FY2021 Corporate Strategy Meeting

Analyst and Investor Briefing Q&A (Summary)

Date: May 26, 2021 (Wed)

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, 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: You mentioned wanting to connect with one billion people, which I believe means that you will need not only to consistently address core gamers but also to reach out to a more mass audience. To that end, it will be crucial for you to leverage mobile to establish your direct to consumer (DTC) initiatives rather than relying solely on Sony’s own PlayStation consoles. When you say that you will make Sony game IP available on mobile, are you suggesting that it would look something like a mobile PlayStation platform and that you intend to offer your own mobile DTC service that connects you directly to customers?

A1: We do not have an integrated platform such as a single Sony ID in mind for reaching one billion people. We have established a solid position in content as well, and our Purpose is to fill the world with emotion and bring Kando to as many people as possible, so when it makes more sense to do so in collaboration with partners, we will. We do not see a definitive need to build our own mobile platform from scratch while mobile games inherently allow us to directly connect with customers. We can take Demon Slayer as an example. Forty million people around the world have seen the Demon Slayer movie since its release. While we do not have a direct connection with those 40 million viewers, we were able to make that movie accessible globally through our valuable partnerships with theaters. When the Demon Slayer movie moves from theaters to the next window, I expect that we will use our anime platform to distribute it, but I do not think keeping it exclusive to our platforms is necessarily the best option. Making it available on other DTC platforms is very much an option.
We also have *Demon Slayer* games in the works for PlayStation and for mobile, and those will help us achieve our goal of reaching one billion people by connecting us directly with customers.

Q2: PlayStation’s fusion of hardware and IP has proven a winning model for you, but it seems like an anime platform would put you in head-to-head competition with other over-the-top (OTT) media services. What kind of winning formulas or differentiation strategies do you envision that will enable your anime platform to attract a mass audience?

A2: We have seen that anime tends to resonate extremely strongly with gamers. We have made Funimation accessible via PlayStation, and this tie-up is going very well, as is apparent from the growth we have seen in user numbers.

Questioner 2

Q1: I would like to ask about your thinking on your employees. You mentioned a company’s culture in your speech today and I believe that your business units sometimes collaborate with one another on projects that no one but Sony could take on, which is likely highly motivating for your employees. At the same time, I feel that you need to make some changes given that you need to hire employees, provide them with opportunities, evaluate them, compensate them, and enable them to collaborate across business units in ways that diverge from traditional Japanese practices. What major changes have you enacted since becoming president, and what changes are you hoping to enact going forward? Additionally, if there are any companies or initiatives in Japan or globally that you see as benchmarks, please share what those might be.

A1: I will refrain from referencing any company by name as a benchmark, but I will say that I believe that there is much I can learn from other companies and other executives. The focus of my presentation today was not on business segments but on our Purpose. Today, I described my approach to Sony’s management policy not from the standpoint of each segment but of our Purpose, which presented me with a challenge. I believe that whether our employees see Sony as worthy of devoting their passion to is of crucial importance. Also, companies naturally must have strategies, but at the same time, their ability to execute—including through internal collaboration—is vital. To give you an example, we launched mass production of PlayStation®5 in June 2020. We had built a pilot line in Kisarazu, Japan and then the mass-production lines went into operation in China. The fact that we were able to launch mass production without a single one of us being able to go from Japan to China (due to COVID-19 pandemic) is an example of our ability to execute. While regulatory approvals are still pending in some cases, we have also made progress on acquisitions, including AWAL, Crunchyroll, and Som Livre in Brazil. The strides we made in automating our Malaysian television factory, which were in part influenced by the pandemic, and the group
I believe that in the end it is a company’s culture that ensures its employees’ ability to execute, and that may sometimes be more important than its strategy. In terms of efforts I have personally made, I am trying to devote as much time as possible to engaging in dialogues and communicating with our employees, although that has been via video screens of late.

Questioner 3

Q1: In your 4th Mid-Range Plan, you set 3-year cumulative adjusted EBITDA of 4.3 trillion yen and at least 2 trillion yen in strategic investment as key performance indicators. Mr. Yoshida, could you remind us of the thinking behind this? The reason I ask is that Sony put forward segmental operating income targets in its 3rd Mid-Range Plan, which ended up being virtually meaningless. I believe your targets for the new plan are meaningful, but I think some miscommunication is partly to blame for the decline in your share price. I think the fact that the plan does not specify what level of EBITDA is targeted from strategic investments and gives no vision for how the group will look in three years' time makes it somewhat less than solid in parts.

A1: I discussed using EBITDA as a metric with our CFO, Hiroki Totoki, and decided to use it because it allows us to include the Financial Services segment and it is an investment promotive metric. However, we are still discussing whether it is appropriate to disclose 3-year key performance indicators. On the basis that we have done so in past mid-range plans, we continue to compile annual business plans and 3-year mid-range plans internally and to discuss them at board meetings, but I believe there is a discussion to be had as to whether it is beneficial for the running of the company to disclose them. Three years is too short a period over which to set management objectives and too long from the perspective of how the business environment changes. I have been involved in discussions with CFO Totoki on the various options for issuing targets in the future. Just to add to that, our published targets do not include EBITDA generated from strategic investment so they should be regarded as a baseline. Also, I spoke about whether disclosing targets was appropriate or not, but it goes without saying that management is about being accountable for results.

Q2: In recent years, your R&D spending (610 billion yen) and its percentage of consolidated sales (6.3%) have remained high, but one digit smaller than those of other platform companies. In past periods of turnaround, I believe that you dramatically reduced and refocused your R&D spending. Would you tell us how much you intend to spend and where you are headed in terms of R&D?

A2: We will invest in R&D as best suits our individual businesses rather than thinking of it in terms of a total figure for the Sony Group, in part because of differences in timelines and in the type of R&D required at the present stage in each business unit. We have set key performance indicators and determined R&D budgets for our individual businesses, the result of which is an increase in the total
Our R&D Center, which handles our corporate R&D, has consistently spent around 45 billion yen per year over the past few years. We are revising our priorities when warranted as our R&D portfolio widens beyond electronics and semiconductors to include entertainment and financial services. The reach of individual technologies is deepening, and we are gaining a better understanding of how to deploy them, partly because we are applying them in a growing number of areas. Moreover, applying similar technologies in electronics, semiconductors, entertainment, and financial services does not merely allow the technologies themselves to gain a deeper reach. We believe that applying them in four areas will enable us to make substantial contributions across a great many business groups all basically within the scope of the same investment rather than by quadrupling our costs. To develop base technologies, we engage in open collaboration with other companies as well as with research institutions and universities around the world, so we see that as a space in which we can leverage our broad insights to contribute to a variety of fields rather than as one in which we will spend considerable sums.

Questioner 4

Q1: You cited IP, DTC and technology as areas to which you will allocate your 2 trillion yen in strategic investment. If there are any areas or categories where you feel that you are lacking in terms of achieving your Purpose, or if you have an order of priority in mind for your investments, please let us know.

A1: IP, DTC and technology are all important, so I would not cite any particular initiative among them, but I would say that I think technology is important from a variety of standpoints, including both creating and delivering content. Sony is No.1 in the world in both consoles* and in CMOS image sensors, so we believe leveraging our game technology and our sensor technology will be key. As I mentioned in my speech, game technologies such as ray tracing and game engines are becoming content-creation technologies. If we were to create virtual social worlds going forward, what I have been discussing with CTO, Toru Katsumoto is that they should be seamless extensions of environments created by using our technology for capturing the real world. We use the expression “entertainment goes social” internally. Social media and entertainment have become inseparable, and we are always questioning ourselves about whether we are challenging ourselves sufficiently in the social space beyond mobile. From the technology perspective, there are production technologies and delivery technologies. On the network or delivery side, our past acquisitions have included Gaikai (now CGI, cloud gaming) at SIE, providing cloud game and Nevion at former SIPS, providing network solutions for broadcasters. In the healthcare space, we have acquired eSATURNUS, which makes medical data accessible over networks at healthcare facilities. AI is also going to be extremely important. For example, we have invested in Cogitai and their engineers now work for Sony AI, and we have also invested in Midokura and Cinnamon AI. Other
investments have included Audiokinetic, which strives to create immersive experiences. We hope to seek further opportunities to invest in technologies that reinforce or complement our portfolio in this way.

*Based on cumulative unit sales of game consoles released since 2013

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