

## Equities

6 June 2011 | 15 pages

# Sony (6758)

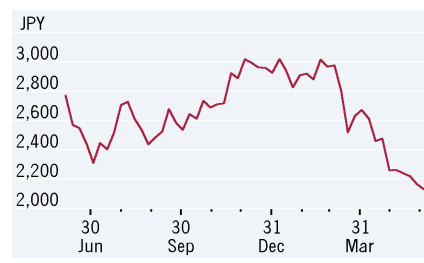
## Earnings outlook better than the market fears

- Company Update
- Target Price Change
- Estimate Change

- **Investment opinion** — We maintain our Buy rating on Sony but cut our TP to ¥3,100 from ¥4,000. We revise down on the March 11 disaster, the leaks of personal information, and the DTA drawdown but still think future earnings will not be that bad. We think profit growth will continue once Sony recovers from these one-time negatives and expect it to recoup upfront investments in chips and games in FY3/13 and out. We also feel balance-sheet risks have eased to a degree.
- **Target price** — We set our ¥3,100 target price using a fair value PER of 18.2x applied to our FY3/13 EPS forecast of ¥172. We assign a premium to the sector average of c14x on the high profit growth rate we anticipate from FY3/13.
- **Balance-sheet risk** — Sony has written down domestic deferred tax assets of ¥360bn and we think risks have been eliminated to an extent. We also see little risk from the overseas portion over the near term.
- **Earnings** — We continue to expect a substantial contraction of losses in TVs. In digicams, we forecast profit growth on rising market share and expansion in DSLRs (although the plan is for a decline in earnings). Although we expect lower earnings in chips, on upfront imager investment and game applications, we see an investment recovery phase starting in FY3/13. We also anticipate improvement at Sony Ericsson. We model losses in PCs on market deterioration and in batteries on an inadequate response to intensifying competition.
- **TVs** — Outsourced production at Hon Hai will ramp up in 2011. We put the ODM ratio at 10% in FY3/11 and 40% in FY3/12, with radical improvement to the earnings structure coming. Key will be Sony immunizing itself from the profit impact of forex movement and reducing the impact of the yen/dollar rate to zero. We think additional fixed cost cuts will be needed on these changes, and we put FY3/12 restructuring charges at ¥35bn versus the ¥25bn plan.
- **Games** — We believe upfront costs of the NGP will be recoverable quickly. Expected PS3 price cuts should also keep earnings on an uptrend. Costs for dealing with the personal information leaks are slated to be booked in the network business. We envisage a modest ¥14bn.

<b>Buy/High Risk</b>	<b>1H</b>
Price (06 Jun 11)	¥2,062
Target price	¥3,100
	from ¥4,000
Expected share price return	50.3%
Expected dividend yield	1.2%
<b>Expected total return</b>	<b>51.6%</b>
Market Cap	¥2,069,396M
	US\$25,777M

### Price Performance (RIC: 6758.T, BB: 6758 JP)



Consol.	Sales		OP		Pretax Profit		NP		EPS		PE
	¥M	YOY (%)	¥M	YOY (%)	OPM(%)	¥M	YOY (%)	¥M	YOY (%)	¥	X
3/10A	7,213,998	-6.7	31,772	nm	0.4	26,912	nm	-40,802	nm	-41	nm
3/11A	7,181,273	-0.5	199,821	528.9	2.8	205,013	661.8	-259,585	nm	-258	nm
3/12CE	7,500,000	4.4	200,000	0.1	2.7	180,000	-12.2	80,000	nm	80	25.9
3/12E	7,438,000	3.6	310,900	55.6	4.2	305,200	48.9	163,700	nm	163	12.7
3/12RE	7,488,900	4.3	239,200	19.7	3.2	219,200	6.9	99,700	nm	99	20.8
3/13E	7,418,000	-0.3	394,900	27.0	5.3	391,500	28.3	222,100	35.7	221	9.3
3/13RE	7,386,900	-1.4	354,500	48.2	4.8	336,500	53.5	173,300	73.8	172	12.0
3/14E	7,289,900	-1.7	431,600	9.3	5.9	430,700	10.0	247,500	11.4	246	8.4
3/14RE	7,237,900	-2.0	406,800	14.8	5.6	390,800	16.1	206,400	19.1	205	10.0

A: Actuals, E: CIRA Ests, CE: Company Ests, RE: CIRA Revised Ests, CRE: Company Revised Ests, NA: Not Available, NM: Not Meaningful

**Kota Ezawa**  
+81-3-6270-4804  
kota.ezawa@citi.com

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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	3/10	3/11	3/12E	3/13E	3/14E
<b>Valuation Ratios</b>					
PER(X)	nm	-8.0	20.8	12.0	10.0
EV/EBITDA	4.3	2.8	2.5	1.6	0.9
P/BVPS	0.7	0.8	0.8	0.7	0.7
Dividend yield	1.2	1.2	1.2	1.2	1.2
<b>Per Share Data (¥)</b>					
EPS adjusted	-41	-258	99	172	205
Reported EPS - diluted	-41	-258	99	172	205
EPS*	-41	-258	99	172	205
BPS	2,956	2,539	2,747	2,895	3,075
DPS	25	25	25	25	25
<b>Profit &amp; Loss (¥M)</b>					
<b>Net sales</b>	<b>7,213,998</b>	<b>7,181,273</b>	<b>7,488,900</b>	<b>7,386,900</b>	<b>7,237,900</b>
Operating expenses	-7,182,226	-6,981,452	-7,249,700	-7,032,400	-6,831,100
<b>EBIT</b>	<b>31,772</b>	<b>199,821</b>	<b>239,200</b>	<b>354,500</b>	<b>406,800</b>
Net interest income/expense	-9,314	-12,126	-9,100	-6,800	-4,500
Total other non-operating items	4,454	17,318	-10,900	-11,200	-11,500
<b>PreTax Profit</b>	<b>26,912</b>	<b>205,013</b>	<b>219,200</b>	<b>336,500</b>	<b>390,800</b>
Extraord./Min.Int./Pref.div.	-53,756	-39,259	-44,800	-45,600	-46,400
Taxation	-13,958	-425,339	-74,700	-117,600	-138,000
<b>Reported net income</b>	<b>-40,802</b>	<b>-259,585</b>	<b>99,700</b>	<b>173,300</b>	<b>206,400</b>
Analyst adjusted EBITDA	402,776	525,221	559,200	694,500	756,800
<b>Growth Rates (%)</b>					
Net sales	-6.7	-0.5	4.3	-1.4	-2.0
EBITDA adjusted	126.7	30.4	6.5	24.2	9.0
EPS adjusted	nm	nm	nm	73.8	19.1
<b>Cash Flow (¥M)</b>					
<b>Cash from operations</b>	<b>912,907</b>	<b>255,800</b>	<b>250,900</b>	<b>490,200</b>	<b>533,300</b>
Depreciation and amortization	371,004	325,400	320,000	340,000	350,000
Net change in working capital	391,673	-269,800	-163,200	-164,100	-164,100
<b>Cash from investing activities</b>	<b>-746,004</b>	<b>-711,100</b>	<b>-362,800</b>	<b>-379,000</b>	<b>-379,000</b>
Capital expenditure	-371,004	-325,400	-344,000	-340,000	0
Net acquisitions/disposals	0	0	0	0	0
<b>Cash from financing activities</b>	<b>365,014</b>	<b>92,800</b>	<b>87,300</b>	<b>71,900</b>	<b>85,900</b>
Changes in borrowings	97,512	-233,200	-86,600	-103,000	-89,000
Dividends paid	-25,088	-25,100	-25,100	-25,100	-25,100
<b>Change in cash</b>	<b>530,819</b>	<b>-362,500</b>	<b>-24,600</b>	<b>183,100</b>	<b>240,200</b>
<b>Balance Sheet (¥M)</b>					
<b>Total assets</b>	<b>12,866,114</b>	<b>12,924,988</b>	<b>13,259,000</b>	<b>13,634,000</b>	<b>14,051,000</b>
Cash	1,771,101	1,660,583	1,804,000	2,140,000	2,533,000
Accounts receivable	996,100	834,221	783,000	757,000	727,000
Net tangible fixed assets	1,007,951	1,014,583	1,095,000	1,055,000	1,005,000
<b>Total liabilities</b>	<b>9,580,559</b>	<b>9,969,086</b>	<b>10,049,000</b>	<b>10,230,000</b>	<b>10,420,000</b>
Accounts payable	817,118	793,275	811,000	800,000	784,000
Total Debt	1,208,814	975,586	889,000	786,000	697,000
<b>Shareholders' funds</b>	<b>3,285,555</b>	<b>2,955,902</b>	<b>3,210,000</b>	<b>3,404,000</b>	<b>3,631,000</b>
<b>Profitability/Solvency Ratios (%)</b>					
Analyst Adjusted EBITDA Margin	5.6	7.3	7.5	9.4	10.5
Operating ROE	-1.4	-9.4	3.8	6.1	6.9
Operating ROIC	0.2	-3.2	2.3	3.3	3.7
Net debt to equity	-17.1	-23.2	-28.5	-39.8	-50.6
Debt to total capital	26.9	24.8	21.7	18.8	16.1

Note: Consolidated data. \* EPS: NP/Est Shares OS.

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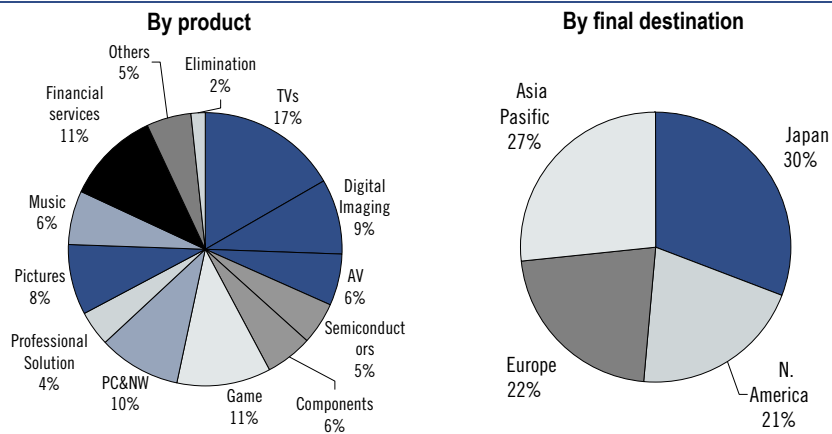


# Investment Dashboard

## Reasons to Buy

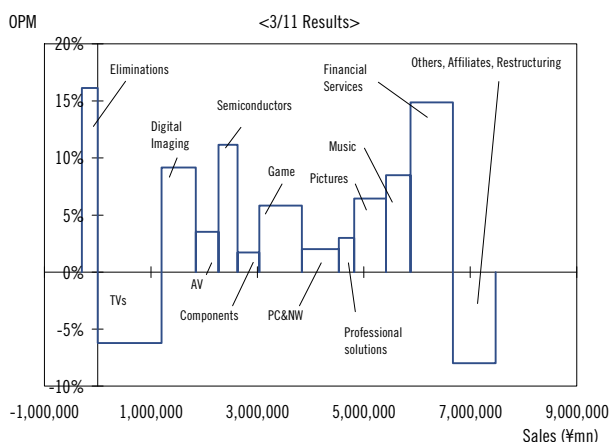
- We forecast a new earnings expansion stage on full-scale outsourcing of TV production, growing camera demand in emerging markets, the new game machine, and growth in CMOS imagers
- The fruits of restructurings to date are set to start contributing to a better earnings structure
- Given the product and business strategies, we expect further divisional reform and deeper collaboration
- We think a PER premium is warranted in earnings growth phases. We feel the shares are undervalued on an FY3/13E PER of 12.3x

## Sales breakdown (FY3/11)



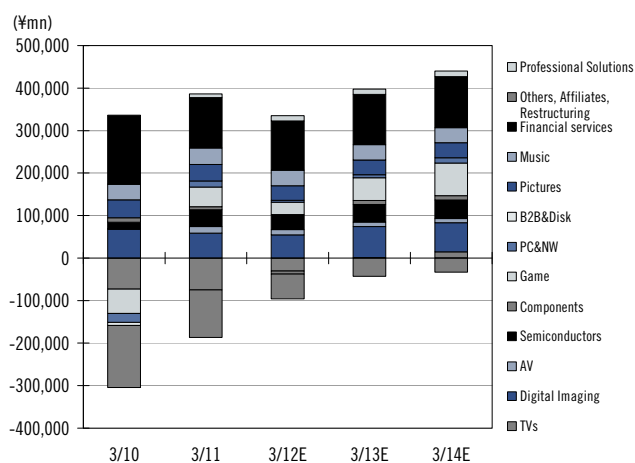
Source: Company data.

## Business portfolio



Source: Company data.

## OP by segment

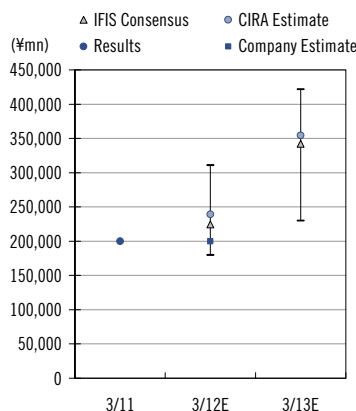


Source: Company data, Citi Investment Research and Analysis.

## Alternate scenario: A more bullish case

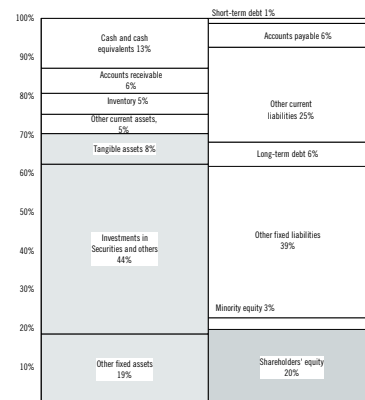
- If LCD TVs delivered an earnings uptrend in spite of an economic downturn and tougher competition, we could revise up our OP forecasts
- If network operations grew from an early stage and contributed to electronics earnings, we could likewise hike our profit forecasts
- Factoring in the above, we could raise our FY3/13 OP forecast to ¥390bn from ¥354.5bn, lifting EPS 12%; applying our target PER of 18.2x would yield a theoretical share price of ¥3,500

## OP forecast comparison



Source: Company data, IFIS (June 2), Citi Investment Research and Analysis.

## Balance sheet (end-FY3/11)



Source: Company data.

## Reasons for our Buy

We think Sony holds the most investment appeal among the Japanese consumer electronics majors. We feel that balance-sheet risk has been eliminated to a fair extent and that even if Sony is forced into additional DTA write-downs, the BPS hit will be only 5% or less. We see limited additional share price downside risk due to the balance sheet. We find the shares attractive at a price well below NAV (PBR of 0.7x).

We also conclude that operational competitiveness has not been lost following the disaster. Sony has been pushing the outsourcing of assembly in TVs and cameras and we are optimistic that the cost structure is headed for improvement. Sony is focusing anew on areas where it is competitive, such as image sensors, and we see lots of growth opportunities from external sales. We do not believe the effectiveness of these measures has been lost due to the disaster and we see them bearing profitable fruit in FY3/13 after a period of final preparation in FY3/12. We model a high 48% OP growth rate in FY3/13. Set against this, we consider the shares undervalued on an FY3/13E PER of 12x.

## What we think is currently being mispriced

We attribute the shares having been sold down to a PBR of 0.7x to the following: 1) fears of a loss of competitiveness prompted by the March 11 disaster, 2) fears of a worst-case scenario unfolding in terms of balance-sheet risk, prompted by the DTA write-downs, and 3) fears of a loss of trust due to the personal information leaks. We do not fully discount these concerns, but on the other hand we do not take an excessively pessimistic stance either.

We think the bulk of the earthquake impact will only be transitory (we model FY3/12 H1 revenue down 0.2% YoY versus growth in H2 of 8.3% and in FY3/13 H1 of 5.4%). We expect the time to come when investors turn positive on the disaster impact as a factor driving overshoots in FY3/12 H2 and out. Impacts we see lingering are loss of market share and loss of balance-sheet strength, but fears of market share loss are mainly in the battery business and conversely we note the possibility of market share gains in digicams (we model an operating loss in batteries of ¥10.1bn in FY3/12 versus FY3/11 OP of ¥4.0bn, while in compact digicams, we see volume growth at Sony of 4% versus market contraction of 2%).

We see limited cause for concern of any further deterioration in balance-sheet strength. Indeed, we are optimistic about the possibility that the deterioration will prompt Sony to take measures to bolster its financial strength, such as asset sales and additional restructuring. We were unable to predict the DTA drawdown due to the earthquake but now the key portion of the DTA balance is booked for overseas subsidiaries, and while the limit on loss carryforwards is set at seven years in Japan it is anywhere from 20 years to an indefinite period overseas, so Sony says there is little concern of any immediate drawdowns. Looking at other balance-sheet risks, we find little risk associated with tangible fixed assets such as display panel plants, and there are no unrealized losses on post-employment benefit obligations as Sony uses US GAAP. Nor do we think Sony has been making acquisitions that left it exposed to the risk of impairment of goodwill or intangible fixed assets, and we think it has already written down or amortized much of its exposure. In sum, we see the main balance-sheet risk as being the domestic portion of deferred tax assets (we estimate ¥150bn), and think the BPS impact would be 5% or less.

Sony has included ¥14bn as expenses related to personal information leaks in its budget, but has not included any litigation-related expenses. We think, however, that Sony is unlikely to have to pay vast sums of “consolation money” as the result of any trial, mainly because no actual harm has occurred due to the personal information leaks. Moreover, the problem of personal information leaks is a general one and not confined to Sony, so some are of the view that it would be inappropriate to make one company shoulder heavy responsibility.

In conclusion, we believe that at the current share price level, where valuations have slumped to historical lows, fears have been excessively priced in. We expect the next phase to reveal a shift toward recovery.

Figure 1. Sony: Earnings model

(FY ending; ¥mn)	08/3	09/3	10/3	11/3	12/3E	13/3E	14/3E	12/3RE	13/3RE	14/3RE
<b>Sales</b>	<b>8,871,414</b>	<b>7,729,993</b>	<b>7,213,998</b>	<b>7,181,273</b>	<b>7,438,000</b>	<b>7,418,000</b>	<b>7,289,900</b>	<b>7,488,900</b>	<b>7,386,900</b>	<b>7,237,900</b>
YoY (%)	6.9%	-12.9%	-6.7%	-0.5%	2.7%	-0.3%	-1.7%	4.3%	-1.4%	-2.0%
Cost of sales	6,290,022	5,660,504	4,892,563	4,831,363	4,958,200	4,845,800	4,680,400	5,077,100	4,853,500	4,651,600
YoY (%)	6.8%	-10.0%	-13.6%	-1.3%	2.6%	-2.3%	-3.4%	5.1%	-4.4%	-4.2%
% of total sales	70.9%	73.2%	67.8%	67.3%	66.7%	65.3%	64.2%	67.8%	65.7%	64.3%
Gross profit	2,581,392	2,069,489	2,321,435	2,349,910	2,479,800	2,572,200	2,609,500	2,411,800	2,533,400	2,586,300
YoY (%)	7.3%	-19.8%	12.2%	1.2%	2.9%	3.7%	1.5%	2.6%	5.0%	2.1%
% of total sales	29.1%	26.8%	32.2%	32.7%	33.3%	34.7%	35.8%	32.2%	34.3%	35.7%
SG&A expenses	2,206,910	2,272,163	2,259,428	2,164,151	2,198,000	2,210,000	2,212,000	2,198,000	2,210,000	2,212,000
YoY (%)	-5.5%	3.0%	-0.6%	-4.2%	-0.7%	0.5%	0.1%	1.6%	0.5%	0.1%
% of total sales	24.9%	29.4%	31.3%	30.1%	29.6%	29.8%	30.3%	29.4%	29.9%	30.6%
Affiliates profit	100,817	-25,109	-30,235	14,062	29,100	32,700	34,100	25,400	31,100	32,500
<b>Operating income</b>	<b>475,299</b>	<b>-227,783</b>	<b>31,772</b>	<b>199,821</b>	<b>310,900</b>	<b>394,900</b>	<b>431,600</b>	<b>239,200</b>	<b>354,500</b>	<b>406,800</b>
YoY (%)	NA	NM	NM	528.9%	47.5%	27.0%	9.3%	19.7%	48.2%	14.8%
% of total sales	5.4%	-2.9%	0.4%	2.8%	4.2%	5.3%	5.9%	3.2%	4.8%	5.6%
Other income	149,447	98,825	43,834	44,966	23,100	23,400	23,700	20,700	21,000	21,300
Interest income	34,272	22,317	13,191	11,783	11,100	11,400	11,700	11,100	11,400	11,700
Others	115,175	76,508	30,643	33,183	12,000	12,000	12,000	9,600	9,600	9,600
Other expenses	57,612	45,997	48,694	39,774	28,800	26,800	24,600	40,700	39,000	37,300
Interest expense	22,931	24,376	22,505	23,909	21,800	19,800	17,600	20,200	18,200	16,200
Others	34,681	21,621	26,189	15,865	7,000	7,000	7,000	20,500	20,800	21,100
Net financial income	11,341	-2,059	-9,314	-12,126	-10,700	-8,400	-5,900	-9,100	-6,800	-4,500
Non-operating income and expenses	91,835	52,828	-4,860	5,192	-5,700	-3,400	-900	-20,000	-18,000	-16,000
<b>Income before tax</b>	<b>567,134</b>	<b>-174,955</b>	<b>26,912</b>	<b>205,013</b>	<b>305,200</b>	<b>391,500</b>	<b>430,700</b>	<b>219,200</b>	<b>336,500</b>	<b>390,800</b>
YoY (%)	NA	NM	NM	661.8%	43.8%	28.3%	10.0%	6.9%	53.5%	16.1%
% of total sales	6.4%	-2.3%	0.4%	2.9%	4.1%	5.3%	5.9%	2.9%	4.6%	5.4%
Income taxes	203,478	-72,741	13,958	425,339	96,700	123,800	136,800	74,700	117,600	138,000
Effective income tax rate (%)	36%	42%	52%	207%	32%	32%	32%	34%	35%	35%
Minority interest	-5,779	-3,276	53,756	39,259	44,800	45,600	46,400	44,800	45,600	46,400
<b>Net income</b>	<b>369,435</b>	<b>-98,938</b>	<b>-40,802</b>	<b>-259,585</b>	<b>163,700</b>	<b>222,100</b>	<b>247,500</b>	<b>99,700</b>	<b>173,300</b>	<b>206,400</b>
YoY (%)	192.4%	NM	NM	536.2%	126.4%	35.7%	11.4%	-138.4%	73.8%	19.1%
% of total sales	4.2%	-1.3%	-0.6%	-3.6%	2.2%	3.0%	3.4%	1.3%	2.3%	2.9%
R&D expenses	520,568	497,300	432,001	426,800	440,000	450,000	450,000	440,000	450,000	450,000
(as % of sales)	5.9%	6.4%	6.0%	5.9%	5.9%	6.1%	6.2%	5.9%	6.1%	6.2%
Depreciation	428,010	405,400	371,004	325,400	370,000	380,000	380,000	320,000	340,000	350,000
Capex	335,726	332,100	192,724	204,900	210,000	200,000	200,000	300,000	200,000	200,000

Note: A: Actuals. E: CIRA estimates. RE: Revised CIRA estimates. NM: Not meaningful. NA: Not available.  
Source: Company data, Citi Investment Research and Analysis.

Figure 2. Sony: Balance sheet and cash flow statement

(FY ending; ¥mn)	08/3	09/3	10/3	11/3	12/3E	13/3E	14/3E	12/3RE	13/3RE	14/3RE
<b>Balance Sheet</b>										
<b>Current assets</b>	<b>5,009,663</b>	<b>3,620,635</b>	<b>4,132,872</b>	<b>3,844,046</b>	<b>4,273,000</b>	<b>4,636,000</b>	<b>5,026,000</b>	<b>3,944,000</b>	<b>4,209,000</b>	<b>4,526,000</b>
Cash	1,020,825	710,698	1,304,189	1,193,671	1,552,000	1,970,000	2,433,000	1,337,000	1,673,000	2,066,000
Marketable securities	493,315	466,912	466,912	466,912	467,000	467,000	467,000	467,000	467,000	467,000
Trade receivables	1,183,620	963,837	996,100	834,221	869,000	849,000	818,000	783,000	757,000	727,000
Inventories	1,021,595	813,068	645,455	704,043	665,000	630,000	588,000	712,000	667,000	621,000
Others	1,290,308	666,120	720,216	645,199	720,000	720,000	720,000	645,000	645,000	645,000
<b>Fixed assets</b>	<b>1,727,997</b>	<b>1,515,293</b>	<b>1,340,344</b>	<b>1,326,820</b>	<b>1,163,000</b>	<b>1,083,000</b>	<b>1,003,000</b>	<b>1,390,000</b>	<b>1,350,000</b>	<b>1,300,000</b>
Tangible assets	1,243,349	1,175,863	1,007,951	1,014,583	861,000	781,000	701,000	1,095,000	1,055,000	1,005,000
Other assets	484,648	339,430	332,393	312,237	302,000	302,000	302,000	295,000	295,000	295,000
Others	5,815,079	6,877,583	7,392,898	7,754,122	8,003,000	8,153,000	8,303,000	7,925,000	8,075,000	8,225,000
<b>Total assets</b>	<b>12,552,739</b>	<b>12,013,511</b>	<b>12,866,114</b>	<b>12,924,988</b>	<b>13,439,000</b>	<b>13,872,000</b>	<b>14,332,000</b>	<b>13,259,000</b>	<b>13,634,000</b>	<b>14,051,000</b>
<b>Current liabilities</b>	<b>3,552,720</b>	<b>3,759,294</b>	<b>3,849,069</b>	<b>4,126,979</b>	<b>3,786,000</b>	<b>3,784,000</b>	<b>3,770,000</b>	<b>4,144,000</b>	<b>4,133,000</b>	<b>4,117,000</b>
Trade payables	920,920	560,795	817,118	793,275	809,000	807,000	793,000	811,000	800,000	784,000
Short-term debt	355,103	451,155	284,607	163,351	230,000	230,000	230,000	163,000	163,000	163,000
Others	2,276,697	2,747,344	2,747,344	3,170,353	2,747,000	2,747,000	2,747,000	3,170,000	3,170,000	3,170,000
<b>Fixed liabilities</b>	<b>5,258,081</b>	<b>5,037,615</b>	<b>5,731,490</b>	<b>5,842,107</b>	<b>6,250,000</b>	<b>6,442,000</b>	<b>6,648,000</b>	<b>5,905,000</b>	<b>6,097,000</b>	<b>6,303,000</b>
Long-term debt	729,059	660,147	924,207	812,235	726,000	623,000	534,000	726,000	623,000	534,000
Others	4,529,022	4,377,468	4,807,283	5,029,872	5,524,000	5,819,000	6,114,000	5,179,000	5,474,000	5,769,000
<b>Minority interests</b>	<b>276,849</b>	<b>251,949</b>	<b>319,650</b>	<b>407,915</b>	<b>415,000</b>	<b>461,000</b>	<b>507,000</b>	<b>453,000</b>	<b>499,000</b>	<b>545,000</b>
<b>Stockholders' equity</b>	<b>3,465,089</b>	<b>2,964,653</b>	<b>2,965,905</b>	<b>2,547,987</b>	<b>2,988,000</b>	<b>3,185,000</b>	<b>3,407,000</b>	<b>2,757,000</b>	<b>2,905,000</b>	<b>3,086,000</b>
Capital & legal reserve	1,782,023	1,785,799	1,788,634	1,790,587	1,789,000	1,789,000	1,789,000	1,790,000	1,790,000	1,790,000
Retained earnings	2,059,361	1,916,951	1,851,004	1,566,274	2,037,000	2,234,000	2,456,000	1,641,000	1,789,000	1,970,000
Others	-376,295	-738,097	-673,733	-808,874	-838,000	-838,000	-838,000	-674,000	-674,000	-674,000
<b>Liabilities, minority interests &amp; equity</b>	<b>12,552,739</b>	<b>12,013,511</b>	<b>12,866,114</b>	<b>12,924,988</b>	<b>13,439,000</b>	<b>13,872,000</b>	<b>14,332,000</b>	<b>13,259,000</b>	<b>13,634,000</b>	<b>14,051,000</b>
<b>Statement of cash flows - summary</b>										
<b>Cash flows from operating activities</b>	<b>757,684</b>	<b>407,153</b>	<b>912,907</b>	<b>255,800</b>	<b>544,900</b>	<b>589,300</b>	<b>620,700</b>	<b>250,900</b>	<b>490,200</b>	<b>533,300</b>
Net Income	369,435	-98,938	-40,802	-259,600	163,700	222,100	247,500	99,700	173,300	206,400
Depreciation, amortization and other	428,010	405,400	371,004	325,400	370,000	380,000	380,000	320,000	340,000	350,000
Change in working capital	-32,662	68,185	391,673	-269,800	-128,800	-153,800	-147,800	-163,200	-164,100	-164,100
Others	-7,099	32,506	191,032	459,800	140,000	141,000	141,000	-5,600	141,000	141,000
<b>Cash flows from investing activities</b>	<b>-910,442</b>	<b>-1,081,342</b>	<b>-746,004</b>	<b>-711,100</b>	<b>-499,000</b>	<b>-435,000</b>	<b>-435,000</b>	<b>-362,800</b>	<b>-379,000</b>	<b>-379,000</b>
Increase of Fixed Assets before Depreciation	-329,811	-342,686	-322,379	-234,900	-299,000	-285,000	-285,000	-344,000	-229,000	-229,000
Others	-580,631	-738,656	-423,625	-476,200	-200,000	-150,000	-150,000	-18,800	-150,000	-150,000
<b>Cash flows from financing activities</b>	<b>505,518</b>	<b>267,458</b>	<b>365,014</b>	<b>92,800</b>	<b>89,900</b>	<b>71,900</b>	<b>85,900</b>	<b>87,300</b>	<b>71,900</b>	<b>85,900</b>
Change in Interest-bearing debt	-12,304	27,140	97,512	-233,200	-85,000	-103,000	-89,000	-86,600	-103,000	-89,000
Change in Capital & Legal Reserve	11,693	3,776	2,835	2,000	0	0	0	-600	0	0
Dividends paid	-25,098	-37,631	-25,088	-25,100	-25,100	-25,100	-25,100	-25,100	-25,100	-25,100
Others	531,227	274,173	289,755	349,100	200,000	200,000	200,000	199,600	200,000	200,000
Exchange difference of cash & cash equivalents	-66,228	-18,911	-1,098	0	0	0	0	0	0	0
<b>Net change in cash &amp; cash equivalents</b>	<b>286,532</b>	<b>-425,642</b>	<b>530,819</b>	<b>-362,500</b>	<b>135,800</b>	<b>226,200</b>	<b>271,600</b>	<b>-24,600</b>	<b>183,100</b>	<b>240,200</b>
<b>Balance at beginning of year</b>	<b>799,899</b>	<b>1,086,431</b>	<b>660,789</b>	<b>1,191,600</b>	<b>839,400</b>	<b>975,200</b>	<b>1,201,400</b>	<b>829,100</b>	<b>804,500</b>	<b>987,600</b>
<b>Balance at end of year</b>	<b>1,086,431</b>	<b>660,789</b>	<b>1,191,608</b>	<b>829,100</b>	<b>975,200</b>	<b>1,201,400</b>	<b>1,473,000</b>	<b>804,500</b>	<b>987,600</b>	<b>1,227,800</b>

Note: A: Actuals. E: CIRA estimates. RE: Revised CIRA estimates.  
Source: Company data, Citi Investment Research and Analysis.



Figure 3. Sony: Segment data

(FY ending; ¥mn)	09/3	10/3	11/3	12/3E	13/3E	14/3E	12/3RE	13/3RE	14/3RE
<b>Sales</b>									
<b>Consumer Professional &amp; Devices</b>	<b>4,031,483</b>	<b>3,227,712</b>	<b>3,572,744</b>	<b>3,748,000</b>	<b>3,710,000</b>	<b>3,692,900</b>	<b>3,824,900</b>	<b>3,665,900</b>	<b>3,584,900</b>
Television	1,275,692	1,005,773	1,200,491	1,320,000	1,281,000	1,272,000	1,359,000	1,196,000	1,126,000
Digital Imaging	863,837	679,225	642,570	672,000	664,000	657,000	648,600	644,600	640,600
Audio & Video	555,706	469,606	426,594	410,000	401,000	392,000	416,600	407,600	398,600
Semiconductors	267,167	277,885	358,396	376,000	393,000	398,000	452,000	470,000	471,000
Components	623,931	479,145	410,090	408,000	414,000	420,000	406,000	411,000	416,000
Professional Solutions			287,394	335,000	345,000	351,900	310,000	319,000	325,000
Others	10,900	9,769	19,513	22,000	22,000	22,000	20,000	20,000	20,000
Internal sales	434,250	306,309	227,696	205,000	190,000	180,000	212,700	197,700	187,700
<b>Network Products &amp; Services</b>	<b>1,755,643</b>	<b>1,575,847</b>	<b>1,579,331</b>	<b>1,726,000</b>	<b>1,781,000</b>	<b>1,678,000</b>	<b>1,669,000</b>	<b>1,764,000</b>	<b>1,703,000</b>
Game	984,855	840,711	798,405	900,000	961,000	867,000	908,000	992,000	905,000
PC & NW	699,903	670,904	694,731	746,000	740,000	731,000	681,000	692,000	718,000
Others	0	0	0	0	0	0	0	0	0
Internal sales	70,885	64,232	86,195	80,000	80,000	80,000	80,000	80,000	80,000
<b>B2B &amp; Disk manufacturing</b>	<b>559,993</b>	<b>504,233</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Pictures</b>	<b>717,513</b>	<b>705,237</b>	<b>599,966</b>	<b>592,000</b>	<b>584,000</b>	<b>584,000</b>	<b>592,000</b>	<b>584,000</b>	<b>584,000</b>
<b>Music</b>	<b>387,053</b>	<b>522,616</b>	<b>470,743</b>	<b>428,000</b>	<b>425,000</b>	<b>418,000</b>	<b>447,000</b>	<b>443,000</b>	<b>437,000</b>
<b>Financial Services</b>	<b>538,206</b>	<b>851,396</b>	<b>806,526</b>	<b>804,000</b>	<b>808,000</b>	<b>812,000</b>	<b>804,000</b>	<b>808,000</b>	<b>812,000</b>
<b>Others, elimination</b>	<b>-259,898</b>	<b>-173,043</b>	<b>151,963</b>	<b>140,000</b>	<b>110,000</b>	<b>105,000</b>	<b>152,000</b>	<b>122,000</b>	<b>117,000</b>
<b>Total</b>	<b>7,729,993</b>	<b>7,213,998</b>	<b>7,181,273</b>	<b>7,438,000</b>	<b>7,418,000</b>	<b>7,289,900</b>	<b>7,488,900</b>	<b>7,386,900</b>	<b>7,237,900</b>
<b>Operating profit</b>									
<b>Consumer Products &amp; Devices</b>	<b>-115,078</b>	<b>-46,475</b>	<b>2,898</b>	<b>98,100</b>	<b>164,900</b>	<b>181,600</b>	<b>41,600</b>	<b>127,600</b>	<b>149,200</b>
Television	-154,100	-73,000	-74,600	-30,500	5,500	20,300	-30,800	1,300	14,600
Digital Imaging	58,900	68,100	58,900	68,200	75,300	70,500	55,000	72,700	68,400
Audio & Video	-11,300	1,000	15,000	13,000	11,000	10,000	12,000	11,000	10,000
Semiconductors	35,000	15,006	40,000	52,700	63,000	65,400	35,400	41,200	43,600
Components	-25,500	10,400	7,000	11,000	11,000	11,000	-7,000	9,000	10,000
Professional Solutions			8,600	13,400	13,800	14,100	12,400	12,800	13,000
Others	-3,516	4,019	-10,402	-9,700	-9,700	-9,700	-10,400	-10,400	-10,400
Internal sales	0	-72,000	-41,600	-20,000	-5,000	0	-25,000	-10,000	0
<b>Network Products &amp; Services</b>	<b>-87,428</b>	<b>-83,077</b>	<b>35,569</b>	<b>45,800</b>	<b>53,700</b>	<b>71,800</b>	<b>17,900</b>	<b>50,100</b>	<b>78,900</b>
Game	-38,476	-57,000	46,500	43,000	49,000	62,000	29,000	54,000	77,000
PC & NW	-21,900	-21,300	13,895	5,800	7,700	12,800	4,500	6,700	12,500
Others	-7,926	223	-10,626	-3,000	-3,000	-3,000	-10,600	-10,600	-10,600
Internal sales	0	-5,000	-14,200	0	0	0	-5,000	0	0
<b>B2B &amp; Disk manufacturing</b>	<b>6,480</b>	<b>-7,216</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>SEMC</b>	<b>-30,255</b>	<b>-34,514</b>	<b>4,155</b>	<b>6,600</b>	<b>8,700</b>	<b>9,100</b>	<b>6,900</b>	<b>9,100</b>	<b>9,500</b>
<b>Pictures</b>	<b>29,916</b>	<b>42,814</b>	<b>38,669</b>	<b>34,300</b>	<b>35,200</b>	<b>35,200</b>	<b>34,300</b>	<b>35,200</b>	<b>35,200</b>
<b>Music</b>	<b>27,843</b>	<b>36,513</b>	<b>38,927</b>	<b>35,100</b>	<b>34,400</b>	<b>33,900</b>	<b>36,700</b>	<b>35,900</b>	<b>35,400</b>
<b>Financial Services</b>	<b>-31,157</b>	<b>162,492</b>	<b>118,818</b>	<b>116,000</b>	<b>118,000</b>	<b>120,000</b>	<b>116,000</b>	<b>118,000</b>	<b>120,000</b>
<b>Others, elimination</b>	<b>-28,104</b>	<b>-38,765</b>	<b>-39,215</b>	<b>-25,000</b>	<b>-20,000</b>	<b>-20,000</b>	<b>-14,200</b>	<b>-21,400</b>	<b>-21,400</b>
(Affiliates)	-25,109	-30,235	15,655	29,100	32,700	34,100	25,400	31,100	32,500
(Restructuring)	-75,400	0	-70,000	-20,000	-5,000	0	-35,000	-10,000	0
<b>Total</b>	<b>-227,783</b>	<b>31,772</b>	<b>199,821</b>	<b>310,900</b>	<b>394,900</b>	<b>431,600</b>	<b>239,200</b>	<b>354,500</b>	<b>406,800</b>
<b>Operating Margin</b>									
<b>Consumer Professional &amp; Devices</b>	<b>-2.9%</b>	<b>-1.4%</b>	<b>0.1%</b>	<b>2.6%</b>	<b>4.4%</b>	<b>4.9%</b>	<b>1.1%</b>	<b>3.5%</b>	<b>4.2%</b>
Television	-12.1%	-7.3%	-6.2%	-2.3%	0.4%	1.6%	-2.3%	0.1%	1.3%
Digital Imaging	6.8%	10.0%	9.2%	10.1%	11.3%	10.7%	8.5%	11.3%	10.7%
Audio & Video	-2.0%	0.2%	3.5%	3.2%	2.7%	2.6%	2.9%	2.7%	2.5%
Semiconductors	13.1%	5.4%	11.2%	14.0%	16.0%	16.4%	7.8%	8.8%	9.3%
Components	-4.1%	2.2%	1.7%	2.7%	2.7%	2.6%	-1.7%	2.2%	2.4%
Professional Solutions			3.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
<b>Network Products &amp; Services</b>	<b>-5.0%</b>	<b>-5.3%</b>	<b>2.3%</b>	<b>2.7%</b>	<b>3.0%</b>	<b>4.3%</b>	<b>1.1%</b>	<b>2.8%</b>	<b>4.6%</b>
Game	-3.9%	-6.8%	5.8%	4.8%	5.1%	7.2%	3.2%	5.4%	8.5%
PC & NW	-3.1%	-3.2%	2.0%	0.8%	1.0%	1.8%	0.7%	1.0%	1.7%
<b>Pictures</b>	<b>4.2%</b>	<b>6.1%</b>	<b>6.4%</b>	<b>5.8%</b>	<b>6.0%</b>	<b>6.0%</b>	<b>5.8%</b>	<b>6.0%</b>	<b>6.0%</b>
<b>Music</b>	<b>7.2%</b>	<b>7.0%</b>	<b>8.3%</b>	<b>8.2%</b>	<b>8.1%</b>	<b>8.1%</b>	<b>8.2%</b>	<b>8.1%</b>	<b>8.1%</b>
<b>Financial Services</b>	<b>-5.8%</b>	<b>19.1%</b>	<b>14.7%</b>	<b>14.4%</b>	<b>14.6%</b>	<b>14.8%</b>	<b>14.4%</b>	<b>14.6%</b>	<b>14.8%</b>
<b>Total</b>	<b>-2.9%</b>	<b>0.4%</b>	<b>2.8%</b>	<b>4.2%</b>	<b>5.3%</b>	<b>5.9%</b>	<b>3.2%</b>	<b>4.8%</b>	<b>5.6%</b>

Note: E: CIRA estimates. RE: Revised CIRA estimates.

Source: Company data, Citi Investment Research and Analysis.

Figure 4. Sony: Quarterly earnings model

(FY ending; ¥mn)	11/3				12/3			
	Q1	Q2	Q3	Q4	Q1E	Q2E	Q3E	Q4E
<b>Sales</b>	<b>1,661,049</b>	<b>1,733,152</b>	<b>2,206,246</b>	<b>1,580,826</b>	<b>1,615,447</b>	<b>1,772,281</b>	<b>2,368,968</b>	<b>1,732,204</b>
YoY (%)	3.8%	4.3%	-1.4%	-7.8%	-2.7%	2.3%	7.4%	9.6%
Cost of sales	1,109,291	1,127,627	1,492,388	1,102,057	1,060,047	1,185,981	1,595,568	1,235,504
YoY (%)	4.5%	-0.6%	-1.2%	-7.0%	-4.4%	5.2%	6.9%	12.1%
% of total sales	66.8%	65.1%	67.6%	69.7%	65.6%	66.9%	67.4%	71.3%
Gross profit	551,758	605,525	713,858	478,769	555,400	586,300	773,400	496,700
YoY (%)	2.5%	15.0%	-1.8%	-9.6%	0.7%	-3.2%	8.3%	3.7%
% of total sales	33.2%	34.9%	32.4%	30.3%	34.4%	33.1%	32.6%	28.7%
SG&A expenses	491,406	541,943	578,926	551,876	532,000	542,000	642,000	482,000
YoY (%)	-10.5%	-0.9%	0.7%	-6.3%	8.3%	0.0%	10.9%	-12.7%
% of total sales	29.6%	31.3%	26.2%	34.9%	32.9%	30.6%	27.1%	27.8%
Affiliates profit	6,664	5,069	2,590	-261	5,100	6,900	9,300	4,100
<b>Operating income</b>	<b>67,016</b>	<b>68,651</b>	<b>137,522</b>	<b>-73,368</b>	<b>28,500</b>	<b>51,200</b>	<b>140,700</b>	<b>18,800</b>
YoY (%)	-360.8%	-310.6%	-5.9%	30.9%	-57.5%	-25.4%	2.3%	-125.6%
% of total sales	4.0%	4.0%	6.2%	-4.6%	1.8%	2.9%	5.9%	1.1%
Other income	20,058	9,237	6,189	9,482	5,800	5,100	5,100	4,700
Interest income	3,213	2,467	2,585	3,518	3,300	2,600	2,600	2,600
Others	16,845	6,770	3,604	5,964	2,500	2,500	2,500	2,100
Other expenses	8,163	15,179	12,176	4,256	12,200	8,100	13,000	7,400
Interest expense	6,102	5,860	4,556	7,391	5,200	5,100	5,000	4,900
Others	2,061	9,319	7,620	-3,135	7,000	3,000	8,000	2,500
Net financial income	-2,889	-3,393	-1,971	-3,873	-1,900	-2,500	-2,400	-2,300
Non-operating income and expenses	11,895	-5,942	-5,987	5,226	-6,400	-3,000	-7,900	-2,700
<b>Income before tax</b>	<b>78,911</b>	<b>62,709</b>	<b>131,535</b>	<b>-68,142</b>	<b>22,100</b>	<b>48,200</b>	<b>132,800</b>	<b>16,100</b>
YoY (%)	-339.5%	-468.3%	6.2%	45.0%	-72.0%	-23.1%	1.0%	-123.6%
% of total sales	4.8%	3.6%	6.0%	-4.3%	1.4%	2.7%	5.6%	0.9%
Income taxes	43,673	20,746	47,590	313,330	6,600	14,500	47,800	5,800
Effective income tax rate (%)	55%	33%	36%	-460%	30%	30%	36%	36%
Minority interest	9,501	10,817	11,611	7,330	11,200	11,200	11,200	11,200
<b>Net income</b>	<b>25,737</b>	<b>31,146</b>	<b>72,334</b>	<b>-388,802</b>	<b>4,300</b>	<b>22,500</b>	<b>73,800</b>	<b>-900</b>
YoY (%)	-169.4%	-218.4%	-8.6%	587.3%	-83.3%	-27.8%	2.0%	-99.8%
% of total sales	1.5%	1.8%	3.3%	-24.6%	0.3%	1.3%	3.1%	-0.1%
R&D expenses	99,070	106,943	106,080	114,707	110,000	110,000	120,000	100,000
(as % of sales)	6.0%	6.2%	4.8%	7.3%	6.8%	6.2%	5.1%	5.8%
Depreciation	86,824	80,851	77,962	79,763	80,000	80,000	79,000	81,000
Capex	50,339	35,726	42,153	76,682	60,000	80,000	90,000	70,000

Note: A: Actuals. E: CIRA estimates.

Source: Company data, Citi Investment Research and Analysis.



Figure 5. Sony: Quarterly segment data  
(FY ending; ¥mn)

	11/3				12/3			
	Q1A	Q2A	Q3A	Q4E	Q1E	Q2E	Q3E	Q4E
<b>Sales</b>								
<b>Consumer Professional &amp; Devices</b>	<b>889,458</b>	<b>885,328</b>	<b>1,090,942</b>	<b>707,016</b>	<b>839,947</b>	<b>945,781</b>	<b>1,202,968</b>	<b>836,204</b>
Television	291,935	260,820	416,914	230,822	256,000	288,000	485,000	330,000
Digital Imaging	172,231	162,492	188,477	119,370	171,300	158,400	199,500	119,400
Audio & Video	95,245	92,416	154,693	84,240	80,400	104,300	151,700	80,200
Semiconductors	90,233	93,494	93,187	81,482	100,200	121,000	129,000	101,800
Components	107,204	103,647	104,060	95,179	101,000	103,000	105,000	97,000
Professional Solutions	67,759	73,601	73,398	72,636	71,147	77,281	77,068	84,504
Others	4,902	5,589	3,506	5,516	5,000	5,500	4,000	5,500
Internal sales	59,949	93,269	56,707	17,771	54,900	88,300	51,700	17,800
<b>Network Products &amp; Services</b>	<b>325,939</b>	<b>369,124</b>	<b>566,558</b>	<b>317,710</b>	<b>308,500</b>	<b>381,500</b>	<b>613,000</b>	<b>366,000</b>
Game	142,102	171,332	323,078	161,893	137,000	175,000	383,000	213,000
PC & NW	168,297	172,707	214,464	139,263	154,500	188,500	207,000	131,000
Others	0	0	0	0	0	0	0	0
Internal sales	15,540	25,085	29,016	16,554	17,000	18,000	23,000	22,000
<b>B2B &amp; Disk manufacturing</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Pictures</b>	<b>132,085</b>	<b>144,785</b>	<b>149,016</b>	<b>174,080</b>	<b>136,000</b>	<b>144,000</b>	<b>168,000</b>	<b>144,000</b>
<b>Music</b>	<b>110,272</b>	<b>110,987</b>	<b>139,832</b>	<b>109,652</b>	<b>96,000</b>	<b>103,000</b>	<b>134,000</b>	<b>114,000</b>
<b>Financial Services</b>	<b>168,995</b>	<b>221,872</b>	<b>209,123</b>	<b>206,536</b>	<b>201,000</b>	<b>201,000</b>	<b>201,000</b>	<b>201,000</b>
<b>Others, elimination</b>	<b>34,300</b>	<b>1,056</b>	<b>50,775</b>	<b>65,832</b>	<b>34,000</b>	<b>-3,000</b>	<b>50,000</b>	<b>71,000</b>
<b>Total</b>	<b>1,661,049</b>	<b>1,733,152</b>	<b>2,206,246</b>	<b>1,580,826</b>	<b>1,615,447</b>	<b>1,772,281</b>	<b>2,368,968</b>	<b>1,732,204</b>
<b>Operating profit</b>								
<b>Consumer Products &amp; Devices</b>	<b>50,089</b>	<b>16,856</b>	<b>26,823</b>	<b>-90,870</b>	<b>17,300</b>	<b>-2,900</b>	<b>42,100</b>	<b>-14,900</b>
Television	3,000	-16,000	-13,000	-48,600	-11,700	-10,800	700	-9,000
Digital Imaging	24,398	21,602	17,200	-4,300	18,200	19,300	20,300	-2,800
Audio & Video	5,000	4,000	13,000	-7,000	4,000	3,000	9,000	-4,000
Semiconductors	17,000	18,000	13,000	-8,000	11,400	5,200	11,800	7,000
Components	5,000	7,000	2,000	-7,000	0	1,000	1,000	-9,000
Professional Solutions	2,000	4,000	4,400	-1,800	2,800	3,100	3,100	3,400
Others	-2,409	-8,646	1,223	-570	-2,400	-8,700	1,200	-500
Internal sales	-3,900	-13,100	-11,000	-13,600	-5,000	-15,000	-5,000	0
<b>Network Products &amp; Services</b>	<b>-3,791</b>	<b>6,932</b>	<b>45,708</b>	<b>-13,280</b>	<b>-20,200</b>	<b>10,300</b>	<b>38,200</b>	<b>-10,400</b>
Game	500	13,000	43,000	-10,000	-15,000	10,000	26,000	8,000
PC & NW	1,500	-2,000	3,600	10,795	2,300	1,200	9,100	-8,100
Others	-5,541	682	4,108	-9,875	-5,500	600	4,100	-9,800
Internal sales	-250	-4,750	-5,000	-4,200	-2,000	-1,500	-1,000	-500
<b>B2B &amp; Disk manufacturing</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>SEMC</b>	<b>582</b>	<b>2,642</b>	<b>409</b>	<b>522</b>	<b>1,100</b>	<b>1,900</b>	<b>2,300</b>	<b>1,600</b>
<b>Pictures</b>	<b>2,860</b>	<b>-4,824</b>	<b>4,697</b>	<b>35,936</b>	<b>8,800</b>	<b>8,800</b>	<b>10,800</b>	<b>5,900</b>
<b>Music</b>	<b>7,493</b>	<b>8,103</b>	<b>19,485</b>	<b>3,846</b>	<b>7,700</b>	<b>8,200</b>	<b>10,700</b>	<b>10,100</b>
<b>Financial Services</b>	<b>29,976</b>	<b>43,009</b>	<b>32,734</b>	<b>13,099</b>	<b>29,000</b>	<b>29,000</b>	<b>29,000</b>	<b>29,000</b>
<b>Others, elimination</b>	<b>-20,193</b>	<b>-4,067</b>	<b>7,666</b>	<b>-22,621</b>	<b>-15,200</b>	<b>-4,100</b>	<b>7,600</b>	<b>-2,500</b>
(Affiliates)	6,664	5,069	2,590	1,332	5,100	6,900	9,300	4,100
(Restructuring)	-7,200	-16,500	-11,800	-34,500	-9,000	-18,000	-7,000	-1,000
<b>Total</b>	<b>67,016</b>	<b>68,651</b>	<b>137,522</b>	<b>-73,368</b>	<b>28,500</b>	<b>51,200</b>	<b>140,700</b>	<b>18,800</b>
<b>Operating Margin</b>								
<b>Consumer Professional &amp; Devices</b>	<b>5.6%</b>	<b>1.9%</b>	<b>2.5%</b>	<b>-12.9%</b>	<b>2.1%</b>	<b>-0.3%</b>	<b>3.5%</b>	<b>-1.8%</b>
Television	1.0%	-6.1%	-3.1%	-21.1%	-4.6%	-3.8%	0.1%	-2.7%
Digital Imaging	14.2%	13.3%	9.1%	-3.6%	10.6%	12.2%	10.2%	-2.3%
Audio & Video	5.2%	4.3%	8.4%	-8.3%	5.0%	2.9%	5.9%	-5.0%
Semiconductors	18.8%	19.3%	14.0%	-9.8%	11.4%	4.3%	9.1%	6.9%
Components	4.7%	6.8%	1.9%	-7.4%	0.0%	1.0%	1.0%	-9.3%
Professional Solutions	3.0%	5.4%	6.0%	-2.5%	3.9%	4.0%	4.0%	4.0%
<b>Network Products &amp; Services</b>	<b>-1.2%</b>	<b>1.9%</b>	<b>8.1%</b>	<b>-4.2%</b>	<b>-6.5%</b>	<b>2.7%</b>	<b>6.2%</b>	<b>-2.8%</b>
Game	0.4%	7.6%	13.3%	-6.2%	-10.9%	5.7%	6.8%	3.8%
PC & NW	0.9%	-1.2%	1.7%	7.8%	1.5%	0.6%	4.4%	-6.2%
<b>Pictures</b>	<b>2.2%</b>	<b>-3.3%</b>	<b>3.2%</b>	<b>20.6%</b>	<b>6.5%</b>	<b>6.1%</b>	<b>6.4%</b>	<b>4.1%</b>
<b>Music</b>	<b>6.8%</b>	<b>7.3%</b>	<b>13.9%</b>	<b>3.5%</b>	<b>8.0%</b>	<b>8.0%</b>	<b>8.0%</b>	<b>8.9%</b>
<b>Financial Services</b>	<b>17.7%</b>	<b>19.4%</b>	<b>15.7%</b>	<b>6.3%</b>	<b>14.4%</b>	<b>14.4%</b>	<b>14.4%</b>	<b>14.4%</b>
<b>Total</b>	<b>4.0%</b>	<b>4.0%</b>	<b>6.2%</b>	<b>-4.6%</b>	<b>1.8%</b>	<b>2.9%</b>	<b>5.9%</b>	<b>1.1%</b>

Note: A: Actuals. E: CIRA estimates. Source: Company data, Citi Investment Research and Analysis.

## Sony

### Investment strategy

We rate Sony Buy/High Risk (1H) with a target price of ¥3,100. Structural reforms have borne fruit and we believe Sony is moving to a phase where profit will increase more than sales. Interest is now gravitating toward new products and businesses and we believe investors will start to price in an earnings contribution moving forward.

We expect the electronics business to be the driver of growth. As the main TV market battleground shifts to low-end models, we expect the benefits of Sony's structural reforms to come to the fore and lift the TV business back to profitability. In the camera business, with emerging markets driving demand, we expect Sony to excel thanks to competitiveness underpinned by an extensive consumer electronics marketing network. In the games business, we expect the introduction of the NGP (PSP2) to usher in a new phase of expansion. We believe the semiconductor business will benefit from the internal demand generated by the aforementioned products and at the same time expand external sales, primarily on the back of new image sensor technologies. We think powerful earnings growth is possible in FY3/13, after Sony navigates the consequences of the disaster.

We have praised Sony for the structural overhaul and the clear shift toward an asset-light model and increased outsourcing. However, we think it is from now that the benefits will start to show in results. It takes time to completely transfer the management of TV factories that have been sold, and we expect the cost savings achieved by rationalization to become clear from FY3/12.

The growth strategy for the network business has been somewhat of a concern but it is starting to become clear that it will be positioned as an enhancer to the electronics business. As an integrated electronics manufacturer, by providing network services that seamlessly connect such products as TVs, games, mobile phones, camera, PCs, etc, we believe Sony will gradually recover its restructuring investment. We believe the ability of electronics devices to use network services to enhance convenience and functionality will help Sony to differentiate its offerings.

Sony's brand and global sales capabilities remain sound, and the management team has shown outstanding leadership and decision-making speed. We would also not be surprised if the more global corporate culture led to greater competitiveness on the international stage. While we expect Sony to pursue additional restructuring centered on the balance sheet and SG&A spending, reallocation of management resources is progressing effectively and we think Sony can lift profit levels.

### Valuation

We base our target price on PER, referencing the 10-year historical average and an adjusted fair FY3/13E PER that reflects the historical divergence between the company PER and the sector average. The former is 22.2x, and the latter is 14.3x based on the current sector PER of 13.9x and an average +2.7% divergence from the sector average. We take the average of the two, 18.2x  $(22.2 + 13.9 \times 1.027)/2$ , multiply this by our fully diluted FY3/13 EPS estimate of ¥172.4 to derive our target price of ¥3,100.

## Risks

Risks to our target price include 1) rapid swings in forex rates, 2) dramatic changes in flat-panel TV prices, 3) a lack of progress with needed structural reforms and the earnings structure remaining hobbled by the old ways of doing things or rapid progress and greater-than-expected improvement, and 4) more rapid than expected commoditization of products resulting in declining added value or success in product differentiation and the maintenance of a price premium. If business conditions diverge from our expectations due to these factors or other developments, the shares may diverge from our target price.

While an assessment based on three-year volatility would indicate a Medium Risk (M) rating, as we think structural reforms are in a transitional phase, we think a High Risk (H) rating is appropriate.

## Appendix A-1 Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

## IMPORTANT DISCLOSURES

### Sony (6758)

#### Ratings and Target Price History Fundamental Research

Analyst: Kota Ezawa

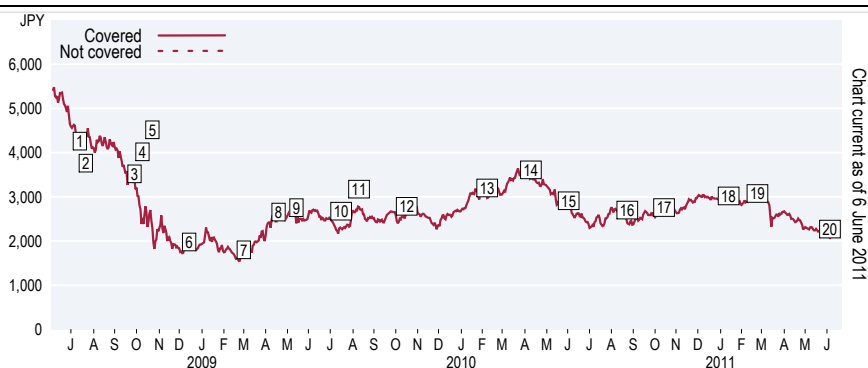


Chart current as of 6 June 2011

	Date	Rating	Target Price	Closing Price
1	14-Jul-08	1H	*5,700	4,320
2	22-Jul-08	*2H	*4,700	4,380
3	28-Sep-08	2H	*4,000	3,410
4	9-Oct-08	2H	*2,900	2,520
5	23-Oct-08	2H	*2,300	2,295
6	14-Dec-08	2H	*2,100	1,860
7	1-Mar-09	*1H	*2,200	1,668

\* Indicates change

	Date	Rating	Target Price	Closing Price
8	20-Apr-09	*2H	*2,700	2,655
9	14-May-09	2H	*2,850	2,400
10	16-Jul-09	2H	*2,600	2,285
11	11-Aug-09	2H	*3,200	2,770
12	16-Oct-09	*1H	*3,400	2,650
13	8-Feb-10	1H	*3,700	2,973
14	9-Apr-10	*2H	*3,800	3,420

	Date	Rating	Target Price	Closing Price
15	2-Jun-10	2H	*3,100	2,711
16	24-Aug-10	2H	*2,600	2,406
17	14-Oct-10	2H	*2,700	2,640
18	13-Jan-11	2H	*3,100	2,976
19	23-Feb-11	*1H	*4,000	2,977
20	6-Jun-11	1H	*3,100	2,062

Rating/target price changes above reflect Eastern Standard Time

## Sony (6758)

### Ratings and Target Price History

#### Best Ideas Research

#### Relative Call (3 Month)

Analyst: Kota Ezawa



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#### Data current as of 31 Mar 2011

	12 Month Rating			Relative Rating		
	Buy	Hold	Sell	Buy	Hold	Sell
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% of companies in each rating category that are investment banking clients	43%	41%	41%	51%	41%	45%

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Kota Ezawa

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