

Toshiba: Trend of exit from Westinghouse-related assets

Also update on effect to improve capital base at end-FY17

- Transfer of right to assert claims and other claims to be completed by end-Jan for sale price of around Y244.1bn
- Capital base expected to improve by around Y410bn due to contributions from gains on transfer and tax benefits
- Even if sale of Toshiba Memory shares is not completed, firm thinks negative net worth will be eliminated at end-FY17
- Substantial cash inflow via transfer of claims credit positive; in terms of balance sheet as well, capital improvement effect would exceed firm's previous projections

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Details of company release

Trend of exit from US-based Westinghouse-related assets

On 18 January 2018, Toshiba made a timely disclosure entitled "Regarding sales of Westinghouse-related assets held by Toshiba and the forecast for Toshiba's shareholders' equity at the end of FY2017."

Transfer of right to assert claims and other claims to be completed by end-Jan for sale price of around Y244.1bn

Against US-based Westinghouse Electric, Toshiba owns the right to assert claims (around Y654bn) by fulfilling a contract on parent company guarantees¹, and other claims (about Y258.1bn). Toshiba signed a contract with Nucleus Acquisition LLC to transfer these subrogated rights. According to the release, Toshiba anticipates the completion of the transfer by the end of January for a sale price of around Y244.1bn.

Capital base to improve by around Y410bn due to contributions from gains on transfer and tax benefits

In addition, the firm announced that the completion of the transfer of claims would improve the firm's capital base by around Y410bn in total, consisting of (1) around Y170bn (after-tax basis) in gains on the sale of claims and (2) about Y240bn in tax benefits, one reason for fulfilling the parent company guarantee contract.

Even if sale of Toshiba Memory shares is not completed, negative net worth would be eliminated at end-FY17

As a result, the firm stated in the release that it expected to eliminate negative net worth status at end-FY17. This is based on its projection for shareholders' equity of around -Y750bn announced in November 2017, around Y600bn in capital increase via private placement of new shares, and Y410bn from the latest sale of claims.

Our opinion on release

Substantial cash inflow via claims transfer credit positive

In terms of valuation of Toshiba's debt-payment capabilities, the expected inflow of cash of around Y244.1bn via the transfer of claims is a new positive factor. As the inflow has not been reflected in the current company projection, it would substantially narrow the amount of negative free cash flow in 2H FY17².

In terms of balance sheet as well, capital improvement effect would top firm's previous projections

In terms of the balance sheet, it is highly probable that the effect to improve the capital base will total Y410bn once the transfer of claims is completed by end-January, even if the court does not approve the rehabilitation plan of Westinghouse. This is a reassuring factor. Moreover, Toshiba now expects to book sales gains, in addition to a positive factor for capital improvement via tax effect of around Y240bn, which was explained at the previous analyst meeting. This is also a new positive factor, in our view.

¹ On 12 Jan 2018, Toshiba completed lump-sum payment of parent company guarantees regarding US-based Westinghouse Electric, which went bankrupt (around Y210.2bn, excl. already paid amount), to SCANA Corporation of US. As Toshiba already implemented lump-sum payment of parent company guarantees to Southern Company of US on 14 Dec 2017, it fulfilled all parent company guarantee obligations.

² [Our 27 Dec 2017 report: Toshiba: One year has passed since it became at risk of large losses \(JCRE414\).](#)

**Our eyes are on whether
Toshiba will see further
capital reinforcement
effect**

Tax benefits related to losses on shares of Westinghouse and other firms are undecided. However, the transfer of Westinghouse shares to a new sponsor group (Brookfield WEC Holdings) is scheduled to be completed by the end of March 2018. We will continue to monitor whether Toshiba will be able to benefit from the capital reinforcement effect further, alongside whether the court will approve the rehabilitation plan of Westinghouse.

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