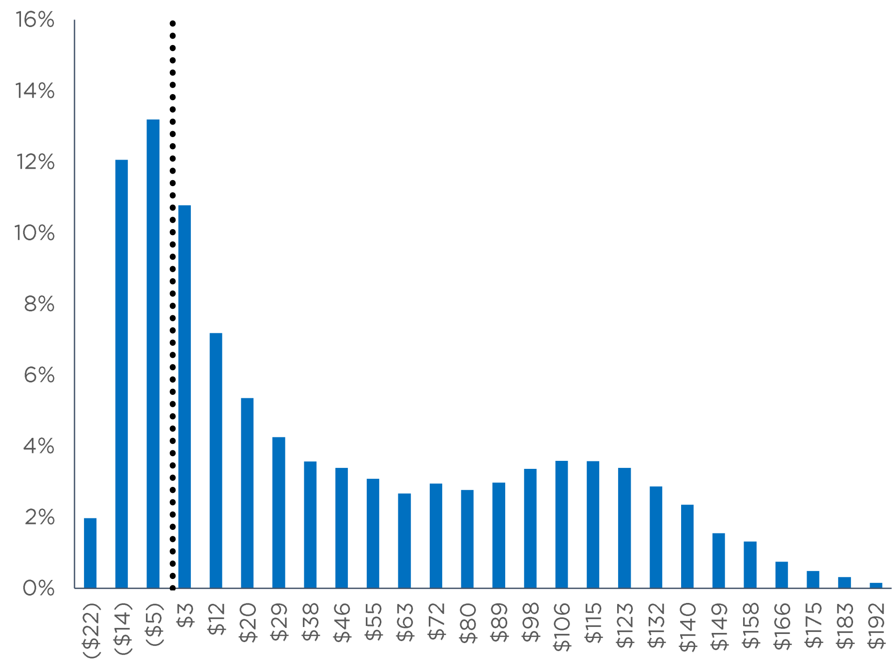
Part of the reason that MU appears cheap on peak earnings is investors assume they will lose money shortly after the peak. We show the probability of the next trough's EPS being negative across the 10,000 simulations for each duration and magnitude combination (left). Using the "base case" scenario of λ=0.75 and S=2.0 (right), we show the distribution of trough EPS (right) which is 19% of scenarios.

MU Chance of Negative EPS at Next Trough
(Based on 10,000 Simulations Per Parameter Combination)

λ = How Structural Is AI Demand Uplift	S = Periodicity of Current Cycle Compared to History S = 1.0	S = 1.5	S = 2.0	S = 2.5	S = 3
λ = 0.25	50%	45%	44%	43%	42%
λ = 0.5	44%	40%	38%	38%	39%
λ = 0.75	32%	29%	29%	30%	29%
λ = 1.0	22%	21%	21%	21%	23%
λ = 1.25	20%	19%	19%	21%	22%
λ = 1.5	20%	19%	20%	22%	23%
λ = 1.75	21%	21%	22%	24%	25%
λ = 2.0	22%	23%	24%	25%	26%

Source: Trivariate Research

MU Trough EPS
Distribution Across 10,000 Simulations
λ = 0.75 (How Structural Is AI Demand Uplift)
S = 2.0 (Periodicity of Current Cycle Compared to History)



Source: Trivariate Research

TODAY'S PRICE IMPLIES ROUGHLY 4-5X PEAK EPS FOR MU

Taking our scenario and the range of peak EPS, we show an implied MU share price below. At $900, the stock is trading at 4.6x our estimate of peak earnings. If 8x peak EPS turns out to be 'right', MU is likely worth $1500-$1600 per share.

MU Share Price
Implied From Peak EPS Possibilities Based on Simulation with λ = 0.75 and S = 2.0
And Varied Price-to-Peak Earnings Multiples

		Price-to-Normalized Earnings (Trivariate Labeled Probabilities)								
Peak EPS	Probabilities Implied by Simulation	4x (4%)	5x (8%)	6x (12%)	7x (16%)	8x (20%)	9x (16%)	10x (12%)	11x (8%)	12x (4%)
$118	0.5%	$472	$590	$708	$826	$944	$1,062	$1,180	$1,298	$1,416
$133	3.0%	$532	$665	$798	$931	$1,064	$1,197	$1,330	$1,463	$1,596
$147	8.0%	$588	$735	$882	$1,029	$1,176	$1,323	$1,470	$1,617	$1,764
$162	12.3%	$648	$810	$972	$1,134	$1,296	$1,458	$1,620	$1,782	$1,944
$176	14.7%	$704	$880	$1,056	$1,232	$1,408	$1,584	$1,760	$1,936	$2,112
$191	15.6%	$764	$955	$1,146	$1,337	$1,528	$1,719	$1,910	$2,101	$2,292
$205	12.8%	$820	$1,025	$1,230	$1,435	$1,640	$1,845	$2,050	$2,255	$2,460
$219	10.8%	$876	$1,095	$1,314	$1,533	$1,752	$1,971	$2,190	$2,409	$2,628
$234	8.5%	$936	$1,170	$1,404	$1,638	$1,872	$2,106	$2,340	$2,574	$2,808
$248	5.0%	$992	$1,240	$1,488	$1,736	$1,984	$2,232	$2,480	$2,728	$2,976
$263	3.4%	$1,052	$1,315	$1,578	$1,841	$2,104	$2,367	$2,630	$2,893	$3,156
$277	1.8%	$1,108	$1,385	$1,662	$1,939	$2,216	$2,493	$2,770	$3,047	$3,324
$292	1.5%	$1,168	$1,460	$1,752	$2,044	$2,336	$2,628	$2,920	$3,212	$3,504
$306	0.8%	$1,224	$1,530	$1,836	$2,142	$2,448	$2,754	$3,060	$3,366	$3,672
$321	0.4%	$1,284	$1,605	$1,926	$2,247	$2,568	$2,889	$3,210	$3,531	$3,852
$335	0.4%	$1,340	$1,675	$2,010	$2,345	$2,680	$3,015	$3,350	$3,685	$4,020
$349	0.2%	$1,396	$1,745	$2,094	$2,443	$2,792	$3,141	$3,490	$3,839	$4,188
$364	0.1%	$1,456	$1,820	$2,184	$2,548	$2,912	$3,276	$3,640	$4,004	$4,368

Source: Trivariate Research

MU APPEARS TO BE TRADING BETWEEN 10X AND 11X NORMALIZED EPS

It is hard to forecast what the market will pay for "normalized" EPS for MU. But our highest probability scenarios of $82 to $86 indicate the stock is trading between 10x and 11x normalized EPS at . A dominant player in an important business could arguably command a higher "normalized" multiple, so we show the full range of outcomes below. For instance, 15x $90 in "normalized" EPS implies $1350 for MU.

MU Share Price
Implied From Normalized EPS Possibilities Based on Simulation with λ = 0.75 and S = 2.0
And Varied Price-to-Normalized Earnings Multiples

		Price-to-Normalized Earnings (Trivariate Labeled Probabilities)								
Normalized EPS	**Probabilities Implied by Simulation**	**10x (4%)**	**11x (8%)**	**12x (12%)**	**13x (16%)**	**14x (20%)**	**15x (16%)**	**16x (12%)**	**17x (8%)**	**18x (4%)**
$53	**0.6%**	$530	$583	$636	$689	$742	$795	$848	$901	$954
$57	**1.2%**	$570	$627	$684	$741	$798	$855	$912	$969	$1,026
$60	**2.1%**	$600	$660	$720	$780	$840	$900	$960	$1,020	$1,080
$64	**3.3%**	$640	$704	$768	$832	$896	$960	$1,024	$1,088	$1,152
$68	**5.1%**	$680	$748	$816	$884	$952	$1,020	$1,088	$1,156	$1,224
$71	**6.9%**	$710	$781	$852	$923	$994	$1,065	$1,136	$1,207	$1,278
$75	**8.6%**	$750	$825	$900	$975	$1,050	$1,125	$1,200	$1,275	$1,350
$79	**9.0%**	$790	$869	$948	$1,027	$1,106	$1,185	$1,264	$1,343	$1,422
$82	**10.4%**	$820	$902	$984	$1,066	$1,148	$1,230	$1,312	$1,394	$1,476
$86	**10.4%**	$860	$946	$1,032	$1,118	$1,204	$1,290	$1,376	$1,462	$1,548
$90	**9.6%**	$900	$990	$1,080	$1,170	$1,260	$1,350	$1,440	$1,530	$1,620
$93	**8.5%**	$930	$1,023	$1,116	$1,209	$1,302	$1,395	$1,488	$1,581	$1,674
$97	**6.7%**	$970	$1,067	$1,164	$1,261	$1,358	$1,455	$1,552	$1,649	$1,746
$101	**5.6%**	$1,010	$1,111	$1,212	$1,313	$1,414	$1,515	$1,616	$1,717	$1,818
$105	**4.1%**	$1,050	$1,155	$1,260	$1,365	$1,470	$1,575	$1,680	$1,785	$1,890
$108	**2.7%**	$1,080	$1,188	$1,296	$1,404	$1,512	$1,620	$1,728	$1,836	$1,944
$112	**1.8%**	$1,120	$1,232	$1,344	$1,456	$1,568	$1,680	$1,792	$1,904	$2,016
$116	**1.3%**	$1,160	$1,276	$1,392	$1,508	$1,624	$1,740	$1,856	$1,972	$2,088
$119	**0.7%**	$1,190	$1,309	$1,428	$1,547	$1,666	$1,785	$1,904	$2,023	$2,142
$123	**0.6%**	$1,230	$1,353	$1,476	$1,599	$1,722	$1,845	$1,968	$2,091	$2,214

Source: Trivariate Research

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