



OBJECTIVE ANALYSIS

Semiconductor Market Research

OBJECTIVE ANALYSIS ALERT!

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TOSHIBA TO ACQUIRE 30% OF SANDISK'S SHARE OF JV PRODUCTION

On Monday, October 20, SanDisk and Toshiba announced a memorandum of understanding outlining the sale of 30% of SanDisk's share of current manufacturing capacity of the companies' joint ventures to Toshiba. SanDisk expects to receive cash and reduce equipment lease obligations by approximately \$1 billion through this transaction. Few other details were given.

What this Means to SanDisk

This assets-for-cash swap will bolster SanDisk's coffers during a time when the company's stock price is depressed, but their cash position was not desperate during their last earnings announcement. Why would SanDisk be interested in an infusion of cash at this moment?

We can only guess that this cash might be used to repurchase depressed SanDisk shares whose price dropped on this news from around \$16.50 last week to just under \$14 at the writing of this Alert. SanDisk could use this measure to help thwart Samsung's takeover bid, remaining independent until 2009's NAND recovery drives its stock back to record levels.

Wall Street's response to this situation has been negative. On September 16, when Samsung offered to purchase SanDisk shares at \$26, the price of SanDisk stock rose to \$21 before settling to around \$16.50. (See our September 16 Alert.) It appears that traders believe that the Toshiba deal will cause Samsung to lose interest, so they are driving the stock back to prices that were in place before Samsung went public with the matter. This would certainly help SanDisk execute any repurchase they may choose to make.

One investment analyst postulated that the companies may also be re-working their JV agreements to include some sort of "Poison Pill" that would make SanDisk less appealing as a takeover target. We see no reason to accept this as anything more than speculation.

A Good Move for Toshiba?

Our first instinct was to compare Toshiba's payment to Micron's October 13 offer to purchase Qimonda's share of their Inotera JV. (See our October 13 Alert.) The Micron deal clearly got Micron a share of state-of-the-art facility at a bargain price. In the case of the Toshiba SanDisk deal this is not at all clear.

SanDisk's June 28 SEC Form 10-Q spells out the company's \$1.3 billion investments in their JVs with Toshiba. If we take 30% of this figure we end up with only \$390 million, roughly 1/3rd of the \$1 billion in cash and reduced equipment lease costs that SanDisk expects to receive from the deal.

It appears that Toshiba is valuing this deal with a consideration to the future of the joint venture.

Ever since Samsung made public its desire to acquire SanDisk the industry has been abuzz with rumors of a Toshiba takeover. Although the SanDisk/Toshiba partnership would do better without a Samsung acquisition, Toshiba made it clear that a takeover was not in the cards. This move appears to be the company's alternative.

Toshiba is a conglomerate with less than 9% of the company's FY 2008 revenues coming from memory revenues. The company is not as troubled by today's depressed NAND market than a less diverse firm might be. This should make it easier for Toshiba to find funds internally to help sustain a valued relationship.

What This Might Mean for Samsung

With the paucity of information contained in the releases it is not yet clear how Samsung will be impacted. Investors appear to believe that the Samsung takeover bid is threatened by this move, although lately there have been arguments that the deal was doomed from the start. These arguments center around recently disclosed court documents that indicate that SanDisk's msystems patent acquisitions carry a considerably higher value than was previously thought. Some thought that this new disclosure proved that Samsung's bid was well below SanDisk's value. Nonetheless, SanDisk's stock did not rise on this finding.

It is only natural for us to suspect that the deal is aimed somehow at defending SanDisk from Samsung's takeover attempt, but until the companies choose to reveal details of the agreement we will know only the little information we have received so far.

SanDisk's quarterly earnings call is this afternoon, so we are certain to learn more at that time. We will notify our clients should any important changes transpire.

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