

FY2020 EP&S Business Briefing Q&A (Summary)

Date: August 21, 2020 (Fri)

IMPORTANT: PLEASE READ THE FOLLOWING STATEMENT

For your reference, below please find an English summary of the question and answer session at the EP&S Business Briefing for the financial year ending March 31, 2021, which was conducted in Japanese.

This English summary, which is intended to replace the simultaneous translation of the question and answer session previously provided, is not intended to be a direct translation of the question and answer session. As a result, there may be some differences between this English summary and the simultaneous English interpretation provided at the question and answer session.

Questioner 1

Q1: Have you begun to see signs that the strengths and opportunities Sony has in content production are going to help its video production equipment and services contribute to earnings during the three years of your upcoming mid-range plan as we live with the COVID-19 or in a post-corona world? Has the COVID-19 crisis made earnings contributions from new business opportunities more likely?

A1: While it is difficult to predict what things will look like once COVID-19 is over, but for example, in broadcast content production, our Professional team has begun programming production utilizing our solutions from multiple locations. We have started doing business in live content production as well. By contrast, we have not yet had visibility on movie production and live concerts contributing to sales while we believe that they possess great potential. Going forward, we believe that rather than just one-off sales of hardware, remote content production and service-providing businesses will present us with more occasions to generate recurring revenue or provide full solutions.

Q2: In order to enhance the Medical business's wellness solutions, will you perhaps over the next three years ramp up your collaboration with Sony Life, which you have made a wholly-owned subsidiary, or with M3, in which you hold an equity stake? Or might you engage in collaborative efforts with third parties? Do you plan on expanding and strengthening the Medical business by investing more capital to grow the business or by engaging in alliances with other companies?

A2: We will not be able to go into any detail until we unveil our mid-range plan early in the upcoming fiscal year. Before we consider collaborations with third parties or our affiliates, we are discussing where the growth opportunities lie and where Sony Electronics should unleash its own strengths in the medical field. Whereas we have previously focused almost exclusively on surgical imaging, we

have started exploring the opportunities in the wellness field by leveraging our technologies and strengths outside of imaging. In terms of investing capital, we will consider how to invest EP&S segment cash based on our strategic needs.

Questioner 2

Q1: You just mentioned shifting to offer services, recurring revenue models, and solutions as opposed to one-off hardware sales. Could you even at a conceptual level give us more of an idea of the ways to generate that type of income? Do you plan to take on contracts to perform filming and editing, or are you envisioning providing service and maintenance for equipment? Or do you plan to offer network communications services? Please share any specific ideas you may have.

A1: So-net and NURO Hikari are typical examples of recurring revenue models in the network services space. As we work to redefine “*Anshin*,” we have decided that one of our broad mid-range directions will be to expand and strengthen these network communications businesses. In these days video contents are being uploaded from homes everywhere to networks for web conferencing, so the whole world needs fast and stable broadband networks not just for downlink connection but for uplink connection. We intend to strengthen our network service business as our core. There are also what we call our “managed services.” For example, Hawk-Eye and our other sports-related businesses provide services which are under contracts spanning several years and paid per game. It is Sony PCL Inc. that manages Hawk-Eye’s operation in Japan, and we have also created a virtual production lab at Sony PCL. We intend to leverage such subsidiaries which provide managed services. In the broadcasting space, we have invested in one overseas company, and we intend to continue to engage in trials and expand our investments in areas that show promise.

Q2: If the Medical business is going to be about recurring revenue models and services rather than hardware, what sort of sources will there be for those earnings? You said that you still need to identify your aptitudes, but is there anything you can share about where you might be able to leverage your strengths?

A2: The Medical business sells printers, and they still account for the largest portion of its sales, including the sale of printing paper and ink. We are exploring the possibility of applying such approach to the life sciences field where we might supply even the reagents for cellular diagnostics. While each of them is a small business, we want to gain new insights that we can translate into long-term growth.

Questioner 3

Q1: Since remote and virtual initiatives are likely to take a relatively long time, and I believe maintaining profit growth in your existing camera business will be the key, how do you think you will derive growth from your camera technology going forward, provided the situation that the camera market began to shrink after you had gained the top position in the industry?

A1: The market was already in gradual decline and COVID-19 caused an additional sharp slump in demand, but it is gradually picking back up of late. The market has shifted from single-lens reflex models to mirrorless models, and we see driving this growth as being part of our mission as the top brand. One pillar for us is the video market, where there has been sharp growth in online video driven by smartphones. This is where users immediately share the videos that they have shot by uploading them to networks rather than shooting them and then saving or editing them as one would do with a camcorder or a professional camera. In order to expand beyond professionals in this domain and address the needs of advanced amateurs and even general users, we released a camera called the ZV-1 for vloggers that has been selling extremely well. Pre-orders for our Alpha 7S III professional video camera have also exceeded our expectations. In addition, during the COVID-19 pandemic, we have received greater orders for cameras for applications such as web conferencing, remote learning, and online diagnoses. We try to step up our offering of dedicated cameras for such applications. In order to effectively leverage our existing cameras, we recently released our Imaging Edge Webcam app globally free of charge. This PC app allows users to use any of 35 of our camera models, including the Alpha and Cyber-shot, as web cameras for web conferencing as an alternative to the cameras built into their computers. We are not sure whether this initiative will immediately contribute to sales, but we see it as a new opportunity.

Q2: I would like to ask about the fusion of the B2C and B2B displays. My understanding is that the underlying technologies diverge more in the case of displays than in the case of cameras. For example, whereas displays for the consumer segment are based on plasma or LCD technologies and flat-panel technology, large-sized displays may require micro LEDs or high-brightness projectors. As such, I would think new technology and by extension new investment would be required. Should we assume that you will need a fair amount of preparation time in this space, or do you have some ideas that could lead to sustained upside in a shorter timeframe?

A2: It is possible to use essentially the same image processing for flat-panel displays and projectors, so I think we will benefit more quickly from integration efforts. We mentioned integrating our engineering functions for displays of 100 inches or more under a single management team. We are also thinking that we will consolidate our sales functions into a single platform. Since a single imaging engine can be applied to varieties of devices, going forward, we plan to devise a consolidated business plan regarding how to leverage our imaging engine and what sort of large-size displays to market via which sales channels, while pursuing our product development efforts in parallel. As for the timing of a return on the investments, we believe that we will surely see them result in earnings contributions during the three years of our next mid-range plan.

Questioner 4

Q1: How do you intend to move forward with CLED after the business is integrated? If you plan to use the technology for TVs, presumably that will necessitate investment in increased capacity. What

are your plans, or at least your current thinking, as far as business development is concerned?

A1: As we consolidate our management, we will build a portfolio of businesses containing products that extend vertically or horizontally, depending on the customer, and we will pay no mind to the boundaries between devices. We intend to develop CLED for the niche premium zone, and, in order to address less-premium parts of the market, we will consider options other than in-house production, thereby using third-party devices, with the intended application and size informing our development and design processes. We are not planning to invest in large-sized display devices by ourselves. I believe our strength lies in imaging engines and image processing, and therefore we will concentrate our efforts on strengthening both our B2C and B2B offerings.

Q2: Regarding sales channels, I believe online shopping will make up an increasingly large portion of consumption, particularly overseas. What kind of sales company footprint do you believe will be best suited to this environment? For example, in the US, Best Buy also operates an online store. What are your thoughts on selling directly to customers through your Sony stores?

A2: The percentage of sales we generated via e-commerce increased in March-May this year because physical store operations were suspended due to COVID-19. In China in particular, e-commerce was up to 60-70% at one point. However, as soon as real stores reopened, it fell back down. The e-commerce ratio is trending at 5-10% annual growth, rather than exhibiting a sharp upward trajectory. Therefore, we will remain mindful of this ratio in each geography, increasing our e-commerce staffing at our sales companies, shifting resources to maintain the right balance and curtailing overall fixed costs. In these ways, we plan to manage our sales company operations flexibly according to the region and product category. Sony stores are mainly located in Japan at present, but we are expanding direct-to-customer (DTC) operations overseas, too, with a focus on Asia, and we intend to go farther with this initiative going forward. We have defined getting closer to the consumer as one of our overarching directions, so we see the DTC channel as an extremely important customer touchpoint.

Questioner 5

Q1: Would you tell me your thoughts on operational costs and what we should expect given that you also have plans to invest? In the mobile business, in particular, what will be your plans after achieving breakeven this fiscal year?

A1: In the mobile business, we have been able to bring fixed costs down much quicker than scheduled, and this has enabled us to be profitable even amidst the COVID-19 crisis, so we are not planning to cut costs back any further. Instead, we now intend to generate steady growth—even if at a modest pace—and maintain a stable profit structure. Looking ahead, we want to create a business structure that is appropriate for the prevailing business conditions and levels of sales and marginal profit. With our new approach to the EP&S segment, we aim to foster new businesses that transcend traditional business boundaries. At the same time, however, we believe that by standardizing and integrating operations and systems that have thus far been optimized according to the business characteristics

of each individual entity, we can further reduce operating costs in certain areas, and by doing so, we would like to achieve even greater benefits for the segment as a whole.

Q2: How are you approaching the partnerships? For instance, in the case of solutions, will you make Sony technology available on an open platform so that various different companies can participate, or would you develop businesses with individual partners on a project-by-project basis? Even a rough idea of what you have in mind would be great.

A2: Over the past few years, we have engaged in several small- to mid-sized investments, including in the Medical business, with a focus on B2B, the professional domain. With B2B projects, we must invest in each individual solution, which presents challenges in terms of scale and leads to an investment efficiency that we do not find to be very good. It is extremely difficult to standardize technologies and solutions rooted in differing business formats. Our thinking is that when we select partners for collaboration, tie-ups, or investments going forward, they will need to possess technologies or customer bases in common with those of Sony Electronics or ones that enable cross-business initiatives. It will then be the key that we develop more discerning eyes in selecting investment or collaboration partners and that we clarify the selection processes. We are now in the midst of considering several potential investments.

Questioner 6

Q: What was the top message you hoped to convey by hosting today's briefing at this particular timing? You focused in particular on the integration of the Professional unit, and you will be setting out under the name of Sony Corporation next year, so I believe you also wanted to discuss your vision. Atsugi [the Professional business unit] has always had great things going for it but struggled to translate that into success. Will you be able to change that with this fold-in of the Atsugi operations? Can we assume that you will do what you need to do to make a clean start of it next year? Please share whatever message it is that you hoped to convey today.

A: Our main message today does not concern the integration of the Professional business. The Professional division has always been part and parcel of EP&S, and there will be no new integration EP&S needs to do at this time. On the other hand, we are aware that the earnings of Professional business face a challenge. What we wanted to convey most of all today was that in order to enable the integration of Sony Electronics and a new start next fiscal year as Sony Corporation, we will devise a solid vision, formulate a strategy in the form of a mid-range plan based on that vision, and develop our human resources so that we can entrust our future to a new generation. We will continue to tell this to all of our internal and external stakeholders as we strive to realize such plans.

Cautionary Statement:

Please be aware that, in the summary above, statements made with respect to Sony's current plans, estimates, strategies and beliefs and other statements that are not historical facts are forward-looking

statements about the future performance of Sony. Forward-looking statements include, but are not limited to, those statements using words such as “believe,” “expect,” “plans,” “strategy,” “prospects,” “forecast,” “estimate,” “project,” “anticipate,” “aim,” “intend,” “seek,” “may,” “might,” “could” or “should,” and words of similar meaning in connection with a discussion of future operations, financial performance, events or conditions. These statements are based on management’s assumptions, judgments and beliefs in light of the information currently available to it. Sony cautions investors that a number of important risks and uncertainties could cause actual results to differ materially from those discussed in the forward-looking statements, and, therefore, you should not place undue reliance on them. Investors also should not rely on any obligation of Sony to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Sony disclaims any such obligation.

The continued impact of COVID-19 could heighten the important risks and uncertainties noted above. For additional information as to risks and uncertainties, as well as other factors, that could cause actual results to differ from those discussed in the forward-looking statements, please refer to Sony’s most recent Form 20-F, which is on file with the U.S. Securities and Exchange Commission.