Sony urged to sell entertainment unit

TOKYO, JAPAN: Sony shares rose on Wednesday (15 May) after a US hedge fund called for the partial sell-off of its entertainment unit, in a rare bid by a major foreign shareholder to penetrate Japan's staid corporate culture.

The Tokyo-listed stock closed 10.38% higher at ¥2,072, capping a big turnaround since last year when it dropped below ¥1,000 for the first time since the era of the portable Walkman music player.

Billionaire Daniel Loeb, who says his firm Third Point is now Sony's largest investor through direct and indirect holdings, proposed selling off as much as 20% of the Japanese company's entertainment arm, which includes profitable movie and music divisions.

Loeb - an outspoken shareholder activist known for his aggressive style in trying to force change at targeted firms - said he supported chief executive Kazuo Hirai's bid to shake up one of Japan's best-known names.

"Since taking the helm as chief executive officer (last year), your stated commitment to reinvigorating the company has given us hope that Sony is entering a new era," Loeb said in a letter to Hirai dated 14 May.

But "for Sony to change, Sony must focus".

The call comes as foreign investors take a renewed interest in Japan with Tokyo's pledge to stoke the country's long-stagnant economy helping to send the benchmark Nikkei 225 index rising to more than five-year highs.

Profits return

Last week, Sony reported its first annual net profit in five years, although it was largely driven by a weakening of the yen - which boosted the value of its repatriated foreign income - and a string of asset sales including its Manhattan headquarters.

Hirai has launched what he called an "urgent" restructuring plan that will see thousands of job cuts, as Sony continued to pile up losses in its ailing television and consumer electronics units.

Sony and domestic rivals Sharp and Panasonic have struggled in the low-margin television business against foreign rivals, while slowing demand overseas and potentially strategic mistakes - such as coming late to the lucrative smartphone market - also battered their finances.

Still, Japan's electronics companies have been wary about slicing up businesses that encompass a vast range of consumer products with everything from DVD players to washing machines.

Movies, music

Loeb wants Sony to float part of its media division, which includes one of Hollywood's biggest movie studios and a major music label with artists such as Alicia Keys and Taylor Swift, by distributing shares to those who already have holdings in the parent company.

He said the offering would act as an incentive to bring up the unit's lagging profit margins, adding that the "under performance would be remedied by a more disciplined management approach to Sony Entertainment".

While such action is common in the United States, it is rare for a foreign shareholder to succeed in bringing about change at a Japanese firm, with many major corporations controlled by domestic institutional shareholders.

"I think it's unlikely Sony will act on Third Point's request," said Seiichi Suzuki, analyst at Tokai Tokyo Securities.

"Generally speaking, shareholders and companies in Japan share similar values in terms of seeking long-term profits from their mainstay businesses over the short-term benefits of a jump in the share price."

Hirai is set to outline Sony's plans next week, but the firm has initially rebuffed Loeb's suggestions.

Sony said it would continue "constructive dialogue with our shareholders as we pursue our strategy", but added that the "entertainment businesses are important contributors to Sony's growth and are not for sale".

Source: AFP via I-Net Bridge