

Samsung Electronics Co. Evaluates a Restructuring Process, Under Pressure From Investors

By Hector Ramirez-Pardo, LL.M. Candidate 2017 | December 13, 2016

On November 28, the South-Korean tech giant Samsung Electronics Co. [announced](#) that for the following six months it will work with external advisors in order to assess restructuring alternatives. Such alternatives might include splitting their electronic business into a [holding company](#) listed on an American exchange and an operating company. These moves would be the most important reorganization of the Asian company in its history.

The news came after pressure from the investors, especially Elliot Management, an American hedge fund, who argued it is a necessity for the company to define a path to raise its share's valuation. In October, Elliot sent a [letter](#) to the Samsung Electronics Board of Directors, which highlighted the unnecessary complexity of the Samsung group structure. According to the Elliot, the current structure impedes an adequate estimation of the real value of the company as well as the implementation of best practices in corporate governance. The letter also demanded a review of the overcapitalize equity – debt relationship within the company since that would have an impact on the available cash for dividends distribution.

Despite its small share in the company (less than 1%), the critiques made by Elliot echo among other investors, who are concerned about the recent setbacks Samsung has suffered. The most notable being the crisis generated by the burning battery of its smartphone, [Note 7](#), which may cost the company more than \$5 billion.

Currently, the companies composing the Samsung group are related through crossed-participation schemes that make it difficult to determine their value, which affects its profitability. The spin-off alternative would separate the crossed-participation scheme and isolate the electronic business, which would facilitate a better valuation of the company.

The Samsung group is controlled by the family of its chairman, Lee Kun-hee. His son, Jay Y. Lee, is expected to be an important part of the transition process within the family organization. Traditionally, [chaebols](#) – Korean large family conglomerates - do not admit outside intervention when making decisions about the management of their companies. However, this time, the family decided to make an exception.

In its announcement Samsung also mentioned an [increase of shareholders' returns](#) by one-third, the return of half of its free cash flow, a buy-back program and its intent to add a new board member before March 2017.

Although significant, the announcement isn't entirely satisfactory for Elliot, who described it as a "constructive initial step".