

## Western Digital Share Sale Signals Spinoff Progress: ECM Watch

By Drew Singer / Bloomberg News / February 2, 2023

Western Digital Corp. appears closer to spinning off its flash business after disclosing new details about financing and its strategic review.

Earlier this week, the firm detailed a \$900 million sale of convertible preferred stock to investors including Apollo Global Management Inc. and Elliott Investment Management. The disclosure provides investors greater insight into a potential transaction after Bloomberg reported that the spun-off unit may merge with Kioxia Holdings Corp. to create a publicly traded company in the US.

In a filing on Wednesday, the firm disclosed that the preferred stock will not be convertible until the closing of a spinoff, as long as that transaction happens within a year. It's a sign of progress given the company had previously been unable to offer meaningful updates due to nondisclosure agreements, Evercore analyst C.J. Muse wrote in a note on Wednesday

"Clearly, WDC, Elliott and Apollo are showing their cards for the first time with respect to a possible spin-out and subsequent transaction involving WDC's NAND asset," he wrote, referring to WDC's flash business. "Such a strategic move would make sense to us, as we view a deal that promotes further NAND industry consolidation as the most logical option."

Western Digital released a third-quarter revenue forecast on Wednesday that missed estimates. Analysts blamed weakness in the NAND flash market, among other factors.

***Selling preferred shares enabled the company to secure an influx of cash without an immediate shakeup to its financial profile, said Jim Osman, founder of The Edge Consulting Group.***

***"Raising capital through the preferred stock route would not only provide liquidity but also ensure that there is no immediate dilution to ownership, nor is the company highly levered by raising capital in the form of additional debt," he said in an interview. "However, deal talks are still in the early stage, and they must overcome regulatory hurdles to complete the merger."***

The pipeline for spinoffs has ballooned in recent months as conglomerates look to counter lower equity prices by unlocking the value of units they view as underappreciated. The strategy appears to be working, with recently spun-off companies beating the broader market. The Bloomberg US Spin-Off Index has climbed 10% to start the year, outperforming the S&P 500.

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