

“DRAIN THE THEATERS” MOVEMENT PUNISHES SONY PICTURES FOR SONY’S PARTICIPATION IN POLITICAL CORRUPTION

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- Japanese company to sell part of stake in medical site M3
- CEO of Sony Entertainment announced departure two weeks ago



The studio has struggled recently, including with last year’s Ghostbusters sequel and a movie based on the Angry Birds video game. Sony warned in June the division was at a risk of posting more losses.

Source: Columbia Pictures/Everett Collection

[Sony Corp.](#) said it will take a 112 billion yen (\$1 billion) writedown in its movie business after reviewing the future profitability of its operations.

The company said it would book the charge in the fiscal third quarter and is examining how that will affect its forecasts. To offset part of the loss, the company also said it would sell shares in the medical web service [M3 Inc.](#) to Goldman Sachs Group Inc.'s Japan unit, in a deal worth about 37 billion yen.

The announcement comes two weeks after Sony said the chief executive officer of Sony Entertainment, Michael Lynton, is stepping down after a 13-year run. The studio has struggled recently, including with last year's Ghostbusters sequel and a movie based on the Angry Birds video game. Sony warned in June the division was at a risk of posting more losses.

"There has been a suspicion in the market that Sony doesn't have a firm grip on the movie business, but still the amount is a surprise," said Kazunori Ito, an analyst at Morningstar Investment Services. "That said, with Lynton's departure and this writedown, all the bad news is out and the attention can turn on their plan for the coming fiscal year."

Little Changed

Sony shares closed little changed in Tokyo prior to the announcement. Shares listed in Germany fell 2.6 percent in light-volume trading after the statement was published.

"The decline in the DVD and Blue-ray market was faster than we anticipated," Takashi Iida, a Sony spokesman said by phone.

The Tokyo-based company is increasingly relying on its video games business, which generated twice as much income in the last fiscal year as film. Sony's PlayStation 4 console is outselling Xbox One, its closest rival from Microsoft Corp., by about two-to-one, according to industry website VGChartz.

Lynton's departure capped a tumultuous two years for the division since a cyberattack blamed on North Korea paralyzed the studio. The hacking led to private messages leaking onto the internet and the departure of film-division head chief Amy Pascal. Sony's CEO Kazuo Hirai has temporarily relocated to California for six-months to oversee a review of the division and look for a replacement for Lynton, the company said this month.

'Financial Responsibility'

In an e-mail to employees, Hirai and Lynton said the transition gets underway this week and turn-around efforts will focus on expanding globally, making more use of the studio's intellectual property and "realizing a culture of financial responsibility." The e-mail also partly blamed the writedown on "dramatic" industrywide shifts in home entertainment.

In June, Sony [lowered its projection](#) for film revenue in fiscal year 2018 by \$500 million to a range of \$9.5 to \$10.5 billion. It also lowered its operating profit margin to a range of 6 to 7 percent, from 7 to 8

percent. Sony's Iida said the division's television broadcasting unit, which generates the majority of revenue, is unaffected and continues to do well.

Sony is increasingly leaning on China to offset the downturn. In September, Dalian Wanda Group Co., the world's largest movie screen operator, [agreed](#) to invest in Sony Pictures productions in an open-ended partnership. But a [slowdown](#) in movie revenue on the Chinese mainland has raised doubts about how much the deal will bolster Sony's performance.

M3 slipped 1.2 percent prior to the announcement on Monday and is up 17 percent over the past 12 months. M3 will continue to count Sony as its largest shareholder even after the deal, according to data compiled by Bloomberg. Prior to the deal, Sony held 39.3 percent of M3's outstanding shares.