

Business update meeting: Entertainment

Date: November 17, 2011 [Thu]

Place: Sony Corporation Headquarters

On Thursday November 17, 2011 Sony Corporation held an Entertainment update meeting for Analysts and Investors at its Tokyo Headquarters. The Entertainment session included updates from Sony Music Entertainment, Sony ATV Music Publishing and Sony Pictures Entertainment.

In addition to the presenters named below from each business, Robert Wiesenthal, Group Executive, Sony Corporation and Executive Vice President and Chief Strategy Officer, Sony Entertainment, Inc. participated in the discussions.

[Sony Music Entertainment](#)
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Sony Music Entertainment

Presenters:

Doug Morris

Chief Executive Officer

Kevin Kelleher

Executive Vice President and Chief Financial Officer

Thomas Hesse

President Global Digital Business and US Sales, Corporate Strategy

The executives in the Music business began their discussion with the current status of the music industry and recent positive developments, including the emergence of user friendly music services, the penetration of more music capable devices and the growth of the music download business for Sony and the industry more broadly. With the recent reorganization of the Music company, a reinvigoration of the creative leadership team has been accomplished. The company's top record labels - Columbia, RCA and Epic are now led by Rob Stringer, Peter Edge and L.A. Reid, respectively. In addition, the company has a successful joint venture with Simon Cowell focused on TV programming and talent development. Recently a new exclusive joint venture and producer deal was signed with the very successful Producer and Music Executive, Dr. Luke. This joint venture label will provide Sony Music with a new creative center based in Los Angeles.

From a market share perspective, Sony Music has outperformed the broader industry over the past three years, namely from FYE08 to FYE11. Revenues have declined less than the industry and, at the same time, the company has increased both operating income and cash flow.

In addition, Sony Music has had great success in capturing a high share of the new artist breakthroughs with artists like Leona Lewis, the Glee cast, Ke\$ha, Kings of Leon, Adele and Susan Boyle.

The executives also discussed the growing impact of digital distribution on their business and that Sony Music's digital revenues are now approaching \$1 billion annually, a 31% increase over the past three years.

The competitive landscape as well as the company's mid-term strategic plans were discussed. Five key strategies were identified, including: Strengthening the repertoire base, Accelerating digital growth, Maximizing opportunities with other Sony companies, Broadening revenue streams and Maximizing cost efficiencies. A number of examples were given on how to achieve each of these strategies. Notably, the three "digital strategy pillars" of Ownership, Access and Video and the distribution platforms underlying each, such as iTunes, Pandora, Spotify, Music Unlimited, Vevo and YouTube were discussed.

In addition, TV and other non-traditional business initiatives were identified including X-Factor, Got Talent, Glee and Nickelodeon.

The presentation concluded with a discussion of the ongoing commitment to maximize operational efficiencies across all the key cost components including marketing/promotion, supply chain, talent and throughout the worldwide organizational structure.

Sony ATV Music Publishing

Presenters:

Martin Bandier

Chairman & CEO

Joe Puzio

Executive Vice President and Chief Financial Officer

Peter Brodsky

Executive Vice President, Business & Legal Affairs

The presentation by the Sony ATV Music Publishing executives explained the music publishing business model and its future growth opportunities. Music publishing is the ownership, management and exploitation of the words and music of songs. This right is an exclusive right, protected by copyright laws around the world. No one can use a song without obtaining permission. This differs from the recordings of songs which are owned and controlled by record labels. Record labels must obtain a license from music publishers to place songs on their records.

Sony ATV (SATV) is one of the largest music publishers and owns or administers over 750,000 songs. The catalog includes iconic artists and songwriters such as The Beatles, Bob Dylan, Joni Mitchell, Little Richard and Hank Williams as well as new and up and coming artists such as Shakira, Pitbull, Lady Gaga and Taylor Swift.

Recently SATV participated in an investor group to acquire the assets of EMI Music Publishing (EMI). EMI has over 1.3 million songs covering all genres, periods and territories of the world. EMI represents some of the most successful writers and artists of all time including Sting, The Rolling Stones, Ray Charles, Carole King, James Taylor, Marvin Gaye, Stevie Wonder and Smokey Robinson. In addition, current artists on the EMI roster include Beyonce, P!nk, Amy Winehouse, Alicia Keys, Norah Jones and Usher. Upon completion of the transaction, SATV will be helping to oversee the EMI catalog on behalf of the investor group which acquired its assets.

The executives described the sources of revenue for the company including Mechanical, revenues from the purchase of a CD or download of a song; Performance, the public performance of a song; Synchronization, the synchronization of songs to moving images and Other, such as theatrical productions, print, physical merchandise using lyrics, video game and apps.

Presently SATV's revenues are 44% from Performance, 29% from Mechanical (with 19% physical and 10% digital), 21% from Synchronization and 6% from Other. The sources of digital revenue include iTunes, Amazon, YouTube, Rhapsody, Google and MTV, among others.

In addition, SATV administers the music of many of the top film studios and television networks including Sony Pictures Television, Paramount Studios, MGM, Dreamworks, CBS and MTV. Examples of other licensed uses include Cirque Du Soleil shows utilizing music from the Beatles and Elvis, songs used in advertisements for UPS and Office Depot and songs used in video games such as Red Faction: Armageddon.

Future growth opportunities include videogames, films, theatrical productions, emerging markets and lyric deals, among others. The company is working closely with cloud based locker services, mobile and tablet applications, subscription services and other internet-based video content providers.

The discussion concluded with a review of the competitive landscape and why SATV believes that they are well positioned to grow the business.

Sony Pictures Entertainment

Presenter:

Michael Lynton

Chairman and CEO

Mr. Lynton's presentation began with a discussion of how Sony Pictures Entertainment (SPE) fits in to the Sony portfolio of businesses and SPE's three primary businesses - Film production, TV production and TV Networks.

In theatrical distribution, Mr. Lynton noted that U.S. and non-U.S. box office revenues continue to grow. PricewaterhouseCoopers LLP has projected that industry box office revenues in U.S. will grow on a 4.8% compound annual growth rate (CAGR) from 2007 to 2014 and industry box office revenues in non-U.S. region will grow at a 9.0% CAGR over the same timeframe. The higher non-U.S. growth is attributed to a mix of increasing affluence and the introduction of multi-plexing, particularly in emerging markets. By 2014, non-U.S. box is expected to account for 70.7% of the worldwide total, up from 64.6% in 2007.

Complementing the growth of theatrical revenues is the increase in in-home consumption of content through new devices. This drives incremental viewership, creates new revenue streams and represents new growth opportunities. In turn, the new access models in the market have strengthened the link between devices and content which presents a significant opportunity for Sony. According to Screen Digest, the total number of TV sets and connected devices installed in North America and Western Europe is expected to grow by an 8% CAGR from 2006 to 2014, or from 1.1 billion devices to 2.1 billion devices.

Another source of revenue growth for the company is the introduction of new business models. The traditional "film windows" are shifting and electronic sell through, kiosk rental, subscription rental, pay TV and broadcast are all offering revenue sources for SPE.

In addition, the number of buyers for TV shows continues to grow. This is true of both scripted and non-scripted television production. U.S. basic cable and pay TV networks are now key customers for scripted programming in addition to the traditional major networks. A growing number of non-U.S. cable and satellite networks are also commissioning U.S. scripted programming. Finally, digital buyers are increasingly competing with pay TV incumbents.

On the non-scripted side, these programs have also become a global business. Today, broadcasters increasingly rely on non-U.S. hit formats for local programming including formats such as Idol, Big Brother, Who Wants To Be a Millionaire, Wheel of Fortune, Deal or No Deal, and Next Top Model.

Mr. Lynton noted that SPE is well positioned to navigate a changing marketplace. In Motion Pictures, the company has consistently produced strong revenues. For example in nine of the past 10 years, North America* box office receipts exceeded \$1 billion. In each of the past five consecutive years (2006-2010), worldwide box office receipts have exceeded \$2.5 billion. In 2011 SPE received 18 Oscar nominations (5 wins) and 22 Golden Globe nominations (8 wins). Importantly, multiple franchise films are currently in production including Spider-Man 4, Men in Black 3 and a new James Bond film. The company is also developing the next film based upon Dan Brown novels ("The Lost Symbol") and new branded franchises including the Stieg Larsson novels ("The Girl with the Dragon Tattoo") and "The Smurfs."

Through its Columbia label as well as Sony Pictures Animation, SPE is also refocusing on family friendly and animated films.

In the Television production business, SPE is well situated with the number one and number two syndicated game shows of all time, Wheel of Fortune and Jeopardy! It also produces the number one daytime drama, The Young and the Restless, and the number one talk show, the Dr. Oz show. Sony Pictures Television's network business reaches 577 million households across 159 countries worldwide, presented in 22 different languages.

Sony Pictures Television is enjoying a resurgence in its production business with the highest volume of primetime series in a decade and the number one producer of returning scripted cable series.

Mr. Lynton concluded with a discussion on why SPE is uniquely positioned to address market trends. It has the ability to capitalize on the relationship between hardware and content as it is the only studio owned by a leading consumer electronics company. It

benefits from the union of film and television businesses with one studio which enables it to have a balanced portfolio of assets. It benefits from independence in television production as it can produce for every U.S. broadcast network and multiple cable networks rather than being an in-house production company for a single network.

* North America includes the U.S., Canada, Puerto Rico, U.S. Virgin Islands, Turks & Caicos, Bermuda and the Bahamas.

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