

Micron a Takeover Target



OBJECTIVE ANALYSIS SEMICONDUCTOR MARKET RESEARCH



The Hunter Becomes the Hunted

According to a Wall Street Journal article published 13 July, 2015, China's state-owned Tsinghua Unigroup has bid to buy Micron Technology for \$21 a share or \$23 billion.

Press reports tell us that this would be the largest Chinese takeover of a U.S. company.

China's DRAM plans

Objective Analysis is not at all surprised that a Chinese firm with government backing plans to enter the DRAM and NAND markets, but we did not anticipate for it to occur through an acquisition. We have been telling our clients for the past few years that either China or India would create a new DRAM/NAND manufacturing company, especially since memory chip makers have enjoyed a long period of profits, and this usually motivates outsiders to invest in new DRAM makers.

We have even heard that China's upcoming 5-year plan would include taking a 20% share of the memory chip business, which last year would have represented some \$12 billion in revenues.

It is very common for countries with heavy industry to enter into the prestigious semiconductor market during an extended upturn. Memory chips are a good fit for a heavy industry manufacturing mindset, since both DRAM and NAND flash are undifferentiated commodities which are bought and sold based solely on price. Such commodities generally require little more than manufacturing prowess to succeed.

What the Buyer Would Get

The tangible assets will be receiving a lot of focus as this story unfolds. Micron, through a series of acquisitions of its own, not only has its original wafer fabs in Boise, Idaho, but also owns fabs in Japan from its recent Elpida acquisition, in Singapore, both through its acquisition of Tech Semiconductor and through a joint venture with Intel, in Utah, thanks again to its Intel joint venture, in Taiwan, through various joint ventures and acquisitions, and in Virginia through an acquisition from Toshiba. The company has a strong position in both NAND flash and DRAM sales, and has shown itself to be quite resilient during repeated market downturns that have cut DRAM supplier ranks from 28 companies in the middle 1990s to only 3 today.

Micron also has a close relationship with Intel, with half of its Utah fab's output sold to Intel at cost, and Intel, in return, helping design chips and processes for Micron.

What you are unlikely to hear much about is IP, and this is a very solid reason for Tsinghua Unigroup to acquire Micron. China in general is patent-poor, while Micron has been a top-ten patent publisher for a number of years. By purchasing Micron any company would improve its negotiating stance during inescapable patent squabbles.

Who is Tsinghua?

Tsinghua Unigroup is relatively puzzling company. It appears to be managed by Tsinghua University, which has [posted sparse outline](#) of its work on the web. Unigroup itself has a [Chinese-only website](#), which does have an "English" button that appears not to work.

The news reports currently circulating on the web tell us that the Tsinghua Unigroup is China's largest government-owned chip maker, and some reports say that its parent company is 20% owned by Intel while other reports explain that ownership of Tsinghua Unigroup is 51% Tsinghua Holdings and 49% Beijing Jiankun Investment Group. As we investigate further we will share what we learn with our clients.

Micron as a Target

This is a very unusual situation for Micron. This company has grown largely by acquiring DRAM production facilities from companies that decided to exit the market. Micron typically acquires these firms at very depressed prices when the owners feel pressured to sell. With the Tsinghua offer Micron changes roles from the acquirer to the one being acquired.

Final Thoughts

It is not clear that Micron has a position regarding this deal. The company has not yet issued any statement about the proposal. Since management is bullish about its prospects for the remainder of the year, they may decide that the offered price, which is 19% above today's closing price, is insufficient. Micron stock was trading in January at nearly twice today's value.

This kind of deal often must pass a lot of government scrutiny before it closes, and that could take several months. An exhaustive US government review is very likely in this case. There is a lot of concern recently that the Chinese economy may collapse. If the government approval process takes too long then a China bubble burst could well prevent this deal from materializing.

Objective Analysis provides information to our clients on market status and company actions in the DRAM and NAND flash markets, as well as other semiconductor markets. Find out more by visiting our [website](#).

Many thanks to Lane Mason for his significant contributions to this Alert.

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