FY2020 Q3 Earnings Announcement
Analyst and Investor Briefing Q&A (Summary)

Date: February 3, 2021 (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 third quarter ended December 31, 2020, 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: [I&SS segment] With regard to image sensors, what is your current analysis of why demand is stronger than you had anticipated in October? For example, do you get the sense that there is a risk that customers are stockpiling more inventory than they actually need? Alternatively, were your peers that use foundries unable to secure additional capacity, or were you aggressive in lowering prices? I believe the reasons could lie in trends at customers or at peers, or they could involve factors at Sony itself. What is your analysis?
A1: The new smartphone models of one of our major customers are selling extremely well and are outperforming our previous forecast. In addition, we have resumed some shipments to a certain Chinese customer. This resulted in the reversal of some inventory write-downs. Our previous forecast had not assumed that shipments to the Chinese customer would resume. As such, our sales volume has grown. By contrast, there has been no major deviation from our average selling price assumption. In addition, revenue from image sensors for digital cameras has grown. The camera market is recovering more quickly than we had anticipated, and higher sales volume is contributing to revenue growth.

Q2: [G&NS segment] 87% of PS5 users are subscribing to PS Plus, which is very high. Is the figure high because people who were already PS Plus subscribers have been the first to buy PS5, or has the PS Plus Collection boosted the subscription rate by attracting people who had not previously subscribed? I recognize that it is still early days for the PS5, but what is your analysis of the subscription rate?
A2: Analysis is difficult since it is still quite early, but we do believe that the subscription rate of 87%
is very high. Our initial view is that our initiatives for expanding our customer base, one of which is the PS Plus Collection, are working, as you mentioned.

Questioner 2
Q1: [Consolidated] Please share your thoughts on FY2021 financial results. I believe that the upward revision you announced today is due in part to not incurring expenses partially because of the COVID-19 pandemic situation, but can we assume that the level of profit we saw in the third quarter or that we will likely see in the second half will prevail in FY2021 as well?
A1: We intend to provide a proper explanation of what we have in mind for FY2021 when we release our results in April. While we have seen an impact from one-off factors and the COVID-19 pandemic, when viewed from a long-range perspective, we believe that we have enhanced our management capabilities and that our individual businesses have grown stronger. While we believe there will be some ups and downs in annual profits, we think that our profit levels would rise over the medium term.

Q2: [Consolidated] As part of your drive to invest in entertainment, you have been investing aggressively in areas such as animation and music. Could you tell us what areas you want to strengthen further and what areas you think are lacking? In addition, what synergies do you expect the AWAL acquisition to have with Sony Music and The Orchard, and how do you expect them to contribute to revenue and operating margin growth in the Music segment over the medium term?
A2: Our focus remains intellectual property (“IP”), direct-to-consumer (“DTC”), and technology. IP is a key asset in our entertainment businesses. It is the starting point for everything else, so platforms and technologies that enable us to create, maintain and merchandise IP will be a target of our strategic investment. As our CEO Yoshida has said, engaging deeply with markets where “Communities of Interest” can be created is our vision and a major theme. I believe that we will not hold back on investments that help us do that. In terms of the AWAL acquisition, I would note that The Orchard’s core clients are independent labels while AWAL serves individual artists. In that sense, the two client universes complement one another. In addition, the platform gives us opportunities to identify and discover more talent around the world, so we think it will become a major asset.

Questioner 3
Q1: [Consolidated] Considering that your revised FY2020 forecast reflects greater momentum in your businesses than what you indicated to us three months ago by the weather symbols, how do you view the risk of a decline in profit in FY2021? For example, were FY2020 expenses not as high as expected in the game business because it was not possible to ship a very high number of hardware units? Or should we be more cautious than before about the momentum of the EP&S segment in FY2021 due to components becoming more difficult to be procured or due to higher costs? Could you share your thoughts on this?
A1: We declined to update each business momentum outlook we gave you last quarter by the weather symbols, but I will talk you through our current thinking on the outlook for each segment. Please bear in mind that some things may change depending on the external environment. In the G&NS segment, we view the current situation in which stay-at-home demand is increasing as an earnings opportunity and want to focus on further improving the appeal of our network services with a strategy centered on bolstering user engagement. The Music segment has also been buoyant, including extremely robust growth in streaming services. Advertising revenues are recovering after having slumped because of the COVID-19 pandemic, so we seek to generate stable growth in this business as well. We aim to discover and cultivate powerful content IP and use it to create value. In the Pictures segment, we expect to see the fallout from postponed theatrical releases start to emerge. At the same time, demand for good content has increased, and we expect this trend to continue. In addition, the advertising business is recovering. As such, we are experiencing a mix of positive and negative factors. In the EP&S segment, we are increasing the efficiency of operations as well as seeking out new business opportunities to enable stable profit generation. In FY2021 the I&SS segment will focus on regaining market share through the expansion and diversification of its customer base. We are working to get this business back on a growth track by rolling out high-value-added products farther down the line. The Financial Services segment has substantial exposure to market forces, but we have a robust business base, which we intend to leverage to achieve stable growth.

Q2: [Consolidated] What is the background to your decision to adopt IFRS at this time, and what will the impact be?

A2: An increasing number of companies around the world are adopting IFRS, and we have been considering our options from the perspective of selecting the most suitable accounting standard for Sony over the medium to long term. We decided that FY2021 would be the most appropriate time, considering the timing of the introduction of a new IFRS standard that affects the insurance business and other factors. We expect the IFRS adoption first to have the effect of increasing equity on the balance sheet in the Financial Services segment due to the different method of valuing financial instruments, such as bonds and equity. The change in financial instrument valuation methods will also have an impact on that segment’s income statement. In other segments, we do not expect any major impacts on either the balance sheet or income statement, but we assume some impact from changes in the treatment of equity valuation gains/losses at the non-operating level. We have uploaded supplementary materials on the transition to IFRS to our IR website for your additional reference.

Questioner 4

Q1: [Consolidated] The upward revision to your operating income forecast is substantial, and your full-year operating profit margin forecast has also risen from 8% to 11%. I see this as a sign of greater efficiency, but has there been any consistent change across the company that has enabled this higher
margin? Also, what are your thoughts on where margins are headed? For example, I believe the Music segment’s operating profit margin of 20% puts you on par with your top global peers. By contrast, your 13% margin for games would seem to leave you room to grow.

A1: My impression is that we are paying greater attention to margins across all of our business segments. Based on my past experiences and observations, I believe that low-margin businesses are not sustainable, so if each business is paying more attention to margins, I think that is great. In terms of where margins are headed, those of our global peers do always serve as benchmarks, as you noted. If we are not faring as well as they are, I believe that means we will ultimately be bested by the competition and that we need to clearly identify why it is that their margins are higher. In the case of games, I would note the difference in business models. The risk-return profile of a first-party model is completely different from that of a third-party model, and differences in business scale also have implications. I believe that a variety of elements contribute to the formulation of an operating profit margin and that having a deep understanding of the businesses of our global peers will help us get closer to where they are in the future.

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.