FY2023.Q2 Earnings Announcement
Q&A (Summary)

Date: November 9, 2023 (Thu)

IMPORTANT: PLEASE READ THE FOLLOWING STATEMENT

For your reference, below please find an English summary of the question and answer session for the financial results for the second quarter ended September 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 provided at the question and answer session.

Questioner 1

Q: [G&NS segment] Could you elaborate on why your hardware losses widened?

A: In the same quarter of the previous fiscal year, we recognized one-off foreign exchange gains denominated in yen, so it is on the basis of that comparison that the loss in Q2 FY2023 was wider. More precisely, we faced an extraordinary situation in that the yen depreciated rapidly during the same quarter of the previous fiscal year just as we were facing long lead times between component procurement and completed production.

Q: [I&SS segment] At the Business Segment Meeting in May 2023, you said that you plan to substantially increase your market share of image sensors for automotive by FY2025. However, that does not seem to be going well at present, and it does not appear that you have progressed in the ADAS (Advanced Driving Assistant System) area to the degree that you had expected. Do you have any intention of changing your target?

A: The automotive market itself has largely returned to normal, and we have made no change to our mid- to long-term growth target. Our current situation derives from the circumstances of particular OEMs and a change in their market share, which we do not believe warrant changing our mid- to long-term target.

Questioner 2

Q: [G&NS segment] There has been talk in the media and elsewhere about layoffs at your game subsidiary. Could you share any specific initiatives you might be undertaking, including in terms of changing your approach to cost control? In addition, you said that you intend to release more than a dozen live-service game titles by FY2025 at the Business Segment Meeting in May 2022. Has there been any change in the target?

A: Since we acquired Bungie in July 2022, Sony Interactive Entertainment (SIE) has continued to work with Bungie's management on a variety of initiatives, including strengthening the *Destiny* franchise, developing new game titles, supporting the development of live-service games at the studios under SIE, and achieving greater efficiencies designed to enhance competitiveness as a studio. In that context, for the purpose of efficiency of Bungie, we decided to layoffs approximately 100 employees, primarily in some of Bungie's back-office functions. Our FY2023 forecasts already reflect the expected impact of such lay-off on our financial results. We have also laid off some employees at PlayStation Studios, primarily in back-office functions, as the result of a routine organizational review.

Regarding live-service game titles, an ongoing review has indicated that some of the titles do not meet the expectations of gamers at present. We have to release high-quality titles to ensure that gamers love and play them for as long as possible. To that end, our plan is now to release six of the 12 titles by FY2025, with the lineup to include both live-service games and multiplayer titles. We continue to carefully consider when to release the remaining six titles. We remain intent on expanding our presence in live-service games over the mid- to long-term, but rather than fixating on the number of titles that we plan to release, we believe that our priority at present should be on the quality of those game titles.

Questioner 3

Q: [G&NS segment] What positive and negative factors do you expect to have impact on financial results for FY2024?

A: We do not expect the full-year impact of the PS Plus price hike to benefit earnings until FY2025 given the price hike is only for 12-month plan, to which roughly 60% of users subscribe. We believe FY2023 will be the peak in costs related to acquisitions including Bungie. We assume these costs will decline around 20% in U.S. dollars in FY2024 compared with this fiscal year. For hardware, we think this fiscal year will be the peak in sell-in volumes, so we expect lower sales promotion spending and logistics costs to drive profits in FY2024 too. At the same time, we plan to continue to make additional investments in content, which is likely to offset some of the profit growth. This is our current thinking.

Q: [Pictures segment] The strikes appear to be reaching an end now, will sales and operating income growth be achievable versus this fiscal year?

A: We are still assessing the specifics related to the outcomes of the strikes, but I think we are likely to achieve our current FY2023 forecasts disclosed today. The question of whether sales and operating income will grow in FY2024 in comparison with this fiscal year is not so straightforward. More [windowing of] [closely-timed]theatrical releases in FY2024 following the conclusion of the strikes would require upfront marketing spending. It is difficult to estimate next fiscal year's earnings at this point, but the end of the strikes is positive for the mid-term. We want to make sure the business grows.

Questioner 4

Q: [G&NS segment] You left your annual target for PS5 hardware unit sales unchanged, but the target seems ambitious given that you were only just over 30% of the way there as of the end of the second quarter. What leads you to believe that you will be able to reach your target in the second half of the fiscal year? In addition, when discussing your PS5 target, you mentioned trying to strike a balance between sales volumes and profitability. Do you have a specific level of profitability in mind? How much do you expect in the way of additional sales costs?

A: 25 million units is a high target and not within easy reach. However, it is the November-December selling season that is the most critical, and we have timed the release of our new model and the launch of *Marvel's Spider-Man 2* to coincide with that. We therefore intend to do our best to reach that 25-million target. That said, we will monitor how the situation develops during the selling season and strike a good balance between volumes and profitability rather than being overly focused on simply expanding our install base so that we can achieve our operating income forecast. We will not engage in any promotions or discount sales that would position us to sharply undershoot the operating income forecast.

Q: [I&SS segment] What is the current status of and outlook for your yield issue? You said that it has pushed down the segment's operating income forecast for the current fiscal year by approximately 15%. Is it fair to say that means by around 35 billion yen?

A: I will refrain from speaking to the technical aspects of the matter as our technology is the source of our competitiveness. What I can say is that generally, when you manufacture a new semiconductor product, it takes some time between the first wafer inputs and when you achieve stable yields. You start with low yields and eventually reach your target through iterative improvements. However, it has taken quite a bit longer than what we had initially anticipated. This is because we are taking on several new technologies and have encountered multiple issues that have impeded our progress. Also, at the root of our recent yield struggle has been the fact that getting a full picture of how much we were improving along the continuum from wafer input to completion has been challenging. This is because the turnaround time for our semiconductors is relatively long. As such, we have taken a bottom-up approach and are working to set each individual issue right. The figure you stated for the impact on operating income is correct.

Questioner 5

Q: [G&NS segment] What do you have in mind for the top management of the G&NS business over the mid- to long-term?
A: I do not intend to serve as interim CEO, which I will be starting from April 1, 2024, for any longer than a year at most. During that time, my most critical mission is to successfully fill the role of CEO with a successor and to ensure a smooth transition. The G&NS business is an extremely important business to us strategically, so I intend to respect the process for selecting a CEO who can meet the expectations of not only our employees but also our various stakeholders, and to undertake the smoothest transition possible at an early date.

Q: [I&SS segment] What are you thinking in terms of the balance between investment and depreciation in FY2024?

A: We are continuing to invest, so our depreciation will increase again next fiscal year. This is because wafer demand is expected to grow as the transition to larger die-sized sensors gains further traction in FY2024. However, we do not intend to make any investment decisions for next fiscal year or thereafter until we have a solid handle on how well market conditions are recovering. We plan to unveil our next mid-range plan in FY2024, and I believe that we will be able to give you some idea of what scale of investment we envision for the ensuing three years at that time.

Questioner 6

Q: [G&NS segment] What factors impacted your second-quarter operating income on a year-on-year basis when impact of foreign exchange rates is excluded?

A: I will list the factors that positively affected our operating income in descending order of impact, starting with the impact of the growth in software sales (first-party titles were a bit weak, but third-party titles were strong, netting out to a positive impact), the positive impact of foreign exchange rates, and the impact of network services. The negative factors were higher costs associated with the impact of increased hardware (PS5) sell-in and the higher costs including SGA spending associated with the increased PS5 sales.

Questioner 7

Q: [Consolidated] You revised your forecast for the consolidated operating cash flow excluding the Financial Services segment to 1 trillion160 billion yen, but what level of inventory do you assume for this fiscal-year end? Should we assume you will be able to generate operating cash flows above the level of operating income from FY2024 onwards as working capital is reduced? Could you answer that from the perspectives of the G&NS and I&SS segments in particular?

A: We downwardly revised our forecast for the consolidated operating cash flow excluding the Financial Services segment due to the effects of foreign exchange rates and the impact of changes in receivables and payables within working capital. This fiscal year, we have raised inventory levels in our PS5 and semiconductor businesses in anticipation of growth in sales from the second quarter into the third quarter. We expect fiscal-year-end inventory in the G&NS segment to be greatly reduced by growth in PS5 sell-in volumes. In contrast, we expect inventory levels in the I&SS segment to increase in step with strong growth in sales. Regarding FY2024 forecasts, we are currently in the process of assessing the content of our mid-range plan, which is scheduled to be announced during the next fiscal year, but we think the level of working capital is expected to return to its previous level, and that should have a positive impact on cash flow.

The continued impact of developments relating to the situations in Ukraine and Russia and in Israel and Palestine 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.