FY2021 Earnings Announcement
Analyst and Investor Briefing Q&A (Summary)

Date: May 10, 2022 (Tue)

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, 2022, 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: [G&NS segment] Will most of the expenses related to the Bungie acquisition be recorded in FY2022 given that the transaction is expected to close during this fiscal year? What do you expect in terms of further expenses related to the Bungie acquisition in FY2023 and beyond? Do you expect your expenses for software development to be particularly high in FY2022, or do you intend to continue increasing them in FY2023 and thereafter?

A1: We have incorporated the approximately 44-billion-yen figure of expenses from acquisitions other than Bungie into our operating income forecast for G&NS segment for FY2022, but the expenses associated with Bungie acquisition make up a large portion. We assume the Bungie acquisition will close in the third quarter of FY2022, and we expect such expenses to be around 50% higher in FY2023 compared to FY2022 since we will be recognizing them over the course of the full year. Given current market trends and our strategy, we consider software development expenses a necessary investment as spending a solid amount on development generates upside in the future, which in turn leads to sustainable growth in our business. In addition, we expect sales to grow as a result, so we do not believe the increase in costs will translate directly into a reduction in FY2023 earnings.

Q2: [I&SS segment] Demand for high-end smartphones is weak in China. How has this situation affected your current inventory levels and future input plans for CMOS image sensors?

A2: Our understanding is that inventory levels are high in the Chinese market, including in the distribution channel, but we are working on the assumption that the demand will normalize in the second half of FY2022. Much of our current stock is general-purpose, and, as such, can be used by multiple customers. We therefore want to maintain a level of stock that allows us to respond to fluctuations in demand, and we will take a balanced approach in formulating our plans, including by gauging the best timing to deploy capital expenditures.

Questioner 2

Q1: [I&SS segment] In terms of the sales forecast, how much of the rise in average prices do you expect to come from an increased weighting of higher value-added products versus inflation in your procurement costs for logic chips? To what extent do you assume that you will be passing along higher costs to customers?

A1: The rise in our average prices will be the result of larger die sizes and an increased weighting of higher value-added products combined with the inflation in logic chip prices. We basically expect the larger die sizes and increased value-add to be the greater contributor. Due to the implications for individual transactions, I cannot speak in detail to how much we will be able to pass along higher logic chip procurement costs, but I will say that we are basically asking our customers to accept cost increases that allow us to achieve fair margins. The market and our customers have gained a general appreciation of the fact that logic chips are in short supply, so I think that you can assume that it will be part of the conversation.

Q2: [ET&S/I&SS segments] I believe that inventory levels are significantly high at the ET&S and I&SS segments at the end of FY2021. Could you tell me why that is? On what sort of assumptions have you premised your forecasts as you look out to September?

A2: In the ET&S segment, we have acquired parts and materials that have been in short supply, and extremely long logistics lead times are also impacting our inventory levels. Our inventory was high at the end of FY2021, but that is the result of intentional stockpiling on our part, so it is not especially concerning to us at present. In the I&SS segment, we are operating at full utilization in order to make the best use of our capacity so that we will be able to address demand in FY2022. In addition, we have intentionally stockpiled inventory so that we will be able to hold off on capital expenditures and bring new capacity online until later dates. We do not envision our inventory levels changing substantially as we head toward September, nor do we think that they will change very much as we head toward the end of FY2022. We intend to manage ourselves so that we will have adequate inventories to address demand in FY2023.

Questioner 3

Q1: [G&NS segment] What is the reason for the decline in PlayStation Plus subscribers versus the third quarter of FY2021, and what are you expecting going forward? Given the upcoming launch of the new PlayStation Plus service in June, what are your assumptions for average revenue per user (ARPU), for example?

A1: As a general trend, despite the year-on-year decline in our key metric of total hours played, there was around an 8% increase when compared with January-February 2020, which excludes March 2020, when stay-at-home demand shot up rapidly. In addition, PlayStation Plus subscriber numbers are around 5.9 million higher than the end of March 2020. Although stay-at-home demand was a temporary phenomenon, even after the trend subsided, we are still seeing consistently strong engagement levels, so we are not overly concerned from a medium-term perspective. We see it as positive that engagement levels remain high. The new PlayStation Plus services will be launched in stages starting in June, and we expect a steady rise in subscribers subsequently.

Q2: [I&SS segment] Could you update us on wafer input and capacity figures? Also, based on the FY2022 forecast of approximately 370 billion yen and the Fourth Mid-Range Plan cumulative capital expenditure figure of approximately 900 billion yen, I calculate a decline of approximately 100 billion yen in capital expenditure in FY2023 from what should be a peak in FY2022. Am I correct in assuming investment in the TSMC semiconductor foundry service company is not included in this figure?

A2: Monthly photodiode production capacity stood at roughly 122,000 wafers at the end of the fourth quarter FY2021. This decrease is due to changes in the model mix, and there have been temporary stoppages due to facility maintenance. We expect a capacity of 130,000 wafers for the first quarter of FY2022. As for wafer inputs, the simple monthly average for the three months of the fourth quarter of FY2021 was around 121,000 wafers. We operated at full capacity allowing for the impact of the Oita earthquake in January and the Miyagi earthquake in March. We estimate a simple monthly average of around 126,000 wafers for the three months of the first quarter of FY2022, when we expect to be operating at full utilization. Capital expenditure will decline slightly in FY2023 but will remain at a high level. Investment in the TSMC foundry service company falls under a different category.

Questioner 4

Q1: [G&NS segment] My first question concerns the PlayStation Plus refresh. You have peers whose strategy is to offer new content in their services. Would that possibly be an option for you in the future, as you step up your content offering?

A1: We believe that making substantial investments in development to provide high-quality game titles translates into greater platform differentiation, a stronger brand, and higher long-term user engagement. If we were to make major new first-party titles available on our subscription service from day one, we would have to reduce the investment required to provide that value, which would make us concerned about potential deterioration in the quality of our first-party titles. At present, our intention is to make solid investments in our development efforts to create and release titles worthy of AAA status. Meanwhile, we will be offering popular first-party titles such as *Spider-Man: Miles Morales* and *Returnal* on the new PlayStation Plus, so we intend to strike a good balance as we develop our business.

Q2: [I&SS segment] Your FY2022 sales forecast is premised not only on growth in image sensors but also significant growth in other products as well. Is this because you expect new businesses to get off the ground, for example?

A2: While we expect sales of lasers and other products to grow, in terms of scale, we think the majority of sales growth forecast will come from image sensors for mobile applications.

Russia 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.