

Activists pile into MagnaChip as chipmaker reviews strategic options

By Jaewon Kang Updated 04:48 PM, Jul-29-2015 ET **MagnaChip Semiconductor Corp.**(MX) faces activist pressure as it undergoes a strategic review, but the South Korean chipmaker could welcome a number of buyers despite recent missteps.

Engaged Capital LLC, a 7.3% shareholder, disclosed Tuesday, July 28, in a Schedule 13D filing with the **Securities and Exchange Commission** that MagnaChip could be attractive to potential strategic acquirers or partners, as its business is capable of significantly improving operational performance.

The Newport Beach, Calif., hedge fund asserted MagnaChip's share price doesn't reflect the value of its assets, as the stock has been negatively affected by the financial restatement process that began in March 2014 and ended in February.

Since going public in 2011, shares of the Seoul company have dropped about 40% to trade at \$8.39 Wednesday afternoon. Shares are down about 35% year-to-date.

Engaged Capital joins **Pleasant Lake Partners LLC** as an activist investor in MagnaChip; the latter launched its campaign June 10 as a 7.7% shareholder and has since increased its stake to 9.95%. Pleasant Lake has argued that MagnaChip's shares should be valued at \$23 to \$37 per share rather than the significantly lower current range due to "negative sentiment, transitory business problems and accounting & geographic complexity."

A source familiar with the situation said Wednesday that MagnaChip's foundry assets, or its manufacturing plants, could be interesting to Shanghai's Semiconductor Manufacturing International Corp. (SMI) or **Tower Semiconductor Ltd.**(TSEM) of Israel, while the target's intellectual property could draw interest from others.

"The board recently formed a strategic review committee. They've shown some openness," the source said. "They've also de-staggered the board."

MagnaChip revealed July 20 in a proxy filing that it had established a three-member strategic review committee on June 16 to evaluate strategic alternatives, including a potential sale of all or a substantial portion of the company. The semiconductor company previously said July 9 in a Form 8-K filing that all board members now will stand for election annually, each for a one-year term, rather than being elected for staggered three-year terms.

MagnaChip also announced the resignation of COO and president Tae Young Hwang in May.

Toan Tran, managing partner at technology-focused hedge fund **Castle Union LLC**, said Wednesday that MagnaChip has been tied to South Korea's **Samsung Electronics Co. Ltd.**, and the difficulty the tech conglomerate has faced in the smartphone market has affected MagnaChip's results.

"I think a sale is the best choice for them," Tran said, adding that despite the financial restatement and troubles with Samsung, the target has good assets and is worth more than where the stock is trading. (Castle Union does not hold a stake in MagnaChip.)

In addition to SMI, Hua Hong Semiconductor Ltd. of Shanghai could also emerge as a potential suitor for MagnaChip, he explained.

Tran went on to say that the most likely suitors would be Chinese entities, adding that Tower Semiconductor would be the only non-Asian strategic player that could take a look at the target. At the same time, he wondered whether the latter is looking for additional capacity since it recently purchased fabrication plants in Japan.

In a presentation to MagnaChip chairman R. Douglas Norby earlier this month, Pleasant Lake said Chinese demand for semiconductor assets is in its infancy and accelerating, pointing to Jianguang Asset Management Co. Ltd.'s acquisition of NXP Semiconductors NV's (NXPI) RF Power business, as well as Uphill Investment Co.'s pending purchase of Integrated Silicon Solution Inc. (ISSI), which involved an eight-week bidding war between the Chinese investor group and Cypress Semiconductor Corp. (CY).

Elsewhere in the space, Exar Corp. (EXAR) is exploring strategic options with **Cowen and Co. LLC** and **O'Melveny & Myers LLP**. Industry sources have said the most likely result from the review is a sale that could value the Fremont, Calif., chipmaker at around \$600 million.

MagnaChip officials declined comment Wednesday, while those with SMI, Hua Hong Semiconductor and Tower Semiconductor could not be reached for comment. --*Michael D. Brown contributed to this report.*

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