FY2023 Q1 Earnings Announcement Q&A (Summary)

Date: August 9, 2023 (Wed)

IMPORTANT: PLEASE READ THE FOLLOWING STATEMENT

For your reference, below please find an English summary of the question and answer session at the earnings announcement for the first quarter ended June 30, 2023, 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 previously provided at the question and answer session.

Questioner 1

Q: [G&NS segment] Why have you changed how you disclose your PS Plus user numbers in your Supplemental Information starting from this quarter?

A: To be precise, we have discontinued disclosure of the PS Plus subscriber number and stared to disclose sales of "Other Software" (as a breakdown of software sales).
Since we renewed PS Plus service in June 2022, we have focused not only on adding subscribers but also on increasing user engagement by encouraging subscribers to take advantage of tiers with higher added-value such as extra or premium and on raising our ARPU (Average Revenue Per User). As such, we felt it more appropriate that you will be able to track the growth of PS Plus based on our Network Services sales and decided to discontinue disclosure of the PS Plus subscriber number. At the same time, because of our focus on strengthening our first-party software business, including through multi-platform offerings, we have disclosed the new sales category of "Other Software." This represents sales of first-party software on non-PS platforms, which we had previously included under "Others."

Questioner 2

Q: [G&NS segment] You upwardly revised your sales forecast by 270 billion yen, but you only upwardly revised your adjusted OIBDA forecast by 10 billion yen. Why do you expect such a limited profit contribution?

A: We increased our sales forecasts for the second quarter onward in light of the strength of third-party title sales in the first quarter. The depreciation of the yen also added to our sales. While growth in third-party title sales is expected to have an impact on our operating income, we have also reflected the expected decrease in operating income resulting from the postponed launches of some of our first-party titles. We have not made major changes to our assumptions regarding promotions, but in terms of sales channel mix, we do assume that we will see increased sales via retail channels other than our own direct-sales site, so we reflected the expected increase in cost arising from this. As a whole, while we are estimating our costs somewhat conservatively, our forecast reflects our will to undertake the initiatives necessary to achieve our target of selling 25 million units.

Q: [I&SS segment] What has changed since the April forecast that led you to downwardly revise your forecast by 20 billion yen?

A: The revision reflects a slight increase in our manufacturing costs versus what we had planned as of April. We think that the updated outlook will prove sufficient. We believe that China's smartphone market will be slower to recover than we had anticipated in April. These two points are the reasons for the downward revision of our forecast.

Questioner 3

Q: [I&SS segment] At your previous earnings briefing in April, you said that you expected your strategic inventories to be higher at the end of FY2023 than at the end of FY2022. Has there been any change in your inventory strategy given that market conditions are poorer now than what you had assumed in April? Do you see any call to be bullish on FY2024?

A: Our inventories were up at the end of the first quarter, primarily reflecting the growth in our sales. I would also note that our inventories are slightly high due to sales having underperformed our expectations in the first quarter. We expect our strategic logic and sensor inventories to decline as we head toward the end of the fiscal year, but since our sales are growing, we maintain our view that the value of our inventories will be greater as of the end of FY2023 than the end of FY2022. However, what we are talking about is inventories growth in line with our sales growth and not about holding excessive inventories. We will be duly watchful of how our inventories trend, but our intention is to maintain a certain level of inventory as we work to make the most efficient use of our production capacity over the medium term and execute our investments with optimal timing. In terms of grounds for being bullish on FY2024, we do not believe we are misreading how much demand there is for image sensors. Instead, we believe that our profitability in FY2023 is being impacted by factors such as manufacturing costs and a decline in average sales prices stemming from the excessive inventories held by competitors in China. We do not think that the total volume of the business in FY2024 will shrink massively.

Q: [Pictures segment] What is the expected impact on your financials in connection with the strikes by SAG-AFTRA and WGA?

A: In terms of this fiscal year, we have incorporated the expected impact in the current forecast. We expect that the impact on our profits for this fiscal year is relatively immaterial considering that the business turnover is long in the pictures business.

Questioner 4

Q: [G&NS segment] Why did operating income decline by around six billion yen in the first quarter compared to the same quarter of the previous fiscal year ("year-on-year") when the impact of foreign exchange rates is excluded? Was there a deterioration in software profitability?

A: Basically, the profitability did not change a great deal. Factors driving the first-quarter operating income decline primarily include acquisition-related expenses and costs related to the full-year consolidation of Bungie. We have not disclosed a quarterly breakdown, but we expect acquisition-related expenses of roughly 68 billion yen over the full year.

Q: [I&SS segment] You downwardly revised your full-year operating income forecast by 20 billion yen. Could you give a breakdown of the negative factors, including the approximate size of each, after stripping out the positive impact of foreign exchange rates?

A: The negative factors are the impact of lower sales and higher costs associated with putting new products into mass production. Foreign exchange rates were a positive factor. We have not disclosed further breakdown, but the forecast revision includes the impact of lower image sensor sales not only for mobile products but also for industrial and social infrastructure.

Questioner 5

Q: [I&SS segment] How do you expect operating income to be distributed over the remaining quarters?

A: Second-quarter demand tends to be weak due to seasonality, so we expect a heftier weighting in the second half of the fiscal year.

Questioner 6

Q: [G&NS segment] Could you give an update on the PS5 sales situation by region, including the response to recent promotions? I understand the FY2023 sales target of 25 million units remains in place. If foreign exchange rates remain at the current level, or the yen depreciates further, will you prioritize the size of your installed base over short-term profitability, or will you consider revising your plans out of consideration of the PS5's lifetime value?

A: The PS5 is selling very well in Asia including Japan. The response to our recent promotions in North America has been very good, and Europe as a whole has also responded well, although UK sales have been slightly weak. Growth in the installed base is key for us, and we plan to work hard to achieve that, but we will not go to the extreme and focus our efforts purely on that objective. We will work on striking a balance between the strength of demand, maintaining a certain level of profitability, and expanding the installed base.

Questioner 7

Q: [Consolidated] Could you explain the factors behind the decision to maintain your full-year forecast for consolidated operating cash flow excluding the Financial Services segment?

A: In the first quarter, operating cash flow was negative 80.7 billion yen, a year-on-year increase of nearly 90 billion yen. First-quarter operating cash flow was negative due to an increase in PS5 inventory and I&SS building inventory in the first and second quarters, which all have to do with working capital, so we expect cash flow to recover as we achieve solid sell-in and sell-through of the PS5 in the third quarter. This is why we left our full-year forecast of 1.25 trillion yen unchanged.

The continued impact of 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.