

With Michael Lynton's exit, what's next for Sony Pictures?

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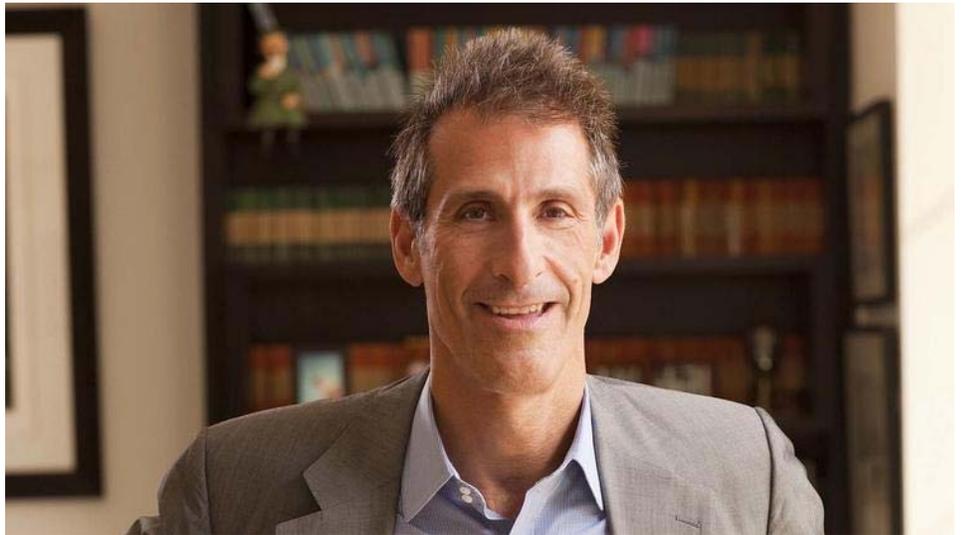
Japanese electronics giant Sony Corp. is known for running its prized Hollywood studio with a light touch, rarely interfering in the movie and TV business since buying Columbia Pictures in 1989. That's about to change.

After years of box office struggles and corporate upheaval, Sony Chief Executive Kazuo Hirai is preparing to take a more active role at Sony Pictures Entertainment. The move follows the exit of longtime studio head Michael Lynton, who is leaving for Snapchat.

In a telling sign, Tokyo-based Hirai is setting up a second office at Sony's Culver City campus to oversee management of the company's struggling entertainment assets. He's got his work cut out for him.

"He's going to have to be very hands on, at least for the next six months," said Matthew Harrigan, an analyst with Wunderlich Securities who covers the entertainment industry. "They have historically been very hands off with Sony Pictures, and it has often been to their detriment."

Now, Hirai will be under pressure to devise a plan to rebuild a studio hobbled by low morale, ongoing sale rumors and executive



Michael Lynton, former longtime co-chairman of Sony Pictures Entertainment (Robert Gallagher / Sony)

turmoil after the massive 2014 computer hack by North Korea. Lynton hired former Fox executive Tom Rothman to lead its movie business nearly two years ago after Amy Pascal lost her job following the hack, which was sparked by the making of "The Interview," a satirical movie about North Korean leader Kim Jong Un.

Sony hoped Rothman would bring fiscal responsibility to the studio while making global blockbusters, but his micromanaging leadership style has frustrated executives on the lot and damaged its standing with talent agencies, said several people close to the studio not authorized to comment publicly.

Compounding matters, Sony has struggled to make big hits. Last year's "Ghostbusters" reboot disappointed at the box office, as did Ron Howard's latest "Da Vinci Code" sequel "Inferno." The recent space romance "Passengers" has also fared poorly despite the star power of Chris Pratt and Jennifer Lawrence.

Sony executives declined to comment.

Hirai, 56, became CEO of Sony Corp. in 2012, replacing Howard Stringer. He's a Hollywood outsider, having spent most of his career in the video game space. He joined Sony in 1984, straight out of college, as an executive at a mu-

sis joint venture owned by CBS and Sony.

One of Hirai's first priorities will be replacing Lynton, who departs Feb. 2 and will help with the transition. Hirai is expected to meet with candidates in the coming weeks. Jim Gianopulos, the former 20th Century Fox film chief who was ousted last year to make way for Stacey Snider, would be a logical choice to try to turn Sony Pictures around, analysts and insiders said. Other names that have been floated include former DreamWorks Animation Chief Executive Jeffrey Katzenberg, former Disney Chief Operating Officer Thomas Staggs and former Fox TV executive Tony Vinciguerra.

Sony could elevate Andy Kaplan, who is president of Sony's television networks worldwide. Alternatively, the company could realign its film and TV companies under Andrew House, who runs the successful video games division. Though dismissed by Sony, such a move may help the electronics giant achieve its original mission: to marry content with tech offerings such as the popular PlayStation gaming console.

Some see Hirai's increased involvement as a sign of even bigger changes to come, including a possible full or partial sale of the studio. Sony, for years the subject of sale rumors, is valued at about \$12 billion, some analysts say.

One of the most likely buyers, CBS Corp., has long been interested in Sony's assets, including its international distribution system and its television production in Culver City. Sony produces numerous hits, including "The

Blacklist" for NBC and "Better Call Saul" for AMC. Sony forged deals with streaming services, including Netflix and Amazon, and it has one of Hollywood's most lucrative TV distribution businesses with "Seinfeld," "Jeopardy," "Wheel of Fortune" and "The Dr. Oz Show." Sony also produces "The Young & the Restless," which draws strong ratings for CBS in daytime.

CBS Chief Executive Leslie Moonves has always wanted to run a film studio, and Sony brings a major operation with rights to lucrative film properties. A person close to CBS said Tuesday there are no active conversations about a merger.

Other potential suitors include content-hungry Silicon Valley giants such as Apple Inc., mobile phone carriers such as Verizon Communications, and Chinese conglomerates such as Dalian Wanda Group, which signed a deal in September to invest in Sony's movie slate. Wanda already owns AMC Theatres, Legendary Entertainment and Dick Clark Productions.

"There are clearly buyers on the prowl for a studio," said Los Angeles investment banker Lloyd Greif. "There are certainly a lot of sharks circling."

Others dismiss speculation that Sony will unload the movie and TV business, saying Hirai's increased presence indicates Sony's commitment to keeping its entertainment units in-house. Movies and TV remain a profitable segment for Sony — the unit is forecasting about \$256 million in operating income, primarily from TV, in the fiscal year that ends in

March, down 3% from a year earlier. Also, the company doesn't need cash from a studio sale, given the success of its PlayStation 4 gaming console.

Some analysts doubt Sony Pictures will be sold anytime soon. Hirai wouldn't want to sell when Sony is struggling, Harrigan said. "Psychologically, a guy like that isn't going to be too disposed to exit the business at a low point," Harrigan said.

The company has high hopes for "Spider-Man: Homecoming," co-produced by Disney's Marvel Studios, which opens in July. Other upcoming movies include "Smurfs: The Lost Village" in April and "The Dark Tower," based on the Stephen King fantasy series, also in July.

Meanwhile, Lynton is poised to enjoy a huge windfall from his early investment in Snapchat maker Snap Inc., which is aiming for an initial public offering this quarter. A big payday from the social messaging company would have been seen as a conflict of interest with his Sony role, especially now that Snap is getting into the camera and wearable computer business that competes with Sony.

He became chairman of Snap's board late last year and has been a leading advisor to CEO Evan Spiegel, but he is not expected to have an executive role at the Los Angeles tech firm.