Investment analysis for sony

Business, Company

The Sony Corporation is the parent company of the Sony Group. The Sony Group is comprised of five basic divisions, Electronics (64%), Games (10%), Music(8%), Pictures (10%), Insurance and other (8%)i. They have the ability to create content for home entertainment use (Sony Pictures and Sony Music Entertainment), as well as the products to make the content to view and hear for both professionals and consumers to view and hear. Sony's stock has returned to the pre-dot com bubble adjusted closing price of $33. 56 on September 27, 2004 (compare January 11, 1999). During the dot com bubble it enjoyed a an adjusted closing price of $146. 39 on February 28, 2000.

The electronics company is the largest division of the company. Its electronics are well branded and are a respected name in electronics. Sony sells at a premium in the consumer market compared to other Japanese electronic firms (i. e. JVC, Hitachi, Sanyo, Matsushta, Mitsubishi, etc.). Their high-end electronics, like the Grand Wega displays or home theater amplifiers, are currently sold only in electronics retailers (e. g. Best Buy, Circuit City, RC Willey, etc.). There has been talk that this may change in the next year broadening their base to other outlets like Wal Mart, Target, K-Mart, etc1.

The joint venture, Sony Ericsson, was an unexpected area of profits that bolstered their profits for the first two quarters of 2004i. Sony Ericsson is part of the consumer electronics group and is a joint venture between the two companiesthat combinesg Ericsson'sleadershipin the mobile phone industry and Sony's expertise in consumer electronicsii. The electronics division of Sony serves both the consumer and the professional electronics markets. Sony's game division has been having a difficult time turning a profit the last several years. They posted a loss of $27 million since their sales declined on their Playstation 2.

Plans for Aa new Playstation 3 has been introduced and a mobile Playstation will be released later this year. The games division is expected to continue to struggle in the short termii. Their main competition in the mobile gaming market, Nintendo, Inc. , will pressure Sony's new line up on price with the mobile Playstation (Nintendo ~150, Sony $270). Most analysts are remaining skeptical whether Sony can compete with Nintendoiii. Sony Music Entertainment's began in 1968. In 1968 Sony and CBS formed the joint venture CBS/Sony. CBS has a rich history back to the late 19th century. Read also PlayStation 4 SWOT Analysis

In January of 1988 Sony acquired CBS Records for $2 billion dollarsiv. Sony increased their repertoire of music by forming a joint venture with Bertelsmann Music Group (BMG), Sony BMG Music Entertainment. BMG will continue with content creation as will Sony under Sony Music Entertainment, but they will have access to each other's content. Each will have 50% control of the new joint venturev. Sony Pictures Entertainment includes all aspects of content creation, editing, and distribution. They own content that includes full feature films, game shows, daytime dramas, situational comedies and more.

Sony acquired Columbia Pictures in 1989 and they have expanded their cinema collection by leading a group of investors to purchase MGM for more than $5 billion that has yet to win the shareholder votevi. It is likely that the vote will pass since billionaire Kirk Kerkorian owns 74% of MGM's outstanding shares. Earlier this month and previous to the acquisition of MGM, Comcast and Sony worked out a deal to expand Comcast's Video on Demand (VOD) content by creating a joint venture that Comcast will managevii. Comcast will also be a minority shareholder with the MGM acquisition.

Sony's bottom line is directly connected to the consumer's discretionary income. Sony offers products on the high end, but they make theirmoneyon their lower priced consumer electronics around the world. When consumers have discretionary income Sony has increased sales, the opposite is also true. The nature of Sony's business is directed towards the world's consumers, from content creation to displaying the content through video displays and audio equipment. DuPont Analysis Sony's financials are average for the industry (see charts that show this)[IQ1].

They have [IQ2]decreasing margin, turnover, ROI, and ROE over time with an increase of leverage (reference tables). Consequently they are having a decrease of earnings per share. These decreasing trends bode poorly for the industry. There seems to be several factors that are influencing Sony's bottom line. Before discussing the different factors that have been affecting Sony, there was an aberration that was found in the financials that is worth noting. The year ending 2002 had an extreme dip in operating income affecting many of the ratios in an extremely negative way (see financials)[IQ3].

There was almost a 44% decline in operating income from 2001 to 2002. This decrease in operating income compounded by a negative " other income" and what seem to be payouts to minority shareholders affected the net income dramatically causing most of the ratios in 2002 to be off compared to the preceding and following years (see statements and Exhibits #, #)[IQ4]. One example in the extreme difference year to year in the ratios due to a decline in operating income is the degree of operating leverage (DOL). [IQ5] It was the decrease in operating income that dominated this ratio and not the percent change in unit volume.

There may be several reasons for this shift in 2002. For example a change in accounting practices, an acquisition, expansion, the payment of past taxes or any number of other business decisions could have caused this negative affect. It was difficult to determine any one cause for such a dramatic drop in net income in 2002. There was not anything obvious found in the financial statements and the 6-K and the 2002-year end report was not available for perusal. Therefore, 2002 will be discounted from much of the DuPont analysis; however, . Iit is mentioned since it is such an aberration.