Hedge fund wants part of Sony entertainment sold

YURI KAGEYAMA - AP Business Writer - Associated Press

A U.S. hedge fund has proposed that Sony Corp. sell up to 20 percent of its entertainment business and use the money to strengthen its ailing electronics unit, drawing a quick rejection from the sprawling Japanese consumer conglomerate.

In a May 14 letter to Sony President Kazuo Hirai, first published in The New York Times, hedge fund Third Point suggested Sony take 15 percent to 20 percent of the entertainment unit public.

Third Point CEO Daniel Loeb said that would allow the Japanese maker of PlayStation game machines to fund improvements to its battered electronics operations.

Sony replied in a statement Tuesday that its entertainment business, which includes movies and music, is not for sale, and stressed it is trying to strengthen both that division and its electronics operations.

"As President and CEO Kazuo Hirai has said repeatedly, the entertainment businesses are important contributors to Sony's growth and are not for sale," Sony said. "We look forward to continuing constructive dialogue with our shareholders as we pursue our strategy."

The proposal highlights a common criticism of Tokyo-based Sony that it has never been able to take advantage of having both electronics and entertainment under its wing.

Instead, one has tended to drag the other down. Some analysts have made suggestions similar to Loeb's.

Sony's electronics business has been ailing for years, particularly its TV division, which has lost money for nine straight years.

Sony fell behind in flat panel TVs, and has never been able to compete against Samsung Electronics Co. of South Korea in TVs as well as cheaper makers.

Following four straight years of red ink, Sony reported a profit 43 billion yen ($434 million) for the fiscal year ended March 2013, helped by a perk from the recent decline in the yen.

It had suffered a loss of 457 billion yen ($5.7 billion) the previous year, which was the worst in the company's nearly seven-decade history.

In his letter, Loeb pointed to the "Abenomics" monetary policies of Prime Minister Shinzo Abe, who took office last year, which have buoyed Tokyo stocks and brought the yen down.

Loeb said Sony should seize on the opportunity provided by Abenomics to shore up its electronics business.

"Sony stands at the crossroads of compelling corporate opportunity and massive Japanese economic reform. Under Prime Minister Abe's leadership, Japan can regain its position as one of the world's pre-eminent economic powerhouses and manufacturing engines," he said.

Loeb said in his letter that he owns 64 million Sony shares, which is about a 6.5 percent stake in Sony.

The company did not have the latest numbers on his holdings, but confirmed he is a major Sony shareholder.

Loeb suggested the entertainment division be spun off in a particular way to give existing shareholders a priority in the ownership of Sony Entertainment.

"Sony has stood for innovative engineering and consumer satisfaction for decades," he said. "Like many conglomerates we have invested in previously, Sony has two strong businesses facing different challenges side by side, each obscuring the other's true worth."

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