

Foxconn Offers \$5.3 Billion for Sharp

Written by Bob Snyder
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Foxconn wants to buy Sharp and will pay a tempting \$5.3 billion (¥625 billion).

But it won't be easy. Sure, Sharp is under pressure and Foxconn's offer is meant to persuade Sharp's creditors to make a decision based on the fiscal deal, rather than political considerations.

Yet politics is at the very heart of Japanese business. If a foreign company could now "buy Japan," then this deal will be a shocker, a high water mark in Japan that would suggest a wave of bad financial news will finally drown traditional Japanese business culture.

Japanese government officials don't want Sharp to come under foreign control, specifically citing the company's technology in display panels. Well-known as a country run by a government-business coalition, the so-called "Japan Inc." has spent time and money to ensure some of their high value technology doesn't fall easily in Chinese, Korean or Taiwanese hands.

That's why Sharp is getting a competing offer from another "Inc."-- the **Innovation Network Corp.** of Japan, a

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government-backed investment fund. But it is almost half the amount of Foxconn's bid.

INC of Japan already controls Japan Display Inc., another major display maker. These two Japanese panel makers share know-how in next-gen panel technology and mass production.

“Japan's technology is leading the rest of the world and we would like to help make it even more competitive,” industry minister Motoo Hayashi told press.

The matter may be further complicated by Foxconn's history of public relations nightmares. It is the world's largest electronics contractor manufacturer and the 3rd largest information technology company by revenue in the world.

If you own any of these products-- *BlackBerry, iPad, iPhone, Kindle, PlayStation 4, Xbox One, Nokia* and *Wii U*—you might own a Foxconn-manufactured product.

Yet Foxconn has been plagued by controversies relating to factory employees in China. A history of suicides-- blamed on working conditions-- provoked Foxconn into hiring Western PR companies. Despite that in, January 2012, about 150 Foxconn employees threatened to commit mass-suicide in protest.

Bloomberg Business reported, “The suicides introduced Foxconn to most of the world in the worst terms imaginable—as an industrial monster that treats its workers like machines, leveraging masses of cheap labor, mainly 18-to-25-year-olds from rural areas, to make products like the iPhone at seemingly impossible prices. For Western consumers, the lost lives were an invitation to consider the real cost of their electronic playthings. For the image-conscious companies with which Foxconn does business, including IBM, Cisco, Microsoft, Nokia, Sony, Hewlett-Packard, and Apple, the suicides were a public-relations nightmare and a challenge to offshoring strategies essential to their bottom lines.”

Founder and Chairman [Terry Gou](#) , worth an estimated \$5.9 billion and the richest man in Taiwan, didn't help things with his tough guy manner. It takes a tough guy to run nearly 1 million

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workers in a single company but he has attracted unwanted attention with comments such as...

- *“democracy does not put food on the table”*
- *“Warren Buffet is too old to be doing business”*
- *“hungry people have especially clear minds”*
- *“an army of one thousand is easy to get, one general is tough to find”*
- *[we] have a workforce of over one million worldwide and as human beings are also animals, to manage one million animals gives me a headache...”*

In some circles, think of Donald Trump in America, this tough talk may get you elected to high office. Japan, a country that was politically correct before “PC” was invented, does not embrace the same mentality. In fact, the culture tends to couch everything in terms of what’s good for all. This is a country where a manufacturer of headphones might sell under a slogan *“Bringing purity of sound and joy to customers’ lives...for the betterment of mankind.”*

On top of the clash of cultures, Japan knows while Foxconn is mainly an OEM (assembles electronics to be sold under other brand names), the Sharp brand could be valuable especially if Foxconn wants to sell its own brand of products. At \$135 billion, Foxconn would become a new and powerful competitor to many other Japanese companies.

In Japanese parlance, it would be thoughtless-- and rude! -- for Sharp’s creditors to sell to a foreigner that would hurt Japan Inc. And if the banks did this for the money, for their own financial interest--without respecting the expected civic behavior-- they would probably be penalized by other Japanese conglomerates which would withdraw or withhold their banking business.

If we’ve convinced you the Foxconn deal is tempting but not likely, and it would be a radical

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(and foreboding) solution by Japan standards, then we can only add: it has about as much chance as hell freezing over.

Sharp and its creditors hope to reach a decision by Feb. 4th, when Sharp will announce its latest quarterly results. Then we will see if a real climate change has taken hold in Japan.

Go [Foxconn Wants Sharp](#)

Update Feb. 6th: HELL FREEZES OVER

Foxconn tells Reuters that acquisition is agreed and now "just process," making history as the largest deal of its kind (foreign take-over) with a Japanese CE supplier.

The deal-maker was a bid more than double the amount proposed by a state-backed fund, the Innovation Network Corp of Japan (INCJ). Reuters reports, "So many investors were surprised to see an overseas firm gain the upper hand over a state fund and Sharp's shares shot up 17%..."

Sharp Chief Executive Kozo Takahashi confirms the company is focusing on talks with Foxconn, although he denies having officially designated Foxconn as the preferred bidder. Can the deal still drift south?

Yes, it can still fail but it is less likely as now failure involves loss of face with Foxconn, Taiwan industry and even global industry.

The historic acquisition doesn't just validate Foxconn, but serves as a testimony to the tremendous financial pressure on Japan's once-thriving consumer electronics realm. If the deal succeeds in the long term, it might shift Japanese attitudes toward foreign investment.

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