American hedge fund billionaire Daniel Loeb calls for breakup of Sony

An American hedge fund billionaire known for starting big fights has called for a breakup of the entertainment and electronic colossus Sony, according to people briefed on the matter, possibly setting off a battle that could roil Japan's famously staid corporate culture.

The call, which came Tuesday, will most likely be viewed by government officials and corporate leaders in Tokyo as a shot across the bow from Wall Street, just as Western investors begin piling into Japanese stocks.

The hedge fund manager, Daniel S. Loeb, is pressing Sony into spinning off part of its entertainment arm, which includes one of the biggest film studios in Hollywood and one of the largest music labels in the world, responsible for movies like "Skyfall" and artists like Taylor Swift.

Loeb - known for ousting Yahoo's former chief executive and poaching Marissa Mayer from Google to run the company - also signaled that he would accept a seat on Sony's board. His hedge fund has quietly amassed a stake of about 6.5 per cent in Sony, making it one of the biggest shareholders.

Still, even big Japanese investors have often faced resistance in seeking changes at companies, a hurdle that may be significantly higher for a foreign hedge fund manager.

George Boyd, a spokesman for Sony, said he had no immediate comment.

Loeb, 51, the founder of the hedge fund Third Point, flew to Tokyo this past weekend for three days of meetings with government officials, regulators and senior Sony executives, according to people briefed on the matter. He hand-delivered a letter Tuesday to the company's chief executive, Kazuo Hirai, that praises a turnaround effort but asks for more.

"So while Third Point supports your agenda for change, we also believe that to succeed, Sony must focus," Loeb wrote in the letter, which was reviewed by The New York Times.

The investor believes that spinning off a portion of the entertainment business to Sony shareholders could sharpen the company's focus and lead to higher profit margins, while helping to revive the core electronics business. Loeb is also pressing for the spinoff of Sony's insurance division, which accounted for much of the company's profit last quarter.

Loeb's campaign is a bet that Japan will prove the next gold mine for global investors. Long hobbled by a lost decade of little economic growth, the country has come to life in recent months under the stewardship of Shinzo Abe, who as prime minister has promoted policies meant to attract private investment. Loeb is betting that Abe will expand deregulation.

"Under Prime Minister Abe's leadership, Japan can regain its position as one of the world's pre-eminent economic powerhouses and manufacturing engines," the hedge fund manager wrote in his letter.

Despite its decade-long slump, Sony, the 67-year-old electronics pioneer, remains one of the most prominent companies in Japan, with a market value of roughly $18 billion.

Still, Loeb has plenty of ammunition. Shares of Sony have plunged nearly 85 per cent over the last 13 years. The company long ago ceded its crown as the king of cool electronics to Apple, and its dominance in televisions was eroded by the emergence of Korean rivals like Samsung and LG.

Last week, Sony reported its first annual profit in five years. But it reached that milestone thanks largely to the weakening yen and some belt-tightening, including the consolidation of businesses and the sale of its U.S. headquarters.

Sony's chief executive, Hirai, is scheduled to make a presentation about the company's turnaround plan next week. He has argued that despite having come late to the era of digital media, the company that made the Walkman, the Trinitron television and the PlayStation can rebound.

To Loeb, more must be done, starting with the spinoff of Sony Entertainment. Though the division accounts for more than 40 per cent of the company's enterprise value, he said in his letter that it needed discipline to raise its profit margins. Loeb estimated that a partial spinoff of the entertainment business could bolster Sony's share price by as much as 60 per cent.

The company should also consider selling off its 60 per cent stake in Sony Financial, which largely sells life insurance policies and hasreal estate holdings and stakes in other companies, according to the people briefed on the matter. And Loeb is expected to argue that Sony's electronics division must slash more costs, including by taking a cue from its protA|gA|, Apple, in focusing on a few core products.

Recently, Loeb has publicly expressed his interest in Japan. Referring to the changes by the Abe government, he called it "a huge game change" at an industry conference last week. "And there's a lot more room to go," he added.

Abe has called his revival effort a plan of "three arrows," including aggressive monetary easing by the Bank of Japan and enormous stimulus spending by the government.

So far, that effort appears to have drawn investor plaudits. The yen weakened in value last week, to 100 to the dollar, a level unseen in four years, helping local companies like Sony and Toyota. And the Nikkei 225-stock index has risen 43 per cent so far this year. During the same time two years ago, the Nikkei was down 5.7 per cent.

But it is the third arrow in that quiver that has Loeb's attention. The Abe government hopes to shed Japan's reputation as a land of strict hierarchy and bureaucracy. Business mistakes were often seen as shameful, and outright confrontation largely disdained.

"There's an entrenched management culture there," said Lawrence B. Lindsey, a former top economist in the administration of George W. Bush. "Activists aren't particularly popular here among management, and they won't be popular in Japan either."

No less than Howard Stringer, Sony's own chairman, has criticized the status quo.

"Japan is a harmonious society which cherishes its social values, including full employment," he said in a speech last year. "That leads to conflicts in a world where shareholder value calls for ever greater efficiency."

Yet there have been changes. The percentage of foreign ownership in the Tokyo Stock Exchange's companies nearly quintupled from 1990 to 2008, to 24 per cent. And Japanese shareholders have increasingly adopted the aggressive tactics of Western fund managers.

Sony is the biggest bet yet for Loeb, an intense California native who built his name largely upon acidly written letters, berating targets for mismanagement and calling for change.

The strategy has proved profitable. Third Point's returns are up 13.3 per cent so far this year and up 2.6 per cent for the first week of May. Forbes estimates Loeb's net worth at about $1.5 billion.

Perhaps his most prominent victory has been Third Point's investment in Yahoo, where Loeb pushed for the dismissal of a chief executive after exposing the executive for falsifying academic credentials.

Mindful of Japanese decorum, however, Loeb strikes a more conciliatory tone in his letter to Hirai of Sony. His calls are couched as suggestions aimed at improving the company, rather than aggressive demands.

"Third Point would not have made this substantial investment if we did not believe in a bright future for Sony's global brand, superior technology, and dedicated employees," he wrote. "We are confident that by acting as partners, Sony will grow stronger."

(Economic Times)