FY2019 Earnings Announcement

Analyst and Investor Briefing Q&A (Summary)

Date: May 13, 2020 (Wed)

IMPORTANT: PLEASE READ THE FOLLOWING STATEMENT

For your reference, below please find an English summary of the question and answer session at the analyst and investor briefing for the financial results for the fiscal year ended March 31, 2020, which was conducted in Japanese (except for questions asked in English, if any).

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: [EP&S segment] The quarter after the Lehman bankruptcy, you posted over 100 billion yen in restructuring costs. Will you be taking similar action starting in the 1st quarter of FY2020? Alternatively, will you wait until the coronavirus crisis has subsided? Additionally, could the EP&S segment fall into the red, and could the positioning of that segment change following the pandemic as a result of revisiting your business portfolio?

A1: First, the current situation is very different from the global financial crisis in that the headcount, fixed costs and other features of the EP&S segment have changed significantly. Nevertheless, demand has fallen further than we had initially expected, so we will be revisiting our marketing cost in accordance with the level of sales, cutting expenses with a focus on back-office functions, and implementing robust cost controls. Rather than waiting for the coronavirus pandemic to subside, we will be starting these efforts now and devoting our utmost to sustaining earnings.

Questioner 2

Q1: [G&NS segment] Some say that your marketing of the next-generation game console has been somewhat inferior to Microsoft's, including in terms of information on the software lineup, etc. Do you feel that your efforts ahead of the PS5 launch have met the mark to date? If so, what do you feel you are getting especially right? Also, what kind of key messaging can we expect from your advertising drive ahead of the year-end launch?

A1: Unfortunately, I would like to refrain from commenting on PS5 as we are taking a very strategic approach to this. Whether we are getting things right or not all comes down to the results, which should become apparent following the launch. All I can say is that we will continue to do our utmost.

Q2: [Pictures segment] Do you plan to post similar portfolio revision costs in the Media Networks business in FY2020 as in FY2019?
A2: We plan to continue to explore potential revisions to the Media Networks portfolio, but at present we have not resolved to undertake any major changes.

Questioner 3
Q1: [Consolidated] I believe you compiled business plan for FY2020 sales and operating income in February (2020). What did they look like by segment?
A1: Our assumptions have changed now, so we cannot describe what things would have looked like had there been no impact by COVID-19. However, what I can say is that we had compiled our business plan in contemplation of what we could do to go one step beyond our FY2019 earnings.

Q2: [Consolidated] In a post-corona world or one in which we have to live alongside it, what kind of structural changes do you anticipate in the business landscape for games, pictures, and music, and what kind of an impact will they have on the earnings of companies that are operating in those industries such as Sony? What is your strategy for responding to such changes?
A2: There are various theories on this, but I believe that at the very least, we will be spending more time in the home and less time outside of it and that more of what we do will hinge on networks and remote technologies. Sony is engaged in many businesses that revolve around networks and connecting remotely. PlayStation Network, for example, is a huge online community, so we may build upon that, and I think it has a scope to grow into something even bigger. Then there is the potential, using technologies such as 5G, to create visual content itself in the online world rather than in the physical world. There are also areas within the medical field where I believe we can put our real-time technologies to good use. These are the kinds of areas on which I believe we will need to focus going forward. Theatrical releases are extremely important for the picture business, but even if movie theatres open again once the impact of the coronavirus has calmed, cinema-goers may not rush back in the same numbers as before or it may take time. If this situation were to drag on, we would likely have to think about how we go about launching new releases, which would involve thorough discussions with the creators. I also think there is potential for us to use our online and real-time technologies in the field of live performances and events.

Questioner 4
Q1: [I&SS segment] Regarding supply chain inventories, some of your smartphone customers may experience sluggish sales of certain models. Depending on future developments, should we be prepared for write-downs of inventory on your balance sheet such as you have had in the past? Also, could you give us some indication of your thoughts, based on your negotiations with customers to date, regarding the impact on image sensor pricing and on trends such as larger die size and multi-lens

adoption?

A1: Inventory was tight at the end of last December, but it was approaching appropriate levels at the end of this March owing partly to the decline in sales prompted by the spread of the [corona] virus in the 4th Quarter. We expect we will be able to ship this inventory in FY2020 and do not expect to post any significant write-downs. At present, there are three main ways in which the coronavirus has impacted our business negotiations. First, there is the negative impact on sales volumes linked with the slowdown in the smartphone market. Second, because of higher inventory in the supply chain, even if we achieve higher sales volume in FY2020 versus FY2019, the rate of growth will probably be more modest in comparison with FY2019. Third, the current slowdown in the market may well encourage a shift from high-end smartphones to the mid-range and further to the low end, which may result in a less favorable product mix for image sensors. There was a sharp acceleration in the adoption of larger die sizes in FY2019, but that momentum may well slow. At the risk of being overly minute, I would also note that our 0.8-micron sensor has entered its second year of mass production, and we feel that prices could therefore soften somewhat.

Questioner 5

Q1: [I&SS segment] Could you please share your semiconductor inventory, capacity utilization, wafer input, and production capacity figures for FY2019 and for your forecast?

A1: As of the end of the 4th quarter of FY2019, image sensor diode manufacturing capacity and wafer input stood at 123,000 per month in terms of installed capacity. This is slightly below our previous expectation of 124,000 per month, but that owes to slight differences in process mix and not to delays in building capacity. We expect it to be at 133,000 per month by the end of the 1st quarter of FY2020. We will gradually increase our capacity over the three months. The simple average for wafer input over the three months of the 4th quarter of FY2019 was around 122,000 per month, which represented full utilization and was in line with our previous expectation. We expect an average of around 127,000 per month for the three months of the 1st quarter of FY2020. We expect to slightly adjust production for image sensors used in mobile devices and digital cameras. Looking a bit farther out, we have been saying that we intend to increase our diode manufacturing capacity in output terms to 138,000 by the end of FY2020, and that plan remains basically unchanged.

Q2: [Consolidated] Could you share your current cash position and how you intend to allocate it in the current environment?

A2: As of the end of FY2019, our cash and deposits on hand stood at 962.3 billion yen, with an unused commitment line of just over 570 billion yen. In addition, we have a 1-trillion-yen commercial paper facility and 230 billion yen in uncommitted bank loan facilities available to us that we have not used. With this degree of additional funding available to us, we see ourselves as amply capable of continuing our corporate activities even if the economic landscape were to deteriorate. In terms of how we intend to allocate our cash, there is no change in our intention as previously described, namely to identify the optimal usages for it, which could include strategic investments, M&A, and share buybacks. We at present have no plans to do anything proactive about our convertible bonds (130% callable unsecured convertible bonds with stock acquisition rights (6th series) which we issued).

Questioner 6

Q1: [Consolidated] Would it be possible for you to discuss your FY2020 operating income estimate in terms of what coronavirus impact and non-coronavirus impacts you expect in each of your five segments, also making reference to changes in fixed costs?

A1: We did not arrive at our FY2020 operating income estimate by looking at the coronavirus impact and non-coronavirus impacts on our five segments. To respond in those terms would be like discussing what we would have anticipated absent any impact from the coronavirus pandemic, so with apologies, I will refrain from answering. However, we hope you will be understanding given that we intend to share a proper forecast when we release our 1st quarter of FY2020 earnings.

Q2: [I&SS segment] Could you please tell us whether there have been any changes in general image sensor trends, namely whether larger die sizes are boosting average prices, increased adoption of multi-lens camera formats is leading to higher volumes, and ToF technology is going into wider use? Additionally, given sluggish consumer demand for smartphones, have there been any changes to your timeline for production capacity expansion?

A2: We basically do not expect to see any major changes in medium-term trends for image sensors. That said, it is a fact that smartphone demand is down at present due to impact from the coronavirus. We therefore believe that we must keep an eye on the impact of diminished demand and on any adverse ramifications from the product mix in FY2020. In terms of this resulting in any changes to our timeline for production capacity expansion, I would note that, as I mentioned in my speech, we have already decided to invest 80% of the investment we planned to make over the three years of our mid-range plan, but we have the option to postpone the spending of the remaining 20%. We therefore intend to make decisions as necessary in accordance with prevailing demand.

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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 the new coronavirus disease 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.