



Micron's Lexar Buy Is Bad News For SanDisk

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Burlingame, Calif. -

Micron Technology agreed to scoop up Lexar Media today for some \$680 million. But the deal could be even more costly for Lexar's rival, SanDisk.

If Micron Chief Executive Steve Appleton can pull off the deal, he will have wiped out the long-held advantage SanDisk has enjoyed when it comes to producing flash-memory cards. SanDisk's shares responded accordingly, dropping 6% to \$52.97. Micron shares slid 2% to \$14.66, and Lexar's jumped 22% to \$8.65 to slightly exceed the premium that Micron agreed to pay.

Both Lexar and SanDisk make flash-memory cards used to store digital content on cameras, portable drives, music players and cell phones. Flash memory, especially the type known as NAND, which Lexar and SanDisk specialize in, has become increasingly popular due to its declining cost and flexibility.

Together, the companies 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 Jim Handy, flash-memory analyst for Semico Research. Handy expects flash-card sales to hit \$11.3 billion this year and \$20 billion in 2007.

Getting the NAND flash is the biggest cost for the cardmakers. SanDisk has mitigated those costs through a joint venture with Toshiba, which also serves as a foundry for SanDisk. During a February analyst meeting, SanDisk executives said they could produce a one-gigabit card for 40% less than a company that doesn't have such a "captive" supply chain.

Such a competitor would be Lexar Media, which sourced its flash memory from Samsung, the world's second largest chipmaker and its largest memory producer. Micron's purchase solves that problem since it makes its own NAND, which accounted for 6% of its \$4.9 billion in sales last year. Micron wants NAND to become a bigger part of its business; late last year it formed a joint venture with Intel to make the memory technology.

The Lexar deal will help Micron find a home for some of that upcoming capacity. Micron also gets to take advantage of Lexar's relationship with Kodak, which dates back to 2004 and lets Lexar distribute flash cards branded with Kodak's name. The cards accounted for under 10% of Lexar's sales during the first nine months of 2005, but that percentage was expected to grow.