Japan's Toshiba to split into three firms

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The decision comes after months of tumult for Toshiba.

Storied Japanese conglomerate Toshiba will split into three companies, it said Friday, following a campaign by investors to boost the firm's shares after a period of enormous upheaval.

The move is the first spin-off by a Japanese firm of Toshiba's size and analysts said it could be a test case for other domestic conglomerates.

The plan approved by the board will spin two companies off from the rest of Toshiba's operations within two years—one focused on infrastructure and the second on devices—with both eventually being listed.

"It is an extremely big change, but there is a chance for each business to achieve growth," CEO Satoshi Tsunakawa told reporters.

"Toshiba has changed its form and evolved throughout its long history of over 140 years," he added. "We have reached a conclusion that this strategic realignment is the best option."

The plan must still be approved by shareholders, some of whom reportedly would have preferred a buyout, with a vote expected in the first quarter of 2022.

Toshiba said the move would allow each sector of its business faster decision-making and slimmer cost structures that would "deliver sustainable profitable growth and enhanced shareholder value".

That is what investors pushing for the move are hoping, said LightStream Research analyst Mio Kato, who publishes on Smartkarma.

They want "moves to shake the company up and get investors to reevaluate it and hopefully get a higher share price," he told AFP.

The decision caps a period of tumult at the firm, once a symbol of Japan's advanced technological and economic power.

In June, shareholders voted to oust the board's chairman after a series of scandals and losses, in a rare victory for activist investors in corporate

Japan.

The move followed the damaging revelations of an independent probe that concluded Toshiba attempted to block shareholders from exercising their proposal and voting rights.

It also detailed how the firm had pursued an intervention from Japan's Ministry of Economy, Trade and Industry to help sway a board vote.

Japan test case?

In April, an unexpected buyout offer from a private equity fund associated with then-CEO Nobuaki Kurumatani stirred uproar, with allegations it was intended to blunt the influence of activist investors.

Other offers emerged subsequently, and Kurumatani resigned in April, though he insisted it was not related to the buyout controversy.

Hideki Yasuda, an analyst with Ace Research Institute, said it would take time to assess the consequences of the split.

"Corporate value is maximised by individual segments working on their own, so the plan is a good one if you look at that aspect of it," he told AFP.

But coordination between the business sectors could be hampered and "it's conceivable that in reality their efficiency might decline as a whole," he added.

Kato said the move also risks failing to address issues facing Toshiba, including governance reform, with management focused on responding to investor pressure instead.

"I think you still need probably another three, four years to really put Toshiba where it should be but I don't think they're willing to wait," he said.

The firm's shares ended the day 1.32 percent down at 4,872 yen, having fallen as much as 3.6 percent earlier in the day.

Yasuda said the move would be closely watched in Japan, with its success or failure likely to influence others.

"If it ends well, I think shareholder pressure may increase for other conglomerates to take similar steps. But if it fails, then business managers may feel that being conglomerates reduces risks."

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