

FY2023.Q3 Earnings Announcement
Q&A (Summary)

Date: February 14, 2024 (Wed)

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 third quarter ended December 31, 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: [Consolidated] What is your ROIC outlook in the entertainment field for FY2024 and beyond? What do you believe will drive an increase in ROIC?

A: In the entertainment field, we see potential for the G&NS segment to be the driver of ROIC growth, while we believe improvements can be made in the Music segment. During the period of our current mid-range plan, we have strengthened the foundations and competitiveness of the Music segment through major catalog acquisitions. It is important that we leverage the value of these catalog assets to achieve better ROIC.

Questioner 2

Q: [Pictures segment] Is there any change in your India strategy following the issuance of termination notice for the merger with Zee? What will happen instead with the funding originally intended for the merger?

A: From a long-term perspective, India remains a promising market with good growth potentials. We will continue to seek out various opportunities and intend to proactively explore any opportunities that may be a suitable alternative to this merger. We also need to reformulate our strategy for our organic growth. As for how we will use the capital that we had planned to use for the merger, this termination has no financial implications, and our capital allocation and approach to investment are expected to remain unchanged.

Questioner 3

Q: [I&SS segment] I understand that you plan to reduce sensor inventory in the fourth quarter with a focus on sensors for industrial and social infrastructure in particular. Could you give a general idea of what that means in terms of inventory levels? What are your thoughts looking ahead to the first quarter of FY2024 and beyond?

A: Only a small portion of inventory is for sensors for industrial and social infrastructure, so the impact on overall inventory is not material. We expect fourth quarter inventory level overall to be flat or slightly above the third quarter level. We expect sales to grow in the I&SS segment in FY2024, so inventory is likely to increase too, but we will examine such details in the process of formulating our FY2024 business plan.

Q: [Consolidated] What is your general FY2024 outlook for segments other than G&NS and I&SS?

A: In the Music segment, we aim to outpace streaming market growth as much as possible, which we expect to be in the mid-to-high single digits. In the Financial Services segment, we expect to engage in some spending to counter the volatility in accounting profits as a result of the application of IFRS 17, so we believe there will likely be a moderate increase in underlying profits over a long-term span. In the Pictures segment, the trend is expected to be flat from FY2023, with the possibility of some upside.

Questioner 4

Q: [G&NS segment] Monthly active user (MAU) levels are in excess of the size of the PS5 installed base and setting record highs. To what do you attribute this growth? On the other hand, growth in third quarter profits appeared weaker compared to the growth in MAU. What was the reason for this?

A: One of the reasons for the expansion of MAU is seasonality, as the third quarter coincides with the year-end holiday season. We also attribute this in large part to the impact of a blockbuster free-to-play title. We expect around 30 billion yen in profit related to PS5 inventory valuation from the third quarter to slip into the fourth quarter. [While the forecast for the growth in profits remains unchanged for the second half as a whole], I think it is fair to say that profits in the third quarter were indeed somewhat below their true potential.

Questioner 5

Q: [G&NS segment] It has been four months since Mr. Totoki assumed the position of SIE's (Sony Interactive Entertainment) Chairman. What observations have you made in that time?

A: Through my meetings with the management team and visits to studios, I have the impression that everyone has a solid understanding of what optimization means when it comes to their individual fields of responsibility. However, they don't necessarily understand how their respective efforts tie into overall growth, sustainable profit generation, and higher margins. I believe that is an issue for the organization. By providing everyone involved with highly transparent description of the company and industry conditions, as well as of analyst views, I would like to encourage them to come to their own realizations. This will get everyone in the business onto the same page. Then, I would like them to consider what we need to do to work toward our major objectives.

Q: [G&NS segment] Please give us an update on Bungie and what initiatives you are planning for FY2024.

A: I visited the Bungie studios and had meetings with [the] management, and I saw that employees working at the studios were highly motivated, showing great creativity as well as an impressive knowledge of live services. However, I also felt that there was room for improvement from a business perspective with regard to areas such as the use of business expenses and assuming accountability for development timelines. I hope to continue the dialogue and come up with some good solutions.

Q: [Consolidated] In the next mid-range plan, I understand there will be a slight reduction in strategic investment. What is your stance on share buybacks and dividends?

A: Our stance on share buybacks and dividends remains largely unchanged, in that we still believe shareholder returns need to be addressed properly. We include share buybacks within our strategic investments, and if we judge that repurchasing our shares is the best way of making a strategic investment, then we are willing to do so.

Questioner 6

Q: [G&NS and I&SS segments] What will be the keys to improving your operating margin?

A: G&S segment: When it comes to PS5, one challenge that sets this console cycle apart from PS4 and previous generations is that we find it difficult to reduce our costs during the course of the cycle. Unlike high-spec PCs, PS consoles enable us to offer an immersive experience for many people in a

safe environment with affordable price. To offer that kind of experience, with costs for components like chips and memory on the rise, one key will be that we continue to sell consoles without substantial discounts [during the course of its product life-cycle] by engaging in product planning that ensures affordability for consumers. Another driver will be first-party titles. Strong titles that achieve growth on PS5, PCs and other platforms will widen our margins. We believe that we have opportunities for margin improvement and intend to pursue them aggressively.

I&SS segment: Our issue is that our sales have not enabled us to sufficiently recoup on the investments and R&D that we have engaged in upfront. It is vital that we strike the right balance between our costs and our ability to capture growth opportunities by minimizing operational losses and managing our investments. To date, the adoption of larger die sizes and multi-lens camera formats has driven our mobile image sensor growth, necessitating additions to our production capacity. Now, however, we are transitioning to a phase in which our focus is maintaining and enhancing functionality. If we are able to achieve sophisticated functionality using compact processes, it should lead to wider margins.

Questioner 7

Q: [G&NS segment] You said that you are expecting a slight increase in profits in FY2024. Do you believe that PS5 will be able to exceed the peak profits achieved by previous console generations?

A: Profit levels of PS4 could be one of the references, but it is somewhat inappropriate to simply compare PS4 with PS5 by the number of years that have passed since the launch because PS5 experienced the COVID-19 pandemic. Achieving a higher absolute profit is a challenge that we intend to take on. The market, inclusive of third parties, is bigger now than it was during the PS4 generation. On the other hand, our profitability was better on the PS4 hardware. The bill of materials (BOM) cost is not lower on the updated PS5, so our greatest challenge is to strike the right balance between our margins and ensuring the continued uptake of the console. In addition, our FY2023 and FY2024 financials will include costs associated with past acquisitions. The decline in these costs is expected to boost our profits going forward. Taking all these factors into consideration, we intend to work to achieve a new profit record in the PS5 generation.

Questioner 8

Q: [G&NS segment] You cited free-to-play titles as an enabler of the sharp rise in MAU. To what extent do you expect the title to contribute going forward? What sort of contribution have you reflected in your earnings outlook for FY2024?

A: It is true that a free-to play title has been a major contributor. We would rather not comment on circumstances at collaboration between other companies, but we are very happy with the appealing titles they produce that provide us with opportunities, including for collaboration. Any earnings upside that they create for us is welcome. We are not yet positioned to discuss our outlook for potential add-on sales in FY2024, but growth in major third-party titles is positive for us, and we intend to make the best use of that momentum.

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