

# Global Financial Crisis and its impacts

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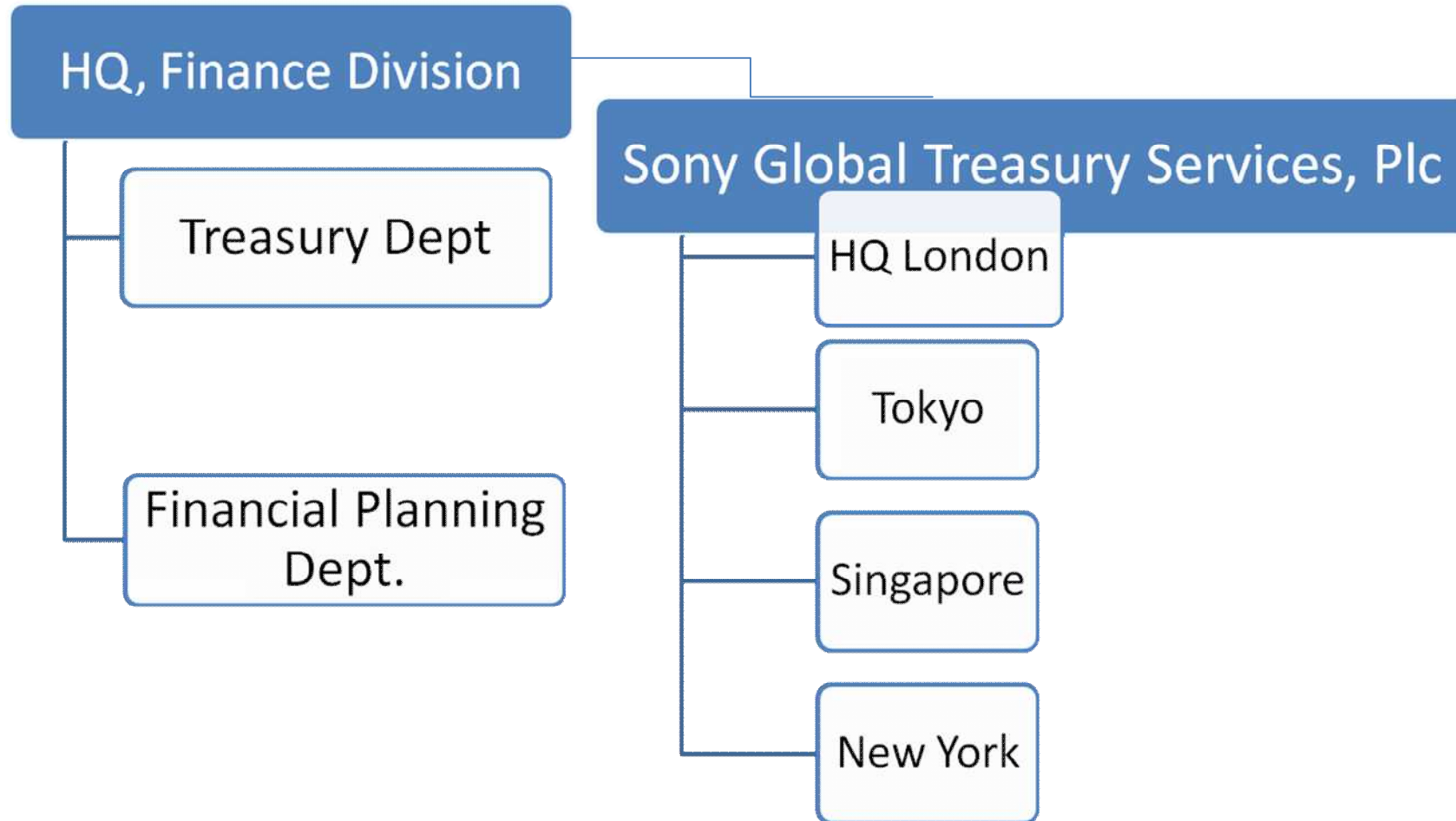
Finance Planning Dept / Finance Division

Sony Corporation

# 1. Introduction

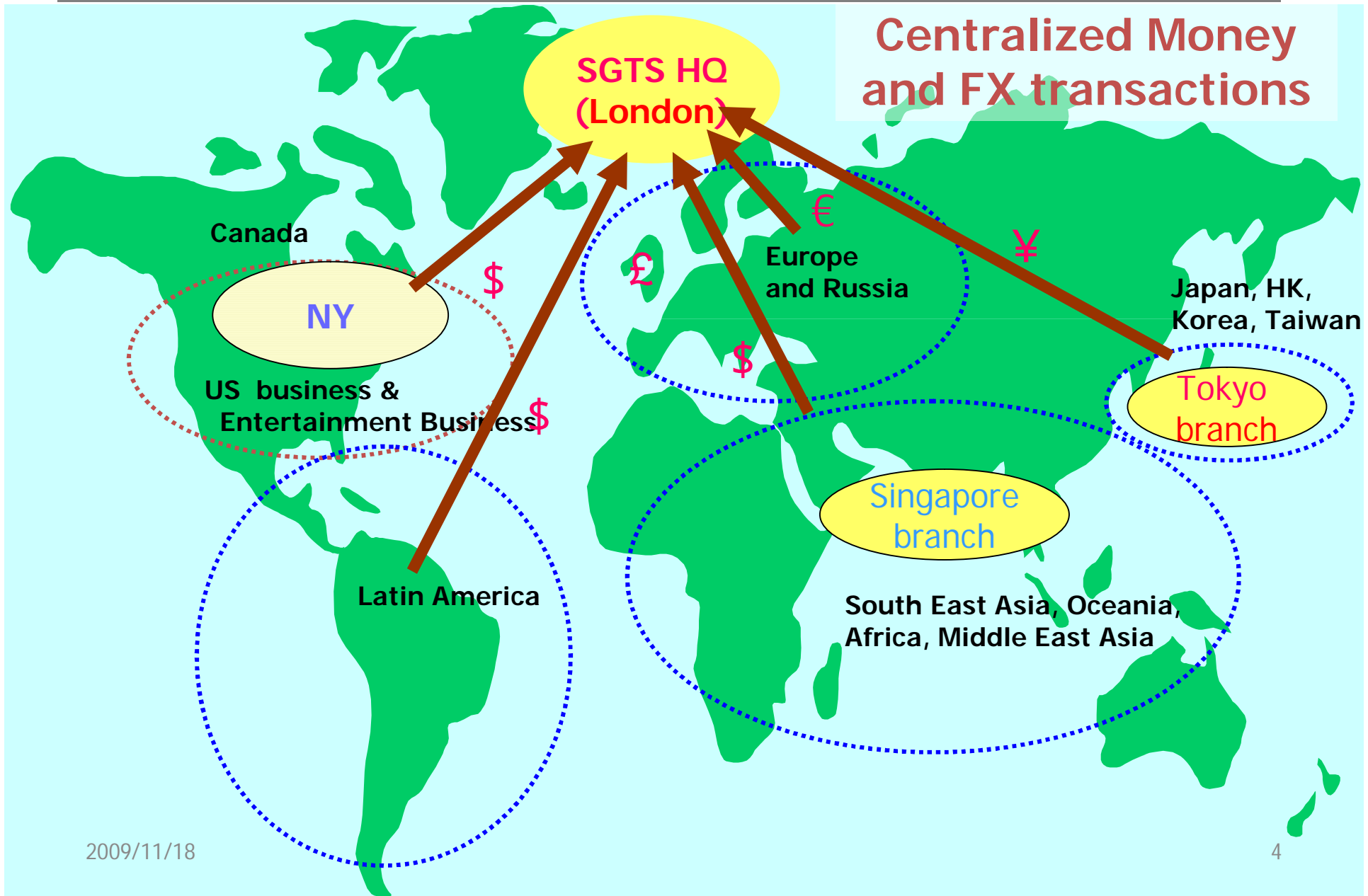
## **SONY: GLOBAL TREASURY OPERATION**

# Sony HQ Finance Division & SGTS



# SGTS: each branch territory

Centralized Money and FX transactions



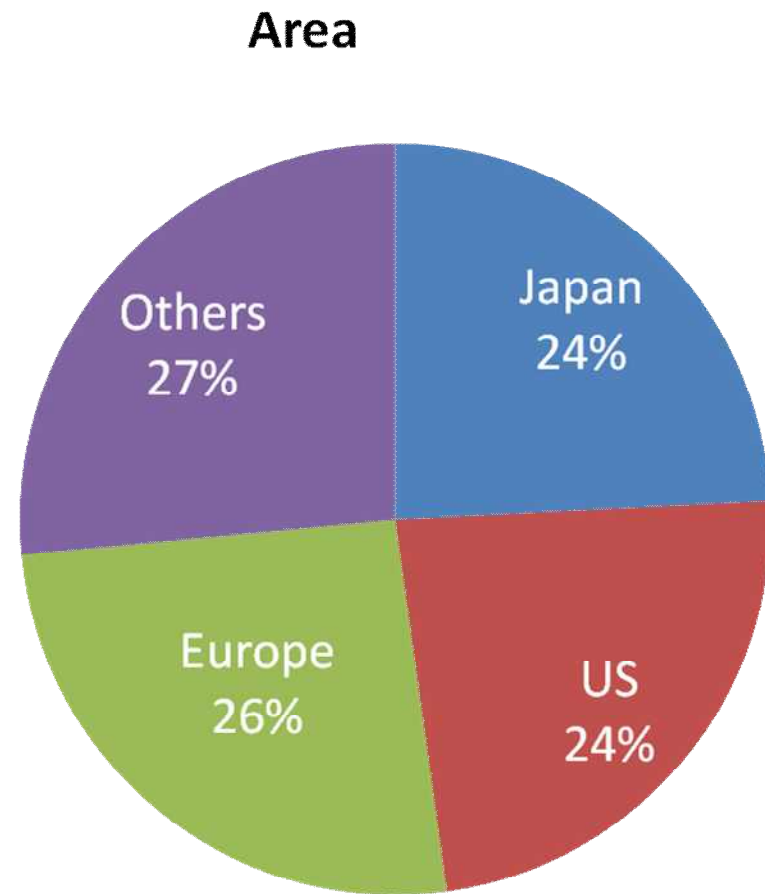
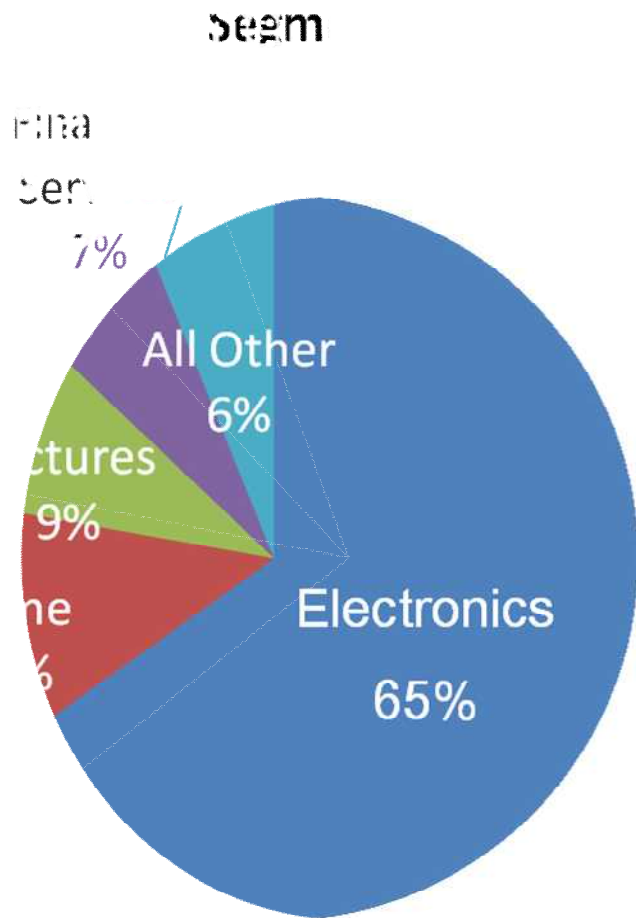
# SGTS: Function

1. Provide Financial services:
  - Financing
  - FX services
  - Inter-company settlement
  - Payment to 3<sup>rd</sup> party
2. Extended arms of HQ Finance Division:
  - Cash Flow monitoring
  - FX exposure management
  - Credit Risk
  - Finance policy

## 2. Introduction

# **RECENT FINANCIAL RESULTS**

# Sony Business: FY08 Sales by segment and area



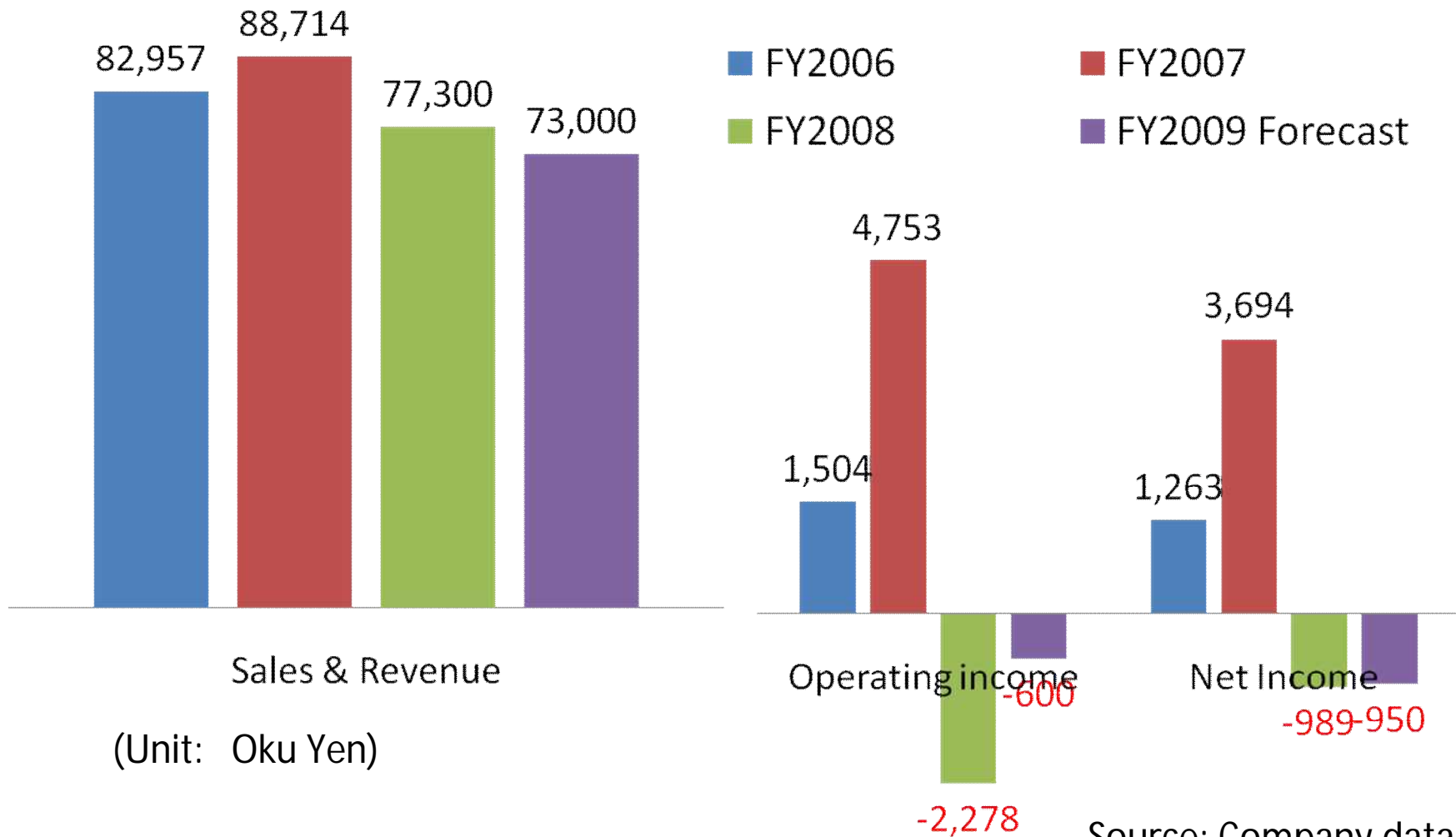
# Sony Business by segment and area

Electronics business:

- Sales in Japan accounts for 24% only in FY2008
  - Business performance is affected by the global economy
  - Strong yen has negative impacts on financial performance
- Electronics business accounts for 65% .
  - Other business; game, pictures, music business are also important



# 4 year trend in financials (consolidated)



# 3. Financial Crisis

# Financial Crisis started in the U.S.

1. Low interest rates: the prime loans were not profitable for financial institutions; the loan to borrowers with less credit standing had been increasing.
2. Sub-prime loans had made it possible for borrowers to own houses, cars and other expensive goods: while the property value increased, borrowers could additionally borrow  
ABS/MBS/ CDS (Credit Default Swap) were useful tools to encourage financing activities.
3. By bursting bubbles within the U.S., the sub-prime loan problems affected prime borrowers.
4. Many financial institutions suffered from such losses.

# Financial Market

During and after the crisis, risk money moved to safer place: the following markets shall be reviewed and discussed here.

1 Stock Market (Japan, US, UK)

2 FX market / USD, EUR, Yen and emerging currencies

3 Commodity market - WTI Crude Future

4 Credit Market - Japan and US

# After the Lehman Shock

- Slowdown of the economy in the world: weaker consumption = the Government tried to support the consumption (e.g. tax incentive)
- Change of quality after the crisis:
- Recovery after the financial crisis varies by country or region.

## 4. Impacts on the company

### **4-1. CREDIT ISSUES**

# Credit issues in the commercial flow

Higher financing costs and lower Sales



# Manufacturers/suppliers

- Tighter credit market
- To obtain the working capital by borrowing from the local banks was more costly
- Difficult to purchase **credit risk insurance** coverage (Credit Market was shrunk – weaker insurance companies)



# Dealers/Retailers

- Higher credit risk (higher probability of insolvency)  
Sales (or cash collection) may be decreased  
Difficult to obtain bank borrowing
- Difficult to obtain credit limit from suppliers
- Suppliers request collateral or bank guarantee

# Consumers

- Individuals' net worth – decreased largely (real estate, stock prices, other investments in the market)
- Lower income / Higher Unemployment Rate
- No longer “install payments” available
- Lower credit card limit

*Consumers, even if they would like to buy the products, could not buy expensive products without enough credit.*

## 4. Impacts on the company

### **4-2. FOREIGN EXCHANGE**

# Impacts of FX FY2007 vs. FY2008

1. USD/Euro have been depreciated against J. Yen; less competitive price in terms of such currency
2. Smaller accounting sales / profits in J. Yen even if sales amount in L/C remained the same.  
(USD/EURO)
3. Emerging currencies ; depreciated against major currencies

# Impacts of FX



Raw Materials & Key components  
Labor Costs

Mainly in Japan, China & other Asian countries

Import products / Sales to Retailers and Dealers  
Labor costs/ SGA

Sales Company in various countries

Source: Company data

# Sales to outside customers FY08 vs. FY07

	Japan	U.S.	Europe	Other Areas	Total
Increase/Decrease (Japanese Yen)	-14%	-20%	-17%	-11%	<b>-15%</b>
Increase/Decrease (Local Currency)	-14%	-9%	-1%	+5%	<b>-3%</b>

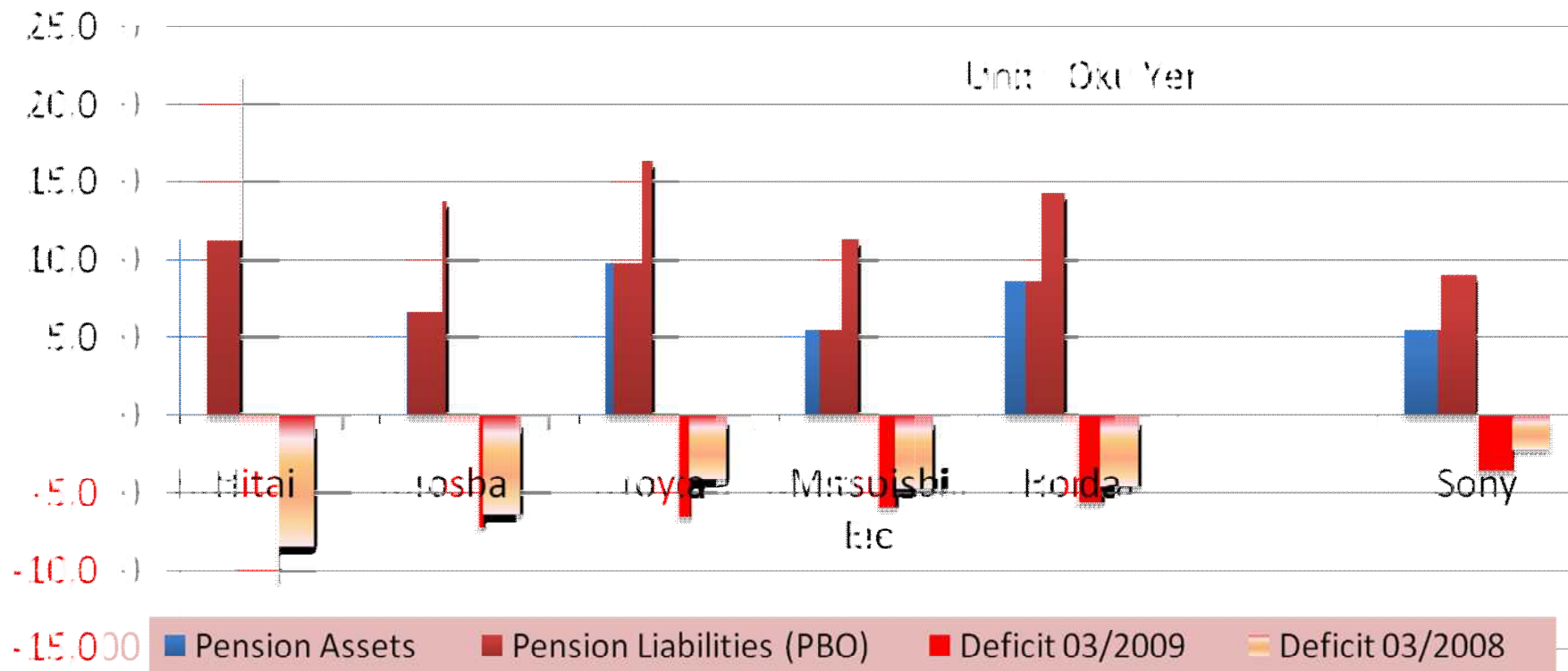
Average Rate during	FY 07	FY 08
1 US dollar	J. Yen 113	J. Yen 99.5
1 Euro	J. Yen 160	J. Yen 142
Other Currencies		J. Yen 17% stronger

Source: Company data

## 4. Impacts on the company

### **4-3. PENSION ISSUES**

# Pension issues: decrease in assets



## FY08 Change in Pension Assets

-18.6%	-20.2%	-23.6%	-21.0%	-25.8%		-14.1%
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Source: NIKKEI VERITAS 06.28.2009



# Pension issues

- Decrease in pension assets may have negative impacts on companies P/L, and may increase cash requirement
  - Average performance of Japanese Pension funds for FY2008 was -17% (Source : Nikkei Shinbun )
  - Pension Deficit (Assets - Liabilities) : may have P/L impacts and additional cash requirement over the years

# 5. Financial strategy

# To survive the crisis towards year-end

1. Assume the worst case scenario toward the end of year; e.g.
  - No/little cash availability in the money market
  - Suppliers/Vendors requests early payment
  - Dealers/Customers cannot pay timely – slow down of A/R collection
  - Piling up Inventory – sales slow down
2. Daily Cash flow monitoring
  - Try to calculate daily cash requirement on a global basis

# Financing Activities

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## 3. Accelerate financing activities

- Issued CP when being available in the market
- Bank borrowing

## 4. Issued the long term bonds

Dec 2008 Total 375 Oku Yen (3-10 years; 1.165% - 2.004%)

June 2009 Total 2,200 Oku Yen (3-10 years; 0.945%-2.068%)

## 5 . Bank borrowing

# Cash Flow Management

## Place more significance on Cash Flow

- The Management became more aware of cash flow
  - Efficient inventory control
  - Account receivable control
  - Account payable control
  - Capital expenditure / investments

## 6. Business strategy

# **STRUCTURAL REFORM**

# Restructuring

## Restructuring:

1. Consolidate manufacturing sites
2. Reduce Headcount
3. Optimize number of suppliers / vendors

**Asset-light strategy:** change to horizontal integration from self sufficient

1. Partnership with EMS (Electronics Manufacturing Service)

# Strategy

- Focus on profitable business /products
- Optimize global allocation of resources to comply with the global demands
- Strengthen Balance Sheets – improve debt/equity ratio



# Summary

- The financial markets have been recovering; and some of the them are now getting closer to the pre-Lehman Shock level.
- Thanks to the various efforts such as cutting operating costs or the government support, the major Japanese companies show the improved earning forecast of FY2009 now; however, many of companies are still struggling.
- It is important to have good business strategy to recover the profitability .

The end of presentation