Sony Group (6758)

Key takeaways from meeting with SPE management

Overweight

6758.T, 6758 JP
Price (13 Oct 26):¥3,814
Price Target (Dec-27):¥5,800

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Japan Equity Research
Technology - Consumer Electronics/ Industrial Electronics/Precisions

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We attended a sell-side analyst meeting with Ravi Ahuja, Chairman & CEO of Sony Pictures Entertainment (SPE), on October 13. Mr. Ahuja made many positive comments about the future outlook of the next few years, leaving a positive overall impression. SPE's earnings rely heavily on franchise titles, but we also highlight medium-term growth potential from expanding its business scope, including recurring revenue network business (e.g., Crunchyroll), creation of synergies from collaboration within the Sony Group (e.g., music), and use of technology to create immersive experiences. Mr. Ahuja's main comments are as follows.

- **Industry environment:** Compared with the past few years, Mr. Ahuja has an upbeat industry outlook for the following reasons. (1) Box office revenue is strong across the industry and at SPE, and younger customers in particular are returning to movie theaters. (2) SPE has concluded new four-year labor contracts with main production unions (two unions held strikes a few years ago). (3) Streaming companies that stream movies and TV programs have turned profitable and competition is healthy. (4) The US federal government is discussing tax incentives for movie production, potentially creating tailwinds for the overall industry. (5) AI could have positive impacts in terms of both creative potential and operational efficiency.
- **SPE's mission and strategy:** SPE cites growth for large franchises, distribution of content not bound to a single platform, and expansion of storytelling to new immersive experiences as three guidelines for achieving its stated mission of building a modern studio. Its strategy for achieving this mission comprises three pillars. (1) The first is a clear differentiation strategy as an independent studio without a streaming platform. SPE is distributing core titles like Jeopardy! on 4–5 different platforms. It has also concluded a Pay-1 agreement with Netflix that will start in many markets in 2027. (2) The second pillar is developing strong growth engines such as Crunchyroll. Crunchyroll announced Crunchyroll Storyworks to promote anime adaptations of recent European and US films and live-action adaptations of anime. SPE also expects the network business in India to resume a growth trajectory and is expanding investment in immersive experiences. (3) The third pillar is strengthening SPE's role as a collaboration hub for the Sony Group. It has expanded films and dramas that use PlayStation IP to Uncharted, Twisted Metal, God of War, Ghost of Tsushima, The Last of Us, and Helldivers. For music collaboration as well, SPE plans to release a four-film cinematic event about The Beatles in 2028, using the catalog of Sony Music Entertainment.
- **AI impact:** AI is already having an impact by enhancing marketing insights to improve the cost-effectiveness of advertising spend. SPE is also working to raise back-office efficiency, including financial and legal affairs. To improve production efficiency and reduce costs, SPE is using pre-visualization

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technology to confirm final film images in advance and using AI in post-production processes to add revisions and creative elements. However, it could take some time to use AI in complicated on-site production processes. Meanwhile, SPE is starting to use AI in user-generated content and vertical short-form dramas, and could perhaps lead in testing AI in such new areas. Viewers also need to become more receptive to the use of AI, and fundamental changes could take 2–3 years.

- **Thoughts on profit impact of Spider-Man: Brand New Day:** When box-office revenues are higher than planned, a studio receives half or less of the overshoot, including in the Chinese market. The overshoot is then distributed to the director, cast, production team, and others. Regarding the streaming impact, because major hit titles like this can reach the payment limits set in Pay-1 and Pay-2 licensing agreements, distribution royalties do not necessarily increase in proportion to box-office revenues. In addition, because many people see major hit titles multiple times in theaters, subsequent home video sales can be lower. From a long-term perspective, this title contributes to the overall health of the Spider-Man franchise and increases visibility for the next title in 2029 or 2030. Interest has also risen for Spider-Man: Beyond the Spider-Verse, scheduled for release in June 2027, and long-term licensing value, including the Pay-2 window in two years, could also increase.
- **Sony Pictures Animation (SPA):** SPA is very strong. It has expectations for Spider-Man: Beyond the Spider-Verse in 2027, and believes it can reach favorable terms in negotiations with Netflix for a sequel to KPop Demon Hunters. SPA would like to create more anime works, but currently faces constraints on core talent who determine its creative direction. It could use AI to shorten production times in the future, but will allocate resources to high-priority titles like Spider-Verse rather than chasing volume.
- **Crunchyroll:** Crunchyroll covers 70–80% of the anime produced in Japan, providing an extremely strong foundation. It is also moving to create original titles, and is likely to launch full production activities from around 2028. Crunchyroll acquires new streaming subscribers via channel streaming on Amazon and YouTube and bundled sales with other companies, and subscribers outside the US are likely to grow. It provides electronic manga and other value as subscriber benefits. Crunchyroll's profitability is lower than Netflix, but as a specialized service, it maintains higher profitability than Disney+ and Peacock.
- **Immersive experiences:** Mr. Ahuja sees the immersive experiences provided at venues like the Sphere and Cosm as a natural and attractive extension of the Sony Group's business. The Sphere specializes in live music performances and special films, while Cosm excels in sports viewing and film experiences. SPE has made a strategic investment in Cosm, and as the venue has been so successful that reservations are now difficult to make, it sees potential for expanding to 20–40 locations in the future. SPE plans to invest in urban immersive experiences that leverage technology such as Cosm, rather than experiences similar to those at traditional theme parks like Disney and Universal. It is also gaining experience in creating repeatable experiences via acquired company Alamo Drafthouse Cinema.

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Investment Thesis, Valuation and Risks

Sony Group (6758) *(Overweight; Price Target: ¥5,800)*

Investment Thesis

In the entertainment space, we have a positive view of Sony Group's preeminent global platforms and IP in games, movies, music, and animation. Over the medium term, we expect the company to expand its game and animation platforms and generate synergies with entertainment IP.

Valuation

Our end-2027 price target of ¥5,800 is based on an SOTP model referencing EV/EBITDA multiples of comparable companies. We then apply a 10% conglomerate discount to arrive at our price target.

Sum-of-the-parts model based on FY3/28 J.P. Morgan estimates

¥ million, multiple, local currency, ¥, million shares

(JPYm unless stated)	EBITDA	OP	D&A	EV/EBITDA (x)	EV	EV per share (JPY)
Game & Network Services	968,566	700,000	268,566	18.0	17,434,188	2,983
Music	543,711	460,000	83,711	10.0	5,437,110	930
Pictures	210,627	160,000	50,627	13.3	2,804,286	480
Motion pictures, TV Productions	*98,700*	*75,000*	*23,700*	*8.0*	*789,600*	*135*
Media Networks	*111,927*	*85,000*	*26,927*	*18.0*	*2,014,686*	*345*
Entertainment, Technology & Services	273,000	170,000	103,000	8.0	2,184,000	374
Imaging & Sensing Solutions	749,000	480,000	269,000	11.0	8,239,000	1,410
Subtotal	2,744,904	1,970,000	774,904	13.2	36,098,584	6,176
All Other / Corporate	-88,900	-75,000	-13,900	13.2	-1,169,135	-200
Corporate value					34,929,449	5,976
Net cash					2,140,127	366
Market value ex Financial / major equity method investment					37,069,575	6,342

Major equity method investment	Share price (LC)	Owned shares (mn)	Owned value	
M3 (2413 JP)	1,632	230.46	375,992	64
Sony FG (8729 JP)	154.4	1,172.22	180,991	31
Total Market Value			37,626,558	6,438
Number of outstanding shares (K)			5,844,819	
Theoretical value (JPY)			6,438	
Discount			-10%	
Theoretical Price (JPY)			**5,800**	

Source: Bloomberg Finance L.P., J.P. Morgan estimates.
Note 1: Depreciation and amortization in the table excludes amortization for film costs, broadcasting rights and internally developed game content and master recordings included in content assets.
Note 2: M3 and Sony Financial Group's share prices are as of August 12.

Risks to Rating and Price Target

Upside Scenario to Target Price/Rating

- Faster-than-expected penetration for PlayStation 5
- Sharper-than-expected increase in image sensor profitability
- Hit first-party content in games and movies

Downside Scenario to Target Price/Rating

- Disruptive pricing by rivals in semiconductors and games
- Reversal of multi-camera smartphone trend
- Deterioration in semiconductor profitability accompanying sudden yen appreciation

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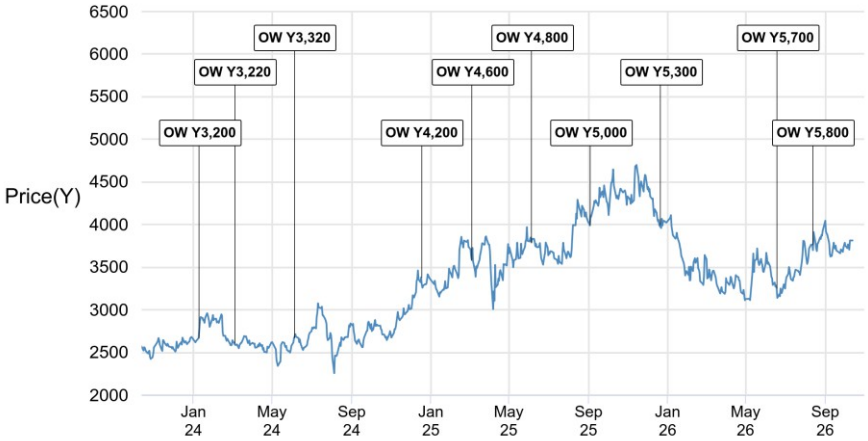
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Sony Group (6758) (6758.T, 6758 JP) Price Chart



Date	Rating	Price (Y)	Price Target (Y)
10-Jan-24	OW	2668	3,200
05-Mar-24	OW	2605	3,220
05-Jun-24	OW	2668	3,320
18-Dec-24	OW	3380	4,200
06-Mar-25	OW	3583	4,600
06-Jun-25	OW	3790	4,800
04-Sep-25	OW	3990	5,000
22-Dec-25	OW	3994	5,300
19-Jun-26	OW	3250	5,700
13-Aug-26	OW	3762	5,800

Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
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