

## Sharp Begins Discussions to Make SDP a Wholly-Owned Subsidiary—Negative for Rating if Realized

The following is Japan Credit Rating Agency, Ltd. (JCR)'s opinion on commencement of discussions to make Sakai Display Products Corporation a subsidiary (comeback) by Sharp Corporation (security code: 6753).

- (1) On February 18, 2022, Sharp Corporation (the “Company”) announced that it would begin discussions with World Praise Limited in Samoa that is the current major shareholder of Sakai Display Products Corporation (SDP), with a view to making SDP, an equity-method affiliate (holding 20%), a wholly-owned subsidiary. SDP is a specialized manufacturer of large-sized LCD monitors using 10th generation mother glass. SDP was established in 2009 as a subsidiary of the Company, but in 2012, 46.48% of its shares were transferred to SIO International Holdings Limited, an investment company of Mr. Terry Gou, the representative of Taiwan EMS Hon Hai Precision Industry Co., Ltd., and SDP was changed to an equity method affiliate of the Company. JCR believes that this move was made amidst the severe performance of the Company's large-sized LCD panels business. The Company has since further reduced its shareholding in SDP, and in February 2021, it announced that it would sell all of its shares in SDP, saying that it would help stabilize its performance (the Company announced the cancellation of the sale in March 2021, due to the buyer's reason). On the other hand, the Company has been procuring large LCD monitors for TVs and other products from SDP. The Company cites the growing importance of large LCDs and SDP's current position in the industry as the reasons for making SDP a wholly owned subsidiary.
- (2) The market for SDP's large LCDs is highly competitive and volatile due in part to the rise of Chinese manufacturers. JCR sees that the industry risk for large LCDs is relatively high. In fact, SDP continued to post operating and net losses through the fiscal year ended December 2020 (FY2020), and its net assets at the end of the period declined to 13.8 billion yen (135.5 billion yen at the end of FY2018), partly due to impairment losses on fixed assets. Based on the Company's equity in earnings of affiliates, it seems that SDP's performance turned around in the first half of FY2021, but the market for large LCDs has been deteriorating since the middle of 2021, and SDP's performance in the second half of FY2021 is expected to have been difficult. In May 2021, the Company announced its intention to build a business structure centered on the brand businesses (finished products) and to improve its financial position, and the move this time will be inconsistent with this direction of business management. Although the details of SDP becoming a wholly owned subsidiary have not been disclosed, JCR currently believes that this, if realized, will be a negative factor in assessing the Company's creditworthiness, and JCR will confirm the outcome and details of SDP becoming a wholly owned subsidiary, as well as the business strategy of the display device business division, including SDP's sales strategy. On the same day, the Company also announced that Mr. Jeng-Wu Tai, who has supported the management of the Company for a long time, will step down as CEO on March 31 and the executive personnel change for the CEO.

Hiroyuki Chikusa, Hiroaki Sekiguchi

<Reference>

Issuer: Sharp Corporation

Long-term Issuer Rating: BB+      Outlook: Positive



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