

Samsung Buys Harman in \$8 Billion Cash Deal

Written by Bob Snyder
15. 11. 2016



It's the biggest acquisition in Samsung's history: \$8 billion for Harman International in an all cash deal.

And for Samsung it is less about audio/video and digital signage, and much more about automotive electronics.

Harman leads the connected car solutions market, with more than 30 million vehicles equipped with its connected car and audio systems, including embedded infotainment, telematics, connected safety and security.

Approximately **65% of Harman's \$7.0 billion of reported sales during the 12 months ended September 30, 2016 are automotive-related-** - and its order backlog for this market at June 30, 2016 was approximately \$24 billion.

Upon closing, **Harman will operate as a stand-alone Samsung subsidiary**, led by Harman's current management team.

Samsung says it is pursuing a long-term growth strategy in automotive electronics, and

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therefore plans to retain Harman's work force, headquarters and facilities, as well as all of its consumer and professional audio brands.

Samsung's own Automotive Electronics Business Team, established in December 2015 to identify opportunities for Samsung in the automotive sector, will work closely with the Harman management to realize the expected growth potential.

It hasn't been a good year for Samsung. The Note 7 recalls are still in the headlines and at home Samsung is being grilled by prosecutors over why Samsung transferred 28 billion euros (about 30 billion U.S. dollars) last year to a company in Germany co-owned by Korean President Park's longtime confidante, Choi Soon-sil (under arrest for abuse of power and attempted fraud) and her 20-year-old daughter.

Samsung Electronics Co. nominated Jay Y. Lee to its board in a move that allows the son of its ailing chairman to take a more active role as Korea's largest company faces its deepest crisis in years.

Meanwhile new CEO and vice-chairman Oh-Hyun Kwon moves ahead with an agenda thought to be inspired by Jay Y. Lee: the shift from organic growth to growth by acquisition. And it's a strategy that if it succeeds, will be copied by other Asian companies that look to the Korean conglomerate for leadership ideas.

The deal to buy Harman International Industries all about the purchase of an American automotive technology company, a deal that would combine Samsung's display and semiconductor operations with a business that already builds sound and smart components for digitally connected cars.

Samsung wants to be part of the supply chain for technology that will transform cars in the way that smartphones transformed mobile devices. This market, Samsung says, will grow to more than \$100 billion by 2025.

In addition, the combination of Harman's brands and audio capabilities and Samsung's

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expertise in consumer electronics could deliver enhanced customer benefits and elevate user experiences across Samsung's portfolio of consumer and professional products and systems.

"Harman perfectly complements Samsung in terms of technologies, products and solutions, and joining forces is a natural extension of the automotive strategy we have been pursuing for some time," notes Oh-Hyun Kwon, Vice Chairman and Chief Executive Officer of Samsung Electronics.

"As a Tier 1 automotive supplier with deep customer relationships, strong brands, leading technology and a recognized portfolio of best-in-class products, Harman immediately establishes a strong foundation for Samsung to grow our automotive platform. Dinesh Paliwal is a proven global leader and, in our extensive discussions, we have developed deep respect for him, his strong senior leadership team and Harman's talented employees. Harman's sustained track record of rapid growth fueled by technology leadership and an unmatched automotive order pipeline reflects its commitment to innovation and customers."



Dinesh Paliwal, Harman Chairman, President and CEO, *[shown in photo]* explains, "This compelling all-cash transaction will deliver significant and immediate value to our shareholders and provide new opportunities for our employees as part of a larger, more diversified company. Today's announcement is a testament to what we have achieved and the value that we have created for shareholders."

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"Samsung is an ideal partner for Harman and this transaction will provide tremendous benefits to our automotive customers and consumers around the world. Combining Samsung's strengths in leading-edge displays, connectivity and processing solutions with Harman's technology leadership and long-standing customer relationships will enable OEMs to provide new offerings for their customers.

"Partnerships and scale are essential to winning over the long term in automotive as demand for robust connected car and autonomous driving solutions increases at a rapid pace. This transaction will bring Harman and Samsung's complementary strengths together to accelerate innovation in this space. More broadly, this investment underscores the strength of Harman's employees, as well as our success and leadership across our markets. We look forward to working together with Samsung to elevate experiences for consumers worldwide."

Samsung expects the combination to deliver significant growth opportunities and benefits to customers by leveraging Samsung's and Harman's complementary technologies, resulting in increased market penetration across important end markets.

These are the complementary technologies mentioned in its press release...

Automotive: Combining Harman's leadership in new connected car technologies, including its top positions in infotainment, cyber security, over-the-air updates and telematics, with Samsung's significant expertise and experience in connectivity technologies, including 5G, UX/UI, display technology and security solutions, will enhance Harman's automotive and connected services businesses to drive greater sales and provide significant benefits as automakers speed the adoption of next-generation connected cars.

Audio: Harman's leading brands and cutting-edge audio systems include JBL, Harman Kardon, Mark Levinson, AKG, Lexicon, Infinity, and Revel. The company also licenses Bowers & Wilkins and Bang & Olufsen brands for automotive. All of these brands will greatly enhance the competitiveness of Samsung's mobile, display, virtual reality and wearable products to deliver a fully differentiated audio and visual experience for customers.

Professional: The combination will also expand the combined company's business-to-business platform through its ability to deliver integrated, large-scale audio and visual professional

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solutions at stadiums, concert facilities and other performance centers such as *he John F. Kennedy Center for the Performing Arts* and *STAPLES Center* – home of the GRAMMY Awards.

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Connected Services: Samsung will gain access to Harman's 8000 software designers and engineers who are unlocking the potential of the IoT market. This collaboration will deliver the next generation of cloud-based consumer and enterprise experiences, as well as end-to-end services for the automotive market through the convergence of design, data and devices."

The transaction, subject to approval by Harman shareholders, regulatory approvals and other customary closing conditions, is expected to close in mid-2017.

Many industry commentators noted that **AMX**, one of Harman's recent acquisitions, did not get mentioned specifically in the press release. That, to some, signals the possibility of a de-acquisition. On the other hand, AMX could play an important role in the Connected Services (and IoT) and large scale professional AV installations.

Acquisitions are new territory for Samsung (who once believed in only organic growth) so no one --including Samsung itself--knows what to expect. It's a new era.

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