

## **FY2020 Corporate Strategy Meeting**

### **Analyst and Investor Briefing Q&A (Summary)**

Date: May 19, 2020 (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 Corporate Strategy Meeting for the fiscal year ending March 31, 2021, which was conducted in Japanese (except for questions asked in English, if any).

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.

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Questioner 1

Q1: What kind of changes are you hoping to promote in Sony's electronics business by launching the group headquarters and transferring the Sony Corporation name to the electronics business?

A1: A moment ago, I discussed taking remote technologies to new heights. I believe that what our electronics business has traditionally striven for is delivering reality and real-time, but in order to create new value going forward, we will have to take on new challenges, such as finding ways to deliver live performances remotely. In addition, consumer purchasing activity is rapidly shifting to the online world. The coronavirus crisis has likely hastened this shift to some extent, but I see the shift as a megatrend in itself. I want to enhance our capacity to support consumers as they increasingly make remote purchases, and as I mentioned, I am hoping to hold a briefing on this topic after we have announced our 1<sup>st</sup> Quarter results.

Q2: What kind of management strategy does raising your ownership of the Financial Services business from 65% to 100% allow you to pursue? The earnings volatility evident in 4<sup>th</sup> Quarter FY2019 results appears at odds with your theme of "sustainability". How are you intending to increase corporate value?

A2: The decline in the 4<sup>th</sup> quarter reflected changes in unrealized gains [losses], and I therefore do not think it was fundamental. As a business based in Japan, we believe Sony Financial Holdings ("SFH") plays a role in group risk management and the long-term enhancement of corporate value. The first difference between a 65% stake and 100% ownership is the incorporation of profits attributable to minority shareholders. According to our calculations, EPS will increase by around 8%, which I believe will be starting in FY2021. That will make a direct impact in terms of enhancing value.

In addition, we are unable to include the Financial Services segment in our consolidated tax return at present, but doing so would enable us to devise a more effective tax strategy. This business is a core element of our group that trades on the trustworthiness of Sony, all the more so because it sells financial products to retail customers. In this respect, we are basically taking on more or less 100% of the risk while only benefiting from 65% of the profits and dividends. The current structure is also complicated. In particular, it is virtually the only financial intermediate holding company in Japan. Because structurally we have both banking and insurance businesses alongside one another, we have to comply with a dual set of regulations. Of course, regulations have to be observed, but in some instances, they can restrict our ability to invest and develop products and services.

#### Questioner 2

Q1: If we assume an acquisition value of 400 billion yen for SFH, that would bring the capital allocation total to roughly 2.4 trillion yen. This would exceed the 2.2 trillion yen operating cash flow objective, but should we assume the 2.4 trillion yen figure is basically within your tolerance? Also, if any new and attractive acquisition candidates emerge during this fiscal year, how might that fit in with your current capital allocation plan?

A1: We plan to finance the acquisition of the remainder of SFH entirely through borrowings. The capital allocation plan we have shared thus far covers operating cash flows generated within the three years of the third mid-range plan and cash inflows from the sale of assets, and we view this acquisition as a strategic investment that falls outside the scope of the plans we have shared heretofore. The financing will be entirely through borrowings, as I say, but we will draw the full amount from a new borrowing facility rather than tapping existing lines of credit.

Q2: The announcement of your gaming partnership with Microsoft was very exciting and raised expectations for your games business, which is a growth driver for Sony. What kind of expectations do you have for the partnership now that a year has passed since the announcement?

A2: Our partnership with Microsoft is very far-ranging. One aspect of it involves collaborating on cloud streaming in our Game & Network Services segment. We are still engaged in that effort with a long-term perspective, and we are very much on the same page in our understanding of the challenges involved, especially in terms of chipsets, networks, and dark-time solutions. Our conversations are ongoing.

Outside the realm of gaming, we announced a deal involving a chip today, and we also plan on expanding the partnership into consumer electronics and remote technology initiatives as well. There are several key considerations in the case of the Game & Network Services segment, namely cloud servers, the network technology that connects those to the customer, and the user interface with which the customer engages. These are among the topics we are discussing in our overarching conversation on the cloud-streamed gaming of the future.

Thanks to multiple presentations from Microsoft on its amazing Azure cloud technology, we are at

last at the point where each side has a deep understanding of what the other has to offer in relation to the key topics. We next need to discuss the issue of dark time. Gamers tend to play at night, meaning that server traffic is extremely high at night but relatively low during the daytime. How to use the servers efficiently is a key consideration from a business perspective as well, so we are drilling down on that question. We believe Microsoft will be a very powerful partner and collaborator for us over the medium to long term.

Questioner 3

Q1: Would you explain once again the significance and advantages of taking full ownership of SFH? In particular, could you talk about the background of the management changes including bringing in Masashi Oka as president, and your vision for enhancing value, including a time frame?

A1: Regarding the significance of the acquisition of the remainder of SFH, as previously mentioned, it is firstly because it is a core business. To our mind, a 35% minority interest represents a leakage of value from one of our core businesses, and we therefore think we should own the full 100%. Second, it is a risk hedge. With geopolitical risk on the rise, we believe owning a stable profit base in Japan and being able to include that business in our consolidated tax returns will be important from a risk management perspective going forward. The third reason is to enhance shareholder and corporate value. The move will contribute to enhancing profit per share, including through tax consolidation and retaining the profit attributable to minority interests within the group. I have had opportunities to speak with our shareholders and investors, and, partly through such conversations, I have come to appreciate the importance of focusing on EPS as a means of keeping management on track as it pursues growth. Over the past three years, an average of around 40 billion yen per annum in net profit has leaked from the group as a result of minority interests. By retaining this portion, we would not only add significantly to group EPS but also gain from tax advantages, enabling us to increase our net profit by between 40 and 50 billion yen [in total]. We believe a greater increase in EPS is achievable through these means than by using the same amount of capital to repurchase shares.

I see three facets to Mr. Oka's suitability as SFH president. He has experience in a wide range of businesses, but his background in finance at Union Bank and elsewhere, in technology and in customer relations, particularly during his time at Union Bank, are the key facets to his career that will aid him in leading SFH going forward.

Q2: Could you tell us what impact you expect the US and China's battle for technological dominance to have on Sony in the short, medium, and long term, respectively?

A2: I will refrain from commenting on any specific actions we are taking in that context given the sensitive timing amidst ongoing talks between the relevant governments. As I have mentioned, both the US and China are important markets to us. We intend to take appropriate actions as warranted based on how the situation develops.

#### Questioner 4

Q1: What specifically does management need to focus on more than before in order to recruit talented individuals globally for each of your business domains and to ensure that they contribute to the Sony Group over the long term?

A1: Our newly defined group headquarters will be home to the top leadership of each of our group's businesses. Nine business heads from our six segments will be based there, and I believe it will be important to make the most of that. I also think it is vital for our employees to be able to experience different business units as well as the group headquarters. Brilliant people tend to be multitasking. That applies to artists as well, so taking entertainment as an example, our ability to offer opportunities in gaming, music, and pictures gives us an edge in recruiting. In terms of technology as well, I think it is extremely important to leverage our diversity in terms of having AI, our CMOS sensors, the creation hardware that connects people, distribution hardware, and communications. Our R&D efforts also need to be global. Sony does business worldwide, and some regions are important in terms of entertainment, while others are important for electronics, for example. We are working to globalize our recruitment efforts so that we can staff those diverse regions with talented professionals. In the case of AI specialists, we have assembled professionals capable of fully leveraging AI in the relevant business contexts, so we are sending our global recruitment team to academic conferences to find talented individuals. Our sustained efforts have begun to enable us to attract talent, so we are now ramping up the globalization of our R&D centers themselves. For example, we place the heads of all of our overseas labs on assignments in Japan, while also sending our Japanese division heads to overseas labs. We are thereby working to become more global by making it possible to carry out all communication in English. At the same time, we are evangelizing about our technologies so that we are able to hire superior talent. These are examples of our various initiatives.

#### Questioner 5

Q1: Image sensors for smartphones is a market that is characterized by a healthy duopoly or oligopoly. Sony has a strong position here. What is your view of the image sensor market for automotive? It is quite small today. In 5 to 10 years, can this market be bigger or more valuable than the smartphone image sensor market? How many players are there in this market? Do you think this market will also be limited to two to three players (as in smartphones)?

A1: I believe it was 2011 when we started in mobile sensors, and while it was a very small business initially, it has grown astronomically. I actually do not know whether the same will hold true for automotive, but I think we are definitely going to see changes in the mobility space going forward and if Sony were to contribute to safety amidst that changing landscape, I think there would be great social significance to that. There are not many players now, but our share of that market is very small at present. I believe that we will be able to apply the technologies that we have amassed in the smartphone and audio-visual realms to automotive as well, but we are not yet sufficiently familiar with automobiles. We intend to learn the field well, and if we are able to contribute even in some

small way in the mobility space, I believe that ultimately that will contribute to our corporate value over the long term.

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