FY2022 Q2 Earnings Announcement
Analyst and Investor Briefing Q&A (Summary)

Date: November 1, 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 second quarter ended September 30, 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: [ET&S segment] You left your full-year operating income forecast unchanged. How does your forecast reflect your appraisal of various factors such as foreign exchange impacts and strong sales of high-margin cameras?

A1: Digital camera sales were very strong in the first half, but we believe a substantial portion of this was due to pent-up demand from when supplies were short in FY2021. In addition to this, we have taken a conservative approach to our forecast given concerns that the economy will deteriorate in the second half since we feel that market trends are already slowing somewhat.
TVs have been hit by the oversupply in panels and decline in average selling prices resulting from this, but we worked hard to secure as much profit as possible in the first half. In the second half, we plan to cut back on production and sales rather than be dragged into price competition and to prepare for choppy waters ahead in FY2023 and beyond, mainly by reducing fixed costs.

Q2: [G&NS segment] Your MAU has been declining, but are you expecting to bring it back up with the release of a major first-party title in the third quarter?

A2: Our PS Plus subscriber numbers, MAU, and total play time are all down compared to the same quarter of the previous year ("year on year"). In part because people had more opportunities to go outside in the second quarter, we have yet to break free of this slowdown. There has been a substantial decline in engagement with PS4 third-party titles, especially previous catalog titles. By contrast, PS5 engagement is extremely high, so we do anticipate a recovery in the third quarter. We expect either a halt in the slowdown or an upturn in the third quarter not only because of the release of the major first-party title, but also because of seasonality.

Questioner 2

Q1: [G&NS segment] You said that catalog third-party titles were weak, but are new third-party titles performing to your expectations?

A1: We regret that our May forecast for third-party software proved to have been overly bullish, largely because consumers had spent more money on things other than games with more opportunities to go outside in the second quarter than we had anticipated. However, major new third-party titles of the AAA variety have performed to our expectations and have not been weak. *Call of Duty: Modern Warfare II* is also off to a good start, and we are looking forward to what it will do in the third quarter.

Q2: [G&NS segment] Your PS Plus subscriber numbers are down significantly. What initiatives to get those back up are you hopeful about?

A2: The decline is due in part to a lack of aggressiveness in our promotional efforts given that we relaunched the service in the second quarter and that momentum in general was weak. The install base of the PS5 will be expanding, and good software titles will be coming out, so we want to make a comeback by additionally undertaking solid promotional efforts.

Questioner 3

Q1: [Music segment] The Music segment is doing extremely well, but is there anything you perceive as a risk?

A1: While not a major concern, if there were to be a potential source of change, it would be our response to new platforms like TikTok. Those represent additional exposure opportunities for music, so they are both a risk and an opportunity. History plainly teaches that the music industry is one where new platforms are apt to rise and be prone to technological disruption of the market. As such, we believe it important to stay on top of the latest trends and respond accordingly.

Q2: [I&SS segment] Do you think it possible that the I&SS segment's operating income margin will exceed 20% in FY2023 and beyond?

A2: In the short term we will be increasing our production capacity so that we can add to our sales and market share. We believe that we need to properly see that through. We also believe that we need to invest in research and development because coming out on top in the existing market is more important from a competitive perspective than exercising needless restraint over research and development expenses, in addition to research and development of automotive applications and solutions. We want to run the business with our eyes on the mid- to long-term, working to properly strike a balance between growth and profits. Ultimately, we do want to target a margin of 20% or more, but when that will be achieved depends on how conditions trend.

Questioner 4

Q1: [I&SS segment] Could you update us on the dynamic between inventory and capital expenditure? Foreign exchange rates may have an impact on this, but have you made any changes to your capital expenditure plans for image sensors?

A1: We have increased our capital expenditure budget to 355 billion yen from our July forecast of 350 billion yen, and such increased amount will mainly focus on productivity improvements. We will address the rise in demand for image sensors predominantly for mobile applications and invest in shifting to high-value-added products. This will include investment in expanding the Nagasaki Fab5. Inventory has increased around 33% (comparison between the end of the second quarter of FY2021 and the end of the second quarter of FY2022), while we expect sales to grow roughly 39% from the second half FY2021 to the second half FY2022. As such, inventory is growing more or less in line with sales and according to our plan. In FY2022, we plan to maintain production at full capacity and build up inventory in preparation for the next fiscal year. Our initial forecast is unchanged. We therefore expect our inventory to slightly increase again as we head toward the fiscal year end.

Q2: [Consolidated] How are your strategic investments progressing? Regarding Bungie, I believe you could decide to write down your investment early following changes in financial markets, but are changes in the macro environment impacting your strategic investments?

A2: As of the earnings announcement for the second quarter of FY2022, we have either executed or made decisions on roughly 1.23 trillion yen of investment, including share buybacks. This is close to where we expected to be under our initial plan. On write downs, we cannot make arbitrary decisions but will decide based on changes in the environment. Bungie has not been majorly affected by the macro environment at present, and we have no particular concerns at this time regarding any of the investments we have executed.

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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 and the developments relating to the situation in Ukraine and 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.