

Cheap yen a boon and a risk for Japan companies

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In this Thursday, Feb. 7, 2013 photo, Sony signs hang from a store in Tokyo. As the yen weakens, famous Japanese exporters are getting a boost but the favorable exchange rate also carries risks by insulating some companies from pressure to overhaul their businesses. Sony Corp., which has floundered for several years as its mainstay TV business was battered by competition and falling prices, says it has striven to become "dollar neutral" - business speak for making its profits less dependent on the fluctuating exchange rate between the dollar and the yen. (AP Photo/Junji Kurokawa)

(AP)—As the yen weakens, famous Japanese exporters from Toyota to

Nintendo are getting a boost but the favorable exchange rate also carries risks by insulating some companies from pressure to overhaul their businesses.

Against the dollar, the [yen](#) is near a three-year low and looks set to weaken further as the Bank of Japan falls into line with the new Prime Minister Shinzo Abe's push to break Japan's domestic economy out of its deflationary slump with very loose monetary policy—creating more money. One U.S. dollar is now buying more than 94 yen compared with 77-80 yen for much of 2012.

It's a big shift from several years of punishing yen strength that added to the problems of Japanese companies, particularly those in consumer electronics who fell behind more innovative or nimble competitors such as Apple Inc. and [Samsung Electronics Co.](#)

Some manufacturers worked to minimize their vulnerability by moving production abroad and doing more business in dollars. That means the perk of "yen-yasu" or cheap yen is diluted for the companies that were most diligent at reshaping their business. Others that did not change or could not are set to get big rewards from the weak yen policies dubbed "Abenomics."

Yet analysts warn yen-yasu can make companies complacent and slow to change, which ultimately has its reckoning later on when the yen changes direction.

Some companies that benefited from a weak yen in the past made unwise investments, such as over-expanding with plants in Japan, or otherwise squandered the leeway of time they had gained through the weak yen to turn around their business, said Azusa Kato, economist at BNP Paribas in Tokyo.

"Abenomics sounds like a good story, but there is always a 'but' that follows," she said.

[Sony Corp.](#), which has floundered for several years as its mainstay TV business was battered by competition and falling prices, says it has striven to become "dollar neutral"—business speak for making its profits less dependent on the fluctuating exchange rate between the dollar and the yen.

It says it has done that by shifting more production overseas and denominating more of its expenses in dollars. But Makoto Morita, a strategist at Daiwa Securities Co., said other companies may opt to maintain production in Japan because they want to keep prized core technology in-house.

"The answer isn't all that simple," said Morita. "It depends, case by case, on the strategy of the company."

Sony President Kazuo Hirai is playing down the importance of the yen's recent decline.

"It's very short-term at this point. It's a bit too early to try to draw any conclusion," he told reporters last month. "It might stabilize, or it may actually go back to what it was before."

Even so, the maker of Bravia TVs and PlayStation 3 game machines anticipates a 50 billion yen (\$540 million) increase in sales for every one yen drop against the dollar. It says that won't boost profit because of its dollar neutral work but yen declines against the euro and other currencies would.

Sony is forecasting a return to profit after four years of losses for the fiscal year ending March. The turnaround is partly due to job cuts and

other restructuring. Last week, it said October-December quarter sales inched up nearly 7 percent to 1.95 trillion yen (\$21 billion) despite declining sales of gadgets such as flat-panel TVs and Blu-ray video recorders—but only because of the weak yen.

Other struggling electronics companies are also getting a boost but for some the cheap yen is more of a reprieve than an enduring solution. Panasonic Corp. reported last week it gained 3 billion yen (\$33 million) in additional operating profit from the weakening yen in the latest quarter even as it stuck to its projection for a 765 billion yen (\$9.6 billion) annual loss.

Sharp Corp., which forecasts a record 450 billion yen (\$5 billion) loss for its business year through March, has struggled to cut costs and reshape its business, partly because it has invested in expensive plants in Japan that make panels for which prices have fallen sharply overseas. The plants embody Sharp's prized technology, but they also make the company hostage to the yen's swings.

Nintendo Co. raised its profit forecast for the year through March 2013 to 14 billion yen (\$154 million) from 6 billion yen (\$66 million), largely because of the weak yen. That's despite having to lower the number of Wii U consoles it expects to sell by 1.5 million units to 4 million.

Its currency gains for the nine months to December totaled 22 billion yen (\$242 million), according to the maker of Pokemon and Super Mario games. But the weaker yen can't solve the fundamental challenge that Nintendo's business is facing: casual gamers shifting from specialized game machines to tablets and smartphones.

The declining yen is also playing out in the auto sector.

Toyota Motor Corp., the world's top automaker, gets a whopping 35

billion yen (\$380 million) added to its annual operating profit for each yen the dollar gains.

Among the Japanese automakers Toyota is viewed as more "sensitive," or exposed, to the gyrations of the foreign exchange rate, partly because Toyota, as a Japan Inc. leader, has repeatedly promised to help save jobs by keeping production of 3 million vehicles a year in Japan.

Toyota's Lexus luxury models, many of them sophisticated hybrid models, are among the vehicles routinely exported from Japan.

Toyota raised its fiscal year profit forecast this week to 860 billion yen (\$9.3 billion), triple what it eked out the previous year. Its comeback is based on a solid sales recovery in the key U.S. market as well as new markets in Asia. But when Toyota reports full year results later this year, the numbers are likely to highlight huge gains from the weak yen. Its forecasts had assumed the dollar at 81 yen compared with its current level above 94 yen.

Still, Toyota isn't celebrating.

Toyota insists it's instead trying to produce vehicles where they're sold, and boost the purchase of locally produced auto parts to better adapt to a fluctuating currency.

"It can get good, and then it can get bad," company spokesman Ryo Sakai said. "Our basic policy is to produce vehicles where the demand is."

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