

Sony buys Ericsson out of mobile phone venture

Tarmo Virki, European Technology Correspondent, Reuters
Sony Corp is to take over its mobile phone joint venture with Ericsson for 1.05 billion euros (\$1.5 billion), as it seeks to exploit its music and video to help it catch smartphone leaders such as Apple Inc.

The deal to buy out its Swedish partner will enable Sony to better integrate smartphones and other devices with its array of content, from its music label whose stars include Beyonce and Britney Spears, its movie studio whose current hits include Spider Man and Anonymous and its Playstation video games such as Legends of Norrah.

"Its the beginning of something which I think is quite magical," Sony Chairman Sir Howard Stringer told a news conference in London. "We can more rapidly and more widely offer consumers smartphones, laptops, tablets and televisions that seamlessly connect with one another and open up new worlds of online entertainment".

Until now Sony's tablets, games and other consumer electronics devices have been kept separate from the phones sold and created by Sony Ericsson.

"Sony is looking to do the same as Apple and meet users' demands through linking various devices with similar interfaces and operating systems," said analyst Nobuo Kurahashi of Mizuho Investors' Securities in Tokyo.

"Smartphones look to become more important products for Sony ... and they will probably become the main device people use to connect to the Internet."

Smartphone sales have been surging since Apple launched its first iPhone in 2007 and despite a slowdown in the overall consumer electronics market, strong demand is set to continue.

"More and more people are watching content on smartphones. TV is not going to go away, but they watch it on smartphones and they watch it on tablets," Stringer said.

STRUGGLES AHEAD

The deal will give Sony ownership of certain handset patents held by Ericsson and will enable it to cut costs in the Sony Ericsson business, with Stringer pointing to savings in operations, R&D and marketing.

The takeover of Sony Ericsson by the Japanese group had long been talked of and a source with knowledge of the matter told Reuters this month a deal was in the offing.

"Sony now has all the components to compete with Samsung and Apple. The big

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question now is ... can it execute?," said Pete Cunningham of consultancy Canalys, adding Japanese company takeovers in Europe and the United States had often struggled.

"Based on history I am sceptical, but I would not say it cannot be done," he added.

Founded in 2001, Sony Ericsson employs some 7,500 and last year took around 2 percent of the global cellphone market with sales of 6.3 billion euros. Initially it thrived with an array of camera and music phones but it lost out in the smartphone race.

"Sony had to make this deal as it had run out of options, but integration challenges could prove to be a major hurdle," said Ben Wood, head of research at consultancy CCS Insight.

"As a major consumer electronics player, lack of mobile assets had become a liability for Sony, particularly when compared with Samsung, whose telecommunication business creates nearly half of its profits," he said.

Ericsson said the deal provides Sony with a broad intellectual property cross-licensing agreement covering all the Japanese company's products and services, as well as ownership of five essential patent families relating to wireless handset technology.

Shares in Ericsson, which as a result of the deal increases its focus on the wireless network business in which it is the world's largest manufacturer, were up 5 percent at 70 crowns by 1153 GMT. The STOXX Europe 600 technology index was up 3.4 percent.

Ericsson Chief Executive Hans Vestberg told Reuters the company would use the cash payment to strengthen its balance sheet and had no plans to pay it out to shareholders. (\$1=0.724 euros)

(Additional reporting by Veronica Ek, Olaf Swahnberg and Patrick Lannin in Stockholm, with James Topham in Tokyo; Editing by Greg Mahlich and David Holmes)

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