



OBJECTIVE ANALYSIS

Semiconductor Market Research

OBJECTIVE ANALYSIS ALERT!

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SAMSUNG WITHDRAWS SANDISK BID

On Wednesday, October 22, Samsung announced the withdrawal of its \$26 bid for SanDisk shares. Explaining that "...your shareholders would have received full, fair and certain value for their shares and your employees and other stakeholders would have benefited..." Samsung gave their reasons to believe that SanDisk was errant in its expectations for the current market situation to improve in the near term.

Samsung explained that there are: "growing uncertainties in your business, which may continue to deteriorate in this difficult economic environment and further impact your standalone value." Samsung also noted: "Your surprise announcements of a quarter billion dollar operating loss, a hurried renegotiation of your relationship with Toshiba and major job losses across your organization all point to a considerable increase in your risk profile..."

SanDisk's Response

SanDisk replied within three hours that: "SanDisk's Board has remained open to a transaction that recognizes SanDisk's long-term value and contains the right protections for SanDisk's shareholders"

The company argues that: "We repeatedly outlined a clear path to hold further discussions, including most recently in our letter on September 15, and Samsung consistently chose to ignore that path and, in fact, never contacted SanDisk regarding their proposal after we delivered our letter. We believe this raises questions about the real motivations behind Samsung's offer."

Positioning, Positioning, Positioning!

Samsung certainly noticed that even an obscure move by SanDisk caused SanDisk's share price to fall. Although there are polar disagreements about SanDisk's motive for restructuring its JV with Toshiba, the stock market's response drove SanDisk's share price from around \$16 to around \$14 even though SanDisk will be improving their cash position with this agreement. Keep in mind that the initial offer by Samsung made SanDisk's price jump from \$13.50 to \$21. It appears that most traders feel that SanDisk's value without Samsung is far lower than it is with Samsung.

We are not investment analysts, and do not advise stock purchases, nor do we hold a position in SanDisk stock, but as an observer on the sidelines we are inclined to expect a similar response to the Samsung announcement when the US markets open on Wednesday, driving SanDisk's price even lower. Those who saw Monday's Toshiba deal

as a bad sign are likely to read Samsung's most recent announcement as something far worse.

This has so far been quite a melodrama, and we anticipate further very significant announcements before the matter is put to rest. With this there will probably significant share price shifts at SanDisk. This is no market for the timid!

This is good for Samsung. Samsung's stockholders will be rewarded if the company can acquire SanDisk at the lowest possible price. Today's announcement should help Samsung push SanDisk's share price lower, making it possible to acquire the company at a better deal than the \$26 per share that Samsung previously offered.

But, as we have told numerous reporters over the last few days, both companies' boards are acting in the best interests of their shareholders. Samsung has a fiduciary duty to avoid renegotiating a very expensive royalty agreement that expires in August. If Samsung acquires SanDisk, not only will they avoid paying some \$200 million a year in royalties, but they will also be able to collect \$200-300 million in royalties from SanDisk's other licensees. On the other hand, SanDisk has the fiduciary duty of getting a price that accurately reflects not current market conditions, but the value of the company over the long term. The company has spent significant efforts and capital to garner a patent portfolio that gives it control of nearly every aspect of its markets over the long term, and these patents are very likely to be far more valuable in the future than they have been in the past.

Although we would like to wish both companies success, this is a win-lose situation, so we must simply sit on the sidelines and quietly watch if we are to remain objective analysts.

Jim Handy

+1 (408) 356-2549

Objective Analysis

PO Box 440

Los Gatos, CA 95031-0440

USA

www.Objective-Analysis.com