# FY2020 Q1 Earnings Announcement
# Analyst and Investor Briefing Q&A (Summary)

Date: August 4, 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 financial results for the first quarter ended June 30, 2020, 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.

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Questioner 1

Q1: [G&NS segment] Third-party software sales and microtransactions were strong in the 1st quarter. Could you tell us how much of that was a result of boosts from one-off events and how much of that was a result of stay-at-home demand? Additionally, could you tell us what you think revenue growth in the 1st quarter means for continued growth in the 2nd quarter?

A1: It is difficult to break down how different factors impacted third-party software sales and add-on content in the 1st quarter, but the impact of stay-at-home demand was substantial, and we did especially well in April. That has smoothed out somewhat since May, but monthly user activity has nonetheless remained strong compared to the same month of the previous year. We were also fortunate to have had very strong in-house titles in the 1st quarter, and we additionally gained a lot of traction with third-party free-to-play titles, thanks in part to a variety of events.

Q2: [I&SS segment] You said that you intend to get profits on a growth track in the 2nd half of FY2021. What is that conditioned on? For example, is that unlikely to happen if the market demand for high-end smartphones does not pick back up in the 2nd half of FY2021, or are you going to make yourselves so efficient through the initiatives you are about to undertake to expand your market share and improve your cost structure that you will be able to grow profits regardless?

A2: We naturally intend to target profit growth for our image sensors in the 2nd half of FY2021. Given the amount of time between now and then, we think that the current deceleration in the high-end smartphone market will have paused by then. In addition, I would note that our FY2020 earnings are being impacted to a considerable degree by the fact that our customers are working their way through very large stockpiles of inventory, especially in China.

Questioner 2

Q1: [I&SS segment] What was your image sensor capacity and utilization in the 1st quarter, and what is your outlook for the 2nd quarter? Also, to what extent does utilization contribute to the decline in operating income that you expect in FY2020?

A1: As of the end of the 1st quarter FY2020, diode manufacturing capacity stood at roughly 133,000 per month, which is in line with the outlook we had shared at our previous briefing. We expect to bring that figure to 135,000 per month by the end of the 2nd quarter, increasing it gradually over the course of those three months. Wafer input averaged around 126,000 per month in the 1st quarter. This reflects slight reductions in the production of sensors used in mobile products and digital cameras. Our outlook for the 2nd quarter is for a simple average of about 112,000 per month. This is premised on more significant reductions in the production of sensors for mobile products and digital cameras.

Q2: [I&SS segment] I assume you are expecting the year-on-year decline in revenue from mobile sensing products because they have proven more resistant to growth than you had anticipated. Do you think adoption is just taking more time than you had expected, or do you think customer designs mean that you need to rethink your growth expectations?

A2: Roughly speaking, about one fourth of the decline from FY2019's operating income of just over 230 billion yen to the 130 billion yen we forecast for FY2020 in the I&SS segment is due to the decline in sales of mobile sensing products. What is important to note is that we engaged in capital expenditure and increased our R&D spending during FY2019 based on our growth expectations, and we are feeling the pinch of that now.

Questioner 3

Q1: [G&NS segment] I realize that you are unable to go into any detail regarding the PS5, but, in the past, you have said that you would make an assumption as to the most likely price of the PS5, even if that price was yet to be announced, when issuing guidance for the G&NS segment. So, I believe your FY2020 guidance is based on certain pricing and volume assumptions. To the extent possible, could you give us a hint as to what sort of range those are in?

A1: I will discuss to the extent possible, with the understanding that you are interested in the key elements of our FY2020 forecast. The 1st quarter was very strong, but our plan assumes that stay-at-home demand will calm somewhat in the 2nd quarter and thereafter. In addition, our plan is premised on considerable spending on the PS5 rollout, especially marketing. I cannot speak to certain pricing and volume assumptions at this time, but I can say that the plan we have shared with you incorporates both upside and downside risks and is based on what we see as a good balance between them at this point in time.

Q2: [Pictures segment] You mentioned that theatrical releases could continue to be impacted for the next two or three years, but I could also envision upside such as growth in the digital portion of the business or a greater focus on television productions. How do you see the risk-reward balance in terms of segment profits changing as a result of the downside risk on the theatrical side over the next two or three years? For example, would it be possible to strategically increase the digital portion of the business so that the actual risk-reward dynamic remained the same, or would that not be possible?
A2: At the moment, the COVID-19 pandemic is affecting both production and releases, but demand for television programming remains extremely high. As an independent production company, we intend to offset the impact of the delayed theatrical releases of blockbuster films by responding to this strong demand. We will continue to monitor the COVID-19 pandemic and plan to strategically determine which style of release or sales is the best way to maximize each film's value. In this way, we will work to counter the downside risks to some extent while maximizing the value of our content, and by extension, our profits.

Questioner 4
Q1: [I&SS segment] Regarding the 2nd half utilization levels of image sensors, you mentioned that the 2nd quarter utilization was likely to decline slightly, but you also said you planned to stockpile strategic inventory during this time. If that is the case, could you tell me your assumption for the 2nd half utilization and for inventory at the end of FY2020? I see the June inventory figure was just over 290 billion yen.
A1: You are correct in noting that inventory stood at just over 290 billion yen at the end of the 1st quarter, but we expect it to have increased a little more by the end of FY2020. We are currently expecting utilization to be just under 90% in the 2nd half. We believe this will lead to the slight increase in inventory I just mentioned.

Q2: [I&SS segment] I believe the assumptions behind your view that the profitability will return in the 2nd half of FY2021 are based upon an improvement in demand conditions, including a pause in the deceleration of the high-end smartphone market and in inventory adjustments by your Chinese customers. Are you assuming that capacity will not increase in FY2021, or will you be increasing capacity? Costs are likely to increase even if depreciation is kept down, but do you intend to deploy any measures to boost sales that may result in a higher CoGS ratio?
A2: Our expectations for a profit recovery in the 2nd half of FY2021 are premised on a slight increase in capacity. However, we will take a flexible approach to the timing of such an increase, making decisions on when to build capacity and when to bring it online depending on the demand outlook. That being said, you can assume we will be increasing capacity.

Questioner 5

Q1: [EP&S segment] I believe that the impact of COVID-19 has begun to subside, but when you look back on the 1st quarter as a whole, how did the results differ from what you had initially anticipated by product category? Also, do you have any comment regarding the way forward, including with respect to the 25 billion yen you anticipate booking in restructuring costs?
A1: It is difficult to go into detail regarding how our results differed from the initial estimates we had compiled in May, but visibility on the way forward was much poorer when we made those estimates. Compared to the estimates, we think our performance in the 1st quarter was good. In particular, televisions demonstrated a quicker recovery than we had expected, likely in part due to stay-at-home demand. Basically, online sales increased, and product went out of the door as soon as stores opened. In fact, demand was so strong in the 1st quarter that we actually found it difficult to allocate product. We initially struggled with digital camera sales, as we had expected, but they have begun to pick back up of late. I recall having previously cited the global financial crisis as a basis for comparison to the COVID-19 pandemic, but our impression is that unlike back then, things are picking back up quickly. That said, regardless of any strengths or weaknesses in our current landscape, we want to really deliver on the restructuring efforts you mention in order to make ourselves a stronger organization.

Q2: [Consolidated] Your capital allocation update mentioned 1.4 trillion yen or more in strategic investment. Could you tell us roughly how much of that you have already spent and how much you have left to spend, as well as the nature of that spending, to the extent possible?
A2: The main initiatives we have invested in are making each of EMI and SFH a wholly-owned subsidiary of Sony, each involving an investment of roughly 400 billion yen, respectively. The 300 billion yen in share repurchases we have already undertaken in the course of our current mid-range plan are also included. Roughly speaking, we anticipate spending somewhere around 300 billion yen in FY2020, in addition to the spending for making SFH a wholly-owned subsidiary of Sony. However, we are somewhat flexible on this figure as it also depends on what sort of opportunities present themselves. The up-to 100 billion yen share repurchase we announced today is also included in this 300 billion yen estimate for FY2020*.

* In addition to approximately 900 billion yen strategic investment through FY2018 and FY2019, Sony has already executed total of approximately 470 billion yen strategic investment in FY2020, which includes approximately 400 billion yen in making SFH a wholly-owned subsidiary of Sony and approximately 70 billion yen for acquiring minority interest in Bilibili Inc. and Epic Games, Inc.
Around 300 billion yen strategic investment anticipated in FY2020 includes investment in Bilibili Inc. and Epic Games, Inc. as well as up to 100 billion yen share repurchase.

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The continued impact of COVID-19 could heighten the important risks and
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