

Takata Corp

Japanese airbag maker Takata files for bankruptcy

Move clears way for \$1.6bn takeover of company's core assets by Chinese-owned KSS



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Kana Inagaki in Tokyo JUNE 25, 2017

Takata, the Japanese automotive supplier at the centre of a global recall of exploding airbags, has filed for bankruptcy protection in Japan and the US, paving the way for a \$1.6bn takeover of its surviving business by a Chinese-owned group.

The [filing](#) leaves car makers across the world facing huge bills for complicated and costly recalls affecting tens of millions of vehicles sold by at least 13 companies.

The industry has already spent \$13bn recalling affected vehicles, according to estimates by Tokyo Shoko Research, and manufacturers including Honda, Nissan and [Toyota](#) have set aside funds for the fixes, saying they do not expect to be able to recoup the costs from Takata.

With estimated liabilities totalling over \$10bn, Takata's downfall marks the largest corporate bankruptcy of a Japanese manufacturer and brings to an end the 84-year-old group that developed the country's first driver-side airbag system in the 1980s with [Honda](#).

Under a preliminary agreement reached with Key Safety Systems, a US airbag manufacturer owned by China's Ningbo Joyson Electronic, Takata agreed on Monday to sell most of its assets excluding the recall-affected airbag inflator business at a fire-sale price of \$1.6bn.

The safety crisis dates back more than a decade with Honda carrying out its first recall of vehicles equipped with Takata's airbag inflators back in 2008. The scandal intensified in the spring of 2013 after Toyota, Honda, [Nissan](#) and [Mazda](#) recalled more than 3m vehicles worldwide.

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Its airbag inflators, which have a propensity to explode in humid conditions, have been linked to at least 17 deaths and more than 100 injuries, triggering a huge recall that ultimately could affect more than 100 more vehicles types sold by carmakers from around the world. Only about 36 per cent of the recalls have been completed so far in the US, according to Takata.

Shigehisa Takada, the chief executive and grandson of the company's founder, said the Japanese group and its US units could not avoid a bankruptcy filing as their financial situation deteriorated rapidly amid a deadlock in talks with carmakers, KSS and its lenders.

"Since we produce safety components, there will be a massive impact on the global auto industry if there is any disruption to our supplies so that is how we came to this decision," Mr Takada said after offering an apology with a 10-second deep bow of contrition.

"I feel strongly responsible for this outcome," he added. Mr Takada will step down from the family-controlled company once the deal with Michigan-based KSS is completed.

Takata has faced sharp criticism from consumers and carmakers for its handling of the safety crisis. In 2015, Honda accused it of manipulating test results on certain airbag inflators, and several carmakers followed Honda's decision to stop using Takata's inflators in new vehicles.

The massive recalls have weighed heavily on Takata's finances. The company reported a net loss of ¥79.6bn (\$715m) for the year to March, marking its third year in the red.

In January, Takata pleaded guilty to fraud and agreed to pay \$1bn in criminal penalties in the US with three of its executives indicted for their roles in the safety scandal. The \$1bn payment included \$850m to cover recall costs borne by vehicle makers.

Takata and its units face estimated liabilities of ¥1.7tn (\$15bn), including ¥1.3tn in recall costs likely shouldered by carmakers, according to Tokyo Shoko Research. In addition to recall costs, some Takata bondholders have already complained about KSS's takeover price and the company also faces multiple lawsuits linked to the airbag defects.

For carmakers, analysts say they are unlikely to fully recover the recall costs even if Takata sells off its assets. On Monday, Toyota said it had already set aside reserves for ¥570bn in recall costs that it does not expect to recover, while Honda has provisioned for ¥556bn in recall expenses.

Due Diligence

"Carmakers have been well ahead of the curve in seeing what's available and provisioned pretty much for the worst-case scenario," said Christopher

Richter, an analyst at CLSA.

A longer-term challenge, Mr Richter says, may be the reputational damage on car brands: "Part of the problem with Takata was that they knew they had a problem. By not dealing with it faster,

it created a huge brand issue for Honda and even now, they [Honda] are struggling with reputational risks from this issue.”

Honda suffered in particular from the scandal as it was Takata’s first and biggest airbag customer.

Tokyo-based Takata started out in 1933 as a textile manufacturer. Initially making parachutes for the military and then seat belts, the company eventually moved into airbags in the 1980s. Through a series of acquisitions from the late 1980s, it grew into the world’s second largest airbag manufacturer behind Sweden’s Autoliv, with annual revenues of ¥662bn — 37 per cent of which is made from airbag sales.

Shares in Takata were suspended on Monday, after plunging 67 per cent in the previous week to close at ¥160 on Friday. They will be delisted on July 27.

Additional reporting by Peter Campbell in London, Patti Waldmeir in Chicago, Leo Lewis in Tokyo and Patrick McGee in Frankfurt

Takata’s rocky road

November 2008: Honda issues a recall of about 4,000 vehicles equipped with Takata’s airbag inflators.

April 2013: Takata’s safety scandal expands as Toyota, Honda, Nissan and Mazda recall more than 3m vehicles globally.

November 2014: The National Highway Traffic Safety Administration demands an immediate recall of vehicles across the US fitted with potentially faulty airbags made by Takata, taking the US total to 7.8m vehicles.

December 2014: Stefan Stocker, the president of Takata, is replaced by Shigehisa Takada, chairman and the grandson of the company’s founder, to strengthen management.

June 2015: Shigehisa Takada, the chief executive of Takata, issues the first apology for the defective airbags.

November 2015: Honda, Takata’s largest customer, announces it will stop using Takata’s inflators in new vehicles, after accusing the company of manipulating some test results.

May 2016: NHTSA more than doubles the size of the Takata recall in the US, ordering the replacement of as many as 40m airbag inflators.

January 2017: Takata agrees to pay \$1bn and pleads guilty to charges of wire fraud for misleading US regulators, consumers and carmakers about the

safety of the airbags.

February 2017: A steering committee of outside experts, commissioned by Takata, recommends Key Safety Systems, a US airbag manufacturer owned by China's Ningbo Joyson Electronic, as the preferred bidder.

June 2017: Takata files for bankruptcy protection in Japan and the US and agrees to a \$1.6bn takeover of its core assets by KSS.

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