



Computer Hardware & Software
Will SanDisk Ante Up For Lexar?

Chris Kraeuter, 04.21.06, 10:00 AM ET

http://www.forbes.com/2006/04/21/lexar-micron-icahn-cx_ck_0421disk_print.html

Burlingame, Calif. - Carl Icahn and other dissident shareholders of Lexar Media are banking on memory maker SanDisk Corp. to bust up a deal that would move Lexar into the hands of rival Micron Technology. But SanDisk Chief Executive Eli Harari refused to give them any public encouragement Thursday afternoon, dismissing reports that SanDisk is considering making a counteroffer as "rumors."

Behind the scenes, though, it seems that Harari is indeed at least considering making a move, which would keep its smaller rival from becoming a formidable competitor and cutting into SanDisk's margins. He has hired investment bank Morgan Stanley to explore the possibility of making a formal bid for Lexar, according to a person familiar with SanDisk. And last year, Harari had already made an offer for the company, that person said.

Last month, Lexar Media agreed to an all-stock buyout by Micron Technology, then worth \$680 million, or \$8.43 a share. That deal is now worth \$770 million, or \$9.42 a share, due to increases in Micron's share price. Lexar's shares--currently at \$9.81--have consistently traded above the takeout price as investors have hoped for a heated bidding war.

Icahn and a couple of other dissident investors, Elliott Associates and Glenview Capital Management, who together control 20% of Lexar worth about \$160 million, say Lexar could still do better. Last month, Elliott Associates sent a letter to Lexar management arguing that company was worth between \$15.84 and \$24.83 per share. Spokesmen for Icahn Partners and Elliott Associates declined to comment. A Micron spokesman declined to comment about a possible counter offer by SanDisk, but said "the company stands behind its bid, and the deal is progressing as expected." The transaction is scheduled to close by September.

Harari tried to steer clear of commenting on the Lexar-Micron deal during a conference call late Thursday. He did say that even if Micron succeeded with its takeover, the company would struggle to compete with SanDisk. "This does not alleviate Micron's challenges," he said.

But a combined Micron-Lexar would create a new challenge for SanDisk. SanDisk has long enjoyed a cost advantage over Lexar, helping it generate gross margins of 38% on sales of \$623 million in its most recent quarter.

Lexar, meanwhile, has lost \$204 million during the past two years, and things haven't been getting much better. The company has predicted it will post sales of \$100 million to \$130 million in its most recent quarter, and says it will lose between \$22 million and \$30 million. The company is scheduled to announce results April 27.

A Micron deal would improve Lexar's outlook. It's new owner would be able to help it source its flash memory, lowering Lexar's costs and improving its leverage with retail stores like Wal-Mart, its largest customer.

Micron would gain through a new sales channel and outlet for its nascent NAND flash business, which accounted for just 6% of its \$4.9 billion in sales last year. Micron has formed a joint venture with Intel to make NAND flash, which is increasingly used in gadgets like MP3 players, digital cameras and cell phones.

SanDisk and Lexar accounted for 35% of the \$8 billion flash card market last year, with SanDisk controlling a quarter of the market and Lexar holding 10%, according to Semico Research. Flash card sales are expected to hit \$11.3 billion this year and \$20 billion in 2007.

Lexar appears to have been up for a deal for more than a year. In documents filed with the Securities and Exchange Commission last month, Lexar says it had talked to 11 different suitors about a variety of deals throughout 2005 and into this year. The options ranged from outright acquisitions to improved supply contracts to partial equity deals, the company said. Lexar didn't identify any of the suitors, but a person familiar with the situation said one of them was SanDisk, which offered \$8.75, a 6% premium at the time. Lexar management rejected the bid.

Now SanDisk has motivation to up its offer. But even if it does, will it be enough to satisfy Icahn and company?