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Analysts

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## Hardware

### Daily Views on Tech Headlines

**Memory, WDC, MU:** Hynix results exemplify improving conditions; Hynix objects to WD Kioxia deal

View: Hynix is clearly benefiting in part from superior execution on newer products (particularly HBM3, but also DDR5), making the sharp recovery the company realized in DRAM (ASPs up ~10% Q/Q) somewhat company specific (though we see MU as also executing relatively well on DDR5, with non-HBM server revenue seemingly driving much of Hynix's growth in CQ3). At the same time, we believe DRAM and NAND markets (e.g., NAND PX only dipped low single digits Q/Q, vs. our estimates for a high single digit decline in our WDC model) have improved substantially, in-line with Hynix's commentary around better fundamentals. Hynix did suggest capex will lift modestly in '24 from reduced '23 levels, arguably a concern given production increases eventually lead to oversupply, though in this case we believe any shift is tied mostly to support HBM/TSV requirements (vs. lifting overall bit production).

In addition, Hynix indicated they are indeed objecting to the Kioxia WDC deal given they believe it would diminish the value of their holdings. We continue to struggle to understand: 1) if a convertible bondholder (with Hynix's \$3B in debt reportedly converting to a 15% share) would have the ability to negate a deal, and 2) Hynix's purported logic as the value of debt shouldn't change in any transaction, while consolidation should be positive for valuations throughout the industry including both Kioxia and Hynix, in turn benefiting shareholders of both companies.

**Meta, CSP spending, PSTG, SMCI:** Meta cuts capex

View: Meta yesterday indicated it's trimming its capex for this year to \$27B to \$29B (from \$27B to \$30B). Preliminary capex for next year is forecast at \$30B to \$35B. As part of the commentary, Meta indicated it's in the midst of shifting to the new data center architecture it announced previously.

Meta's commentary re: lower spend appears to be weighing on PSTG and to a lesser extent SMCI in pre-market trading given their ties in prior years to Meta's infrastructure builds. As we've noted previously, we would be surprised if Meta is a significant customer of either vendor moving forward as we believe Meta's new architecture likely shifts it towards ODM suppliers, with PSTG specifically having indicated its FY'24 financial projections do not account for any orders from Meta. Net, we would be adding to positions of PSTG weakness, particularly given the likely boost the company will realize as NAND prices rebound, in turn lifting AFA system ASPs with PSTG's ability to use lower cost consumer grade NAND allowing it to better navigate such cost increases vs. its peers.

**Landmark, AXTI:** Datacenter buildouts increase demand for SiPh wafers

View: Landmark Opto commented on its earnings call that it is seeing robust demand for SiPh epi wafers driven by AI server demand, including high capacity data transport at the datacenter. The company has doubled its Y/Y outlook on 2023 shipments; management expects this trend to continue into 1H'24. We'd note this

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uptick was enough to support Landmark's Q3 results which rather suffered from lower demand from China. Moving forward though, we see the need for higher bandwidth as driving a shift towards optics in the data center. This view fits with Landmark's commentary indicating 800G product shipments are outpacing 400G despite production starting just this year. Landmark also expects to begin trialing 1.6T products at the end of 2024. Net, with a limited number of global suppliers of SiPh wafers we see Landmark as a potential beneficiary of the AI infrastructure buildout trend, in addition to materials supplier AXTI. [DigiTimes](#)

#### Risks to the Attainment of Our Price Targets and Ratings: Hardware

Shifts in competition, pricing, technology, and macroeconomic conditions.  
 Changes in hyperscale spending tied to shifts in growth or increased optimization.  
 Unforeseen events affecting production capacity (power outages, fires, storms, etc.)  
 Shifts in worldwide trade conditions that lead to macro instability and or close certain markets.  
 Increased competition from China based manufacturers entering new markets.

#### Analyst Certification

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#### Mentioned Companies

Company	Rating	Price	Target
Western Digital	OUTPERFORM	\$41.81	\$60.00
Micron Technology Inc	OUTPERFORM	\$68.21	\$80.00
Super Micro Computer, Inc.	NEUTRAL	\$258.09	\$250.00
Pure Storage Inc.	OUTPERFORM	\$36.48	\$45.00
Meta Platforms Inc	OUTPERFORM	\$299.53	\$350.00
AXT Inc.	OUTPERFORM	\$2.96	\$6.00

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Rating distribution (as of October 26, 2023)	Investment Banking Relationships (as of October 26, 2023)
OUTPERFORM: 60.84%	OUTPERFORM: 4.21%
NEUTRAL: 37.30%	NEUTRAL: 1.25%
UNDERPERFORM: 1.86%	UNDERPERFORM: 0.00%

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