Sony sees record $6.4 billion loss on tax hit

Tim Kelly, Reuters

(Reuters) - Japan's Sony Corp flagged a record $6.4 billion annual net loss, double an earlier forecast and a fourth straight year of red ink, as it writes off deferred tax credits, heaping more pressure on its new CEO to turn around the electronics giant.

Sony, which plans to axe 10,000 jobs - around 6 percent of its global workforce - according to media reports this week, has been hammered by weak demand for its televisions and overtaken by more innovative gadget rivals such as Apple Inc and Samsung Electronics.

Yet, in a bid to ease investor concerns over its deteriorating bottom line, Sony forecast it would bounce back in the current year to end-March 2013 with an operating profit of 180 billion yen ($2.2 billion).

In a sign that Sony's woes are industry-wide among Japan's consumer electronics firms, LCD TV maker Sharp Corp on Tuesday also raised its full-year net loss forecast - to 380 billion yen ($4.67 billion) from 290 billion yen.

Kazuo Hirai, who took over as Sony's CEO this month, has said he is prepared to take "painful steps" to revive the company, insisting he would not hesitate to scale back or withdraw from businesses he deemed uncompetitive. He will lay out his revival strategy in more detail at a briefing scheduled for Thursday.

The Sony veteran, known for reviving the PlayStation gaming operations through aggressive cost-cutting, has promised to get the struggling TV business - which has lost $10 billion alone in 10 years - back on its feet within two years.

"There have been several reasons for our poor results," Chief Financial Officer Masaru Kato said at a news briefing in Tokyo on Tuesday, noting a strong yen and poor demand.

Asked whether the ballooning losses would cause heads to roll among Sony executives, Kato said: "We are aiming for a rebound and for this we have made management changes."

Sony securities traded in Germany [1] slumped almost 10 on Tuesday. In Tokyo, Sony shares closed down 3.5 percent ahead of the announcement, the biggest one-day drop in three weeks in a flat market.

Sony stock has almost halved in little more than a year, and has dropped 11 percent in the past 10 trading sessions.

In a fourth revision to its annual estimates, Sony forecast a 520 billion yen ($6.4 billion) net loss for the year to end-March 2012. In February it had forecast an annual net loss of 220 billion yen. The annual results are due on May 21.

The additional loss is from writing off 300 billion yen of deferred tax assets primarily in the United States - credits built up to use against future taxable profits, but which have been written off due to the company's consistent losses.

The company maintained its February forecast for a 95 billion yen annual operating loss.

"To bring Sony back, Hirai needs to develop personnel and platforms that create competitive and innovative products, but a lot of talent left under early retirement plans," said Tetsuru Ii, president of Commons Asset Management, who oversees about 2.7 billion yen worth of assets and does not hold Sony stock.

"The old Sony culture would only allow it to make things that were the best globally. Under that logic, does it make sense to continue its TV business, when it's not even the market leader in Japan [2]?"

Kato, who would not confirm the reports of job losses other than to note there would be cuts in a chemical business and small LCD unit that are being hived off, said Sony had no plans to raise money through a share offering or other equity finance [3].

"We can improve shareholder equity in several ways, including bolstering cash flow or selling assets," he told reporters. "Equity finance is also an option, but at this moment we have no concrete plan to do so."

Assuming Sony's assets are still valued at 12.9 trillion yen, the revised loss will push shareholder equity to 1.9 trillion yen, or a ratio of 15 percent, down from 17.2 percent at the end of 2011.

REKINDLING THE FLAME?

Some analysts believe Hirai, a fluent English speaker, can rekindle the Sony flame, saying he will know how to break down its silos and integrate its divisions.

"They could certainly become profitable through downsizing and shrinking some of their loss-making businesses this year, but we'll have to wait and see if they can continuously be profitable," said Yuuki Sakurai, head of fund manager Fukoku Capital, who oversees about 1.5 trillion yen worth of assets. Fukoku has a small holding in Sony, according to Reuters data.

"I think Sony is fighting with its old image. People think Sony can succeed (by doing what it did in the past), when there is a limit to what they can really do (in the current competitive landscape)."

A key concept in Hirai's strategy hinges on merging Sony's robust roster of entertainment properties - including singers Kelly Clarkson and Michael Jackson, and the "Spider-Man" and "Men in Black" film franchises - with its Vaio, Bravia and other electronics brands, in an effort to boost sales.

The new chief plans to widen the content network connecting its PlayStation games consoles to other Sony devices. He has also said the TV business would be crucial to this "convergence" strategy, brushing aside any suggestions of exiting the market.

Recently, Sony pulled out of an LCD panel venture with Samsung, enabling it to obtain screens for its TVs more cheaply. It also agreed to buy out Ericsson's half of their smartphone venture for $1.5 billion to shore up its position in a market where Apple and Samsung have become leaders. Sony has since launched its first smartphones, the Xperia series, under the Sony brand.

Hirai, promoted from head of Sony's consumer products and services businesses that produce the bulk of the group's $85 billion in annual sales, has also singled out medical as a potential core business for the future.

(Additional reporting by Mayumi Negishi [4], James Topham [5] and Nathan Layne [6]; Editing by Edwina Gibbs [7] and Ian Geoghegan [8])

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