

FY2024 Corporate Strategy Meeting Q&A (Summary)

Date: May 23, 2024 (Thu)

IMPORTANT: PLEASE READ THE FOLLOWING STATEMENT

For your reference, below please find an English summary of the question and answer session at the Corporate Strategy Meeting for the fiscal year ending March 31, 2025, 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: Regarding AI strategy, as production budgets in the film and game industries increase, AI is expected to lead to cost reductions. As such, do you think it is necessary to proactively implement AI going forward?

A: As a technology company, we want to proactively utilize AI. On the other hand, as a creative entertainment company, we are in a position where we must protect the rights of creators. Examples of AI initiatives include the automation of the timing of displaying subtitles and multilingual support, as introduced by Totoki, and an area where we feel there is great potential is in games, which use computer technology. With the cost of game development becoming very high in recent years, AI can be used in areas such as creating 3D assets and characters for games, as well as quality assurance. In addition, in “Gran Turismo Sophy,” cars that have undergone reinforcement learning through AI participate in virtual races, and gamers can compete against such cars. This is an example of AI that was utilized in increasing user engagement.

Q: There have been media reports that you are considering acquiring Paramount. What are your views on this? I would like to know if you are actively looking to increase your studio IP.

A: We refrain from commenting on specific media reports. Generally speaking, as part of the “Creation Shift,” which is our direction, we are always interested in assets such as high-quality IP, libraries, and music catalogs. Our fundamental stance is to actively consider various opportunities, provided that the potential investment and return meet our criteria.

Questioner 2

Q: A key theme of your 5th Mid-Range Plan is maximizing synergies. I would like to know how this differs from previous initiatives for creating synergies.

A: With the acquisition of the music business in 1988, Columbia Pictures in 1989, and the entering into the game industry (with the launch of the first PlayStation console) in 1994, we established the foundations of our entertainment businesses in the 20th century, and have been engaged in creating synergies ever since. I think in those days a strong focus was on synergies among the electronics areas. Recently, the changes to our Group architecture have led to collaboration across our businesses and the creation of IP synergies. For example, I was pleased to see “Uncharted,” which was released in February 2022, earn approximately \$400 million at the global box office.

Q: You plan to allocate approximately 1.8 trillion yen to strategic investment including agile share buybacks in your 5th Mid-Range Plan. If you see an opportunity that is appealing but expensive, would you be willing to invest beyond your budget?

A: In the 4th Mid-Range Plan, strategic investment, excluding share buybacks, was approximately 1.3 trillion yen. Of that, approximately three quarters was allocated to entertainment. We do not plan to change this overall approach in the 5th Mid-Range Plan. Our 5th Mid-Range Plan incorporates a strategic investment budget of 1.8 trillion yen over three years, including agile share buybacks. At this point, we are not really considering investing beyond this budget. We want to invest at an appropriate scale while finding good opportunities.

Questioner 3

Q: While popular IP generates stable earnings, the entertainment areas' performance fluctuates depending on whether your releases are hits. How do you address this risk?

A: IP and entertainment tend to be hit-driven. However, we believe that by creating IP synergies across a diverse range of our entertainment businesses, including games, anime, music, and pictures, we can achieve stable growth. Although each business is in a different industry, I think they can learn from each other in the sense that they are all looking towards creators and customers.

Q: While you are engaged in adapting games into film and television content, it seems PS5 sales aren't going as well as you anticipated. I'd like to hear your thoughts on how you intend to turn this around.

A: We believe PS5 is a very successful platform among the current generation of game consoles. Last fiscal year, our initial sales target of 25 million units of PS5 was set as a very aggressive goal based on our projections at a time when there was a tailwind due to COVID-19. Now that the impact has subsided, we are at a cruising speed with unit sales growing steadily. Looking at console sales across the industry, our market share is very high. We consider the sales performance and market share expansion of this current console generation to be at a satisfactory level.

Questioner 4

Q: The anime industry has long suffered from a shortage of creators. What is the background to the Group's engagement in nurturing creators, and are there any related issues?

A: Anime is a form of entertainment with global appeal and growing popularity. What was once a niche industry has developed into a huge global entertainment industry. We particularly want to contribute to the anime industry through creation, and in terms of spreading Japanese anime around the world, we would like to contribute to delivering it through Crunchyroll. For example, Crunchyroll shares viewing data with creators, which helps with their future creations. In such way, our foremost priority is to "contribute."

Q: What is the relationship between the Creation Shift and your 5th Mid-Range Plan? You stated that you want to grow your operating income by an average of 10% per year over the next three years, but how do you plan to link this to supporting creators? You stated your vision for where you would like Sony to be 10 years from now, but I'd like an indication of the cost and speed.

A: A major pillar of growth for the Pictures segment in our 5th Mid-Range Plan is the growth of Crunchyroll. Since both growth rates and profit margins are high, our fundamental approach will be to provide focused support for Crunchyroll. Crunchyroll is a distribution platform, so it is important for its growth that a large quantity of high-quality content is produced and becomes hits around the world. This will ultimately contribute to the Japanese anime industry. Therefore, we believe that in the long run, our support of creators will lead to the success of our business. However, this support is for the entire industry, and we have no intention of limiting our efforts to nurturing creators for ourselves. We hope to help create an environment where many outstanding works can be produced, as much as possible and across the industry as a whole, and that this will also support our Mid-Range Plan goals.

Questioner 5

Q: I would like to ask you about the challenges you face in maximizing IP value in terms of IP

acquisition, management, investment, and the intensifying competitive environment.

A: We have been proactive in acquiring and investing in IP, totaling approximately 1.5 trillion yen over a six-year period. We are now in a phase where we need to fully leverage the IP in which we have invested. The 4th Mid-Range Plan was a phase of investing for the future, but we consider the 5th Mid-Range Plan to be a phase where we aim to achieve solid returns.

What is important when investing in IP is whether the price can be set correctly and, if we are willing to pay a premium, whether we have a concrete idea and plan to extract new value from the IP. Over the past six years, we have gained experience mainly on the business side and have considered many investment opportunities, so while we have become accustomed to the investment process, we would like to move forward while continuing to keep an eye on investment returns.

Questioner 6

Q: You are investing in IP and technology from a long-term perspective, but one of the messages that I took away from your 5th Mid-Range Plan was that you intend to strike a balance between growth investment and shareholder returns. I understood that you would be allocating more capital to shareholder returns because you are in a phase where you are recouping on your investments. At the same time, it strikes me that in some respects, you have transitioned from a growth phase to a maturity phase. Is such understanding correct? Will you enter a stage where your growth reaccelerates in the following three-year period?

A: In a sense, we are entering a new stage. More than a decade has passed since Yoshida and Totoki came back to headquarters in 2013. Sony is the Group that it is today in part because of what we have all achieved in terms of streamlining our portfolio and exiting loss-making businesses. During our phase of strong profit growth, we were achieving that growth in part by eliminating such unprofitable businesses. I think it is fair to say that we have no businesses that are highly problematic in our current portfolio. Going forward, I expect that we will begin to see growth that is reflective of how the overall Industry and our competitors are growing. Working through the current period and building our next stage of new growth is a major challenge with which we have been tasked.

We are in the entertainment market, which I see as a growth market. Today we mentioned a shift to the creative or what we are calling our “Creation Shift,” and these areas also represent market growth potential for us. Sony contributed to delivering Kando in the 20th century with its Walkman, color TVs, and CDs, among other products. In the 21st century, we want to contribute to creating Kando in these growth markets. Networks have become the primary media over which Kando is delivered in the 21st century, but there are many players in that space, including the big tech names.

We can display our strengths and contribute by actually creating Kando, as well as by contributing to creative communities. Real-time, now in the moment, is where Sony's strengths can be demonstrated. Today we discussed CMOS image sensors and game engines as examples of “real-time.” Downstream from real-time, there are needs for editing and searching capabilities, but those are again crowded spaces for many players. We would like to create value in real-time. As such, we believe real-time is the space in which Sony can generate the most value and also contribute technologically.

Questioner 7

Q: I am curious about your growth strategy for your anime business. Crunchyroll and Aniplex play different roles for you, with the former acting as a platform and the latter producing IP. Given that, I would like to hear your thinking on the importance of first-party anime IP. First-party IP is central to the growth of your Pictures segment, while both first- and third-party IP are key to your game business. Do you see first-party IP as central to the growth of your anime business, or will it look more like your game business?

A: We see it as similar to our game business. By distributing a variety of content on the platform, we want to enhance our competitiveness as a streaming platform, while at the same time making audiences aware of the breadth of our own IP. As encapsulated in the phrase “Creation Shift,” we believe that cultivating our own IP and ensuring its success will be extremely important for our growth going forward. This thinking applies not only to anime but also to motion pictures and to games.

Crunchyroll delivers Japanese anime to the world, and we see it as serving not only anime fans but also anime creators. The Crunchyroll Anime Awards, which is a global event we host in Japan, and the viewership data that we provide to creators are examples of how we serve the anime creative community.

Q: What is your take on the environmental changes underway in the entertainment business now that the pandemic is no longer providing a tailwind? The movie industry and game studios are cutting back on their production slates. Does there need to be a reallocation of resources?

A: The current situation is that the growth rate of our game business has become somewhat more moderate than expected. We are working to optimize our organization accordingly, which involves some streamlining, the integration of studio back-office functions, etc. We are also revisiting our software development efforts to some extent, making adjustments that aim to ensure that our portfolio will work as planned over the coming three years and that title releases take place on schedule.

Questioner 8

Q: What is fundamentally required to attract and motivate talent? What do you see as unique or competitive about your corporate culture or your existing systems or initiatives? Also, are there any systems or frameworks that you would like to put into place going forward? How do you intend to strengthen your HR organization globally?

A: Whether employees find our Purpose convincing will determine whether they can remain passionate about working here and willing to devote their time to the company. Of fundamental importance is whether we can provide a place where each individual is highly motivated and feels the potential to grow. Of course there are the basics like compensation, but it is human nature to be compelled to seek self-actualization. The ability of the company to provide such opportunities makes us more competitive. One metric we value is employee engagement. We track how engagement changes over time globally and across segments. It is important that we engage in an iterative process by which we periodically quantify how passionate and motivated our employees are about their work, accurately assess their expectations, and examine whether we are successfully addressing them or not.

Questioner 9

Q: You say that you will not only leverage your content production technology to increase the efficiency of production at Sony, but that you are also considering selling it to third parties. How well established is your leadership in each of the creative industries? Also, what are your thoughts on potential earnings contributions from your technologies becoming recognized as *de facto* standards, for example?

A: Leadership is difficult to quantify, but it is important that we grow the overall pie in the industry by providing technologies and platforms that support creation. What we can do by ourselves is limited, so collaborating with others is also very important. Our theory is to help grow the overall pie, which will eventually contribute to our own earnings.

We think establishing Torchlight and Virtual Production as *de facto* standards is less important than enhancing the value of creators' time and contributing to their creativity. I think that is what will ultimately translate into our earnings contributions.

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