

Toshiba chooses US-Japan bidder for memory chip biz sale

June 21 2017, by Yuri Kageyama



This May 26, 2017 file photo shows the company logo of Toshiba Corp. displayed in front of its headquarters in Tokyo. Troubled Japanese electronics giant Toshiba Corp. has chosen a U.S.-Japan consortium as the preferred bidder in its attempt to sell its lucrative memory chip business. Tokyo-based Toshiba said Wednesday, June 21, 2017, the board of directors selected the consortium of Innovation Network Corp. of Japan, Bain Capital Private Equity and the Development Bank of Japan as the preferred bidder in the sale of Toshiba Memory Corp. (AP Photo/Koji Sasahara, File)

Money-losing Toshiba Corp. said Wednesday that it has chosen a

U.S.-Japan consortium as the preferred bidder in the sale of its lucrative memory chip business, but hurdles remain as an American joint-venture partner is opposing the move.

Toshiba sorely needs the sale, with its U.S. nuclear unit Westinghouse Electric Co. racking up massive red ink and filing for bankruptcy protection.

Tokyo-based Toshiba said the board of directors selected the bid, totaling about 2 trillion yen (\$18 billion), from the consortium of Innovation Network Corp. of Japan, Bain Capital Private Equity and the Development Bank of Japan in the sale of Toshiba Memory Corp.

But Western Digital of the U.S., which has acquired some SanDisk chip operations, including a joint venture with Toshiba in Japan, reiterated its opposition to such a move. It said in a statement that Toshiba "has no right" to transfer the joint venture without its consent.

It said it filed a request for arbitration last week. Toshiba has accused Western Digital of interfering with its sales efforts. Such sales can be sensitive because they involve the transfer of technology.

SK Hynix, a major South Korean chip supplier, confirmed it was a lender to the consortium, "seeking new business opportunities," but declined to elaborate. Toshiba said Mitsubishi UFJ Financial Group of Japan was also a financier for a consortium member, but neither SK Hynix nor MUFJ will have managerial say.

"Toshiba has determined that the consortium has presented the best proposal, not only in terms of valuation, but also in respect to certainty of closing, retention of employees and maintenance of sensitive technology within Japan," it said.

Damian Thong, senior technology analyst with Macquarie in Tokyo, said the decision reflects how Japan wants to keep the technology, but concessions would be needed from Western Digital.

A fight in court would be detrimental long term, because delays would give an edge to rivals, he added. Samsung Electronics is No. 1 in the field.



In this April 11, 2017, file photo, Toshiba Corp.'s President Satoshi Tsunakawa bows during a press conference at the company's headquarters in Tokyo. Troubled Japanese electronics giant Toshiba Corp. has chosen a U.S.-Japan consortium as the preferred bidder in its attempt to sell its lucrative memory chip business. Tokyo-based Toshiba said Wednesday, June 21, 2017, the board of directors selected the consortium of Innovation Network Corp. of Japan, Bain Capital Private Equity and the Development Bank of Japan as the preferred bidder in the sale of Toshiba Memory Corp. (AP Photo/Shizuo Kambayashi,

File)

"The whole point of this is to help Japan retain control of the semiconductor operations and business of Toshiba," Thong said. "This is Japan trying to protect its position and relevance in global chip-making."

Earlier, others had expressed interest, including Hon Hai of Taiwan, also known as Foxconn, a major supplier to Apple, which has acquired Japanese electronics company Sharp Corp. Broadcom, Western Digital's rival, had also been reported as a candidate.

Toshiba wants to reach an agreement with the consortium and clear legal and other procedures before its June 28 general shareholders' meeting.

The Innovation Network Corp. of Japan is made up of 26 big-name Japanese corporate investors, including Sony Corp., Canon Inc., Toyota Motor Corp. and Sumitomo Mitsui Banking Corp. Bain Capital Private Equity, based in Boston, is one of the world's leading investment firms. The Development Bank of Japan is backed by the government of Japan.

Toshiba's earnings reports have failed to get endorsements from its auditors, given the company's precarious finances over the U.S. projects. The reports are being given as projections, not results—a 950 billion yen (\$8.6 billion) loss for the fiscal year ended March.

Reactors that Westinghouse is building in the U.S. are still unfinished, partly because of beefed-up safety regulations following the 2011 Fukushima nuclear disaster.

Toshiba shares closed down 2 percent on Wednesday. The stock has tanked in recent months, and speculation has been growing about its

delisting.

In 2015, Toshiba acknowledged that it had been systematically falsifying its books since 2008, as managers tried to meet overly ambitious targets. An outside investigation found profits had been inflated and expenses hidden across the board.

Some experts say Toshiba still needs to deal with accountability and governance issues.

"Toshiba appears plagued by a legacy of opaqueness. Without a complete overhaul of its organization, Toshiba will have a very difficult road to recovery of its reputation and trust, essential ingredients to its existence," said Shuri Fukunaga, chief executive of Burson-Marsteller Japan, a communications consultancy firm that helps companies in crises.

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