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

Date: April 28, 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 financial results for the fiscal year ended March 31, 2021, 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: [I&SS segment] In terms of image sensors, could you share your fourth Quarter wafer input and capacity figures as well as your outlook for each? Also, how does the way forward look in terms of product mix improvement?

A1: Monthly photodiode production capacity stood at roughly 139,000 wafers as of the fourth Quarter FY2020. That was higher than the 131,000 wafers we had previously anticipated because we brought a portion of the capacity that we had planned to launch in April online early. We expect a capacity of 141,000 wafers for the end of the first Quarter FY2021. Our new building in the Nagasaki Factory accounts for only a portion of our production process, so we will not see a sharp increase in capacity from this new building. As for wafer inputs, the simple monthly average for the three months of the fourth Quarter FY2020 was around 128,000 wafers. This was basically in line with our expectations, and our in-house capacity was operating at full utilization. We estimate a simple monthly average of 138,000 wafers for the three months of the first Quarter FY2021, and we expect our in-house capacity to operate at full utilization. Customer inquiries are extremely strong at the moment, and we intend to increase utilization to prepare for shipments of new smartphone models for FY2021 to smartphone customers. In terms of product mix improvement, we expect to ramp up to 0.7-micron pixel-size image sensors in 2H FY2021 and to release higher value-added sensors in FY2022 as well.

Q2: [Consolidated] What is your FY2021 forecast for Adjusted EBITDA, the metric you selected as a target for your Fourth Mid-Range Plan? Based on the assumption that it would be 1.4 trillion yen per year, the Mid-Range Plan appears to call for roughly flat Adjusted EBITDA over the three-year period. In terms of striking a balance with growth, what message are you trying to send to the market in adopting Adjusted EBITDA as your preferred metric?

A2: Our FY2021 forecast translates very roughly into Adjusted EBITDA of around 1.3 trillion yen. Our preference is to use cumulative totals because we aim to develop and grow our business over the medium- to long-term. We do not think discussion of figures for individual years is very meaningful.

Questioner 2

Q1: [Music segment] You mentioned that nearly 30% of Music segment operating income was related to Aniplex. What are your assumptions for that business in your FY2021 forecast?

A1: In FY2020, Visual Media and Platform generated around 30% of segment operating income. *Demon Slayer—Kimetsu no Yaiba—the Movie: Mugen Train* was such a huge hit that we do not expect the business to contribute to the same degree in FY2021, and we anticipate a slowdown versus the previous strength seen in mobile games. When you consider that the FY2020 result received a 11.9-billion-yen boost from gains on the sale of certain stocks and businesses, our forecast assumes a 14-billion-yen year-on-year decline in segment profits. On the plus side, we expect to see a positive impact on the profit from higher sales of streaming services.

Q2: [I&SS segment] My understanding is that you are taking a more aggressive approach to capital expenditure than you previously did, but could you remind us of your thinking on that topic? Also, what sort of capacity or market share expansion do you think you will be able to target as a result of this investment?

A2: We deferred the investment that we had originally planned for FY2020. In addition, we have good visibility on extremely strong demand in FY2022 and beyond, so we are pulling forward some of the capital outlays we had intended for FY2022 or thereafter. The result is a plan for approximately 285 billion yen in capital expenditure for FY2021. We are beginning to see a path to volume share recovery in FY2021, and we will need capacity to pursue additional sales and profit upside in FY2022, so we have started preparations. In terms of what level our capacity will reach in the final year of our Fourth Mid-Range Plan, I should note that we are not simply investing in additional capacity. Achieving higher added value requires additional processes, and the adoption of larger die sizes also creates changes. As such, there is not a one-to-one correspondence between investment and capacity, and I would therefore like to refrain from discussing the specifics of capacity forecast in isolation for now.

Questioner 3

Q1: [G&NS segment] You cited improvement in hardware profitability as a boost to the profits forecast for FY2021. Does that mean that, with the inclusion of PS5 and peripherals, profitability is getting better? My understanding had been that the more PS5s that you sold, the more your total gross loss would increase, so I had thought of it as a drag on profits for FY2021. Could you share what assumption this is based on?

A1: When peripherals are included, hardware was also a contributor to profits in FY2020. Our current guidance assumes that hardware will make the same or a slightly higher contribution to profits in FY2021 as well. This is based on our expectation that the profitability of PS5 itself will be better than in FY2020.

Q2: [Consolidated] Your plan is for a sharp increase in research and development spending to 610 billion yen in FY2021. Apart from the I&SS segment, in which areas are you planning greater investments, and would you explain your reasoning in each case?

A2: We are planning to increase consolidated research and development spending by just over 80 billion yen compared to the previous fiscal year to 610 billion yen, with more investment going into our G&NS, EP&S, and I&SS segments. We already discussed our plans to increase development spending in the G&NS segment by around 20 billion yen, and in the I&SS segment by around 25 billion yen respectively, so you can assume the remainder of the increase will be in the EP&S segment etc..

Questioner 4

Q1: [G&NS segment] You are anticipating a 17.2-billion-yen decline in G&NS segment operating income and mentioned that you expect to spend about 20 billion yen more on game development. What do you expect in terms of the size of other increases and decreases to profit?

A1: Hardware on the whole should basically provide a boost. We will be increasing our spending on game development, including some investments in our studios. We expect a slight decline in revenue from third-party software. Given the sharp uptick in demand we saw in the 1st Quarter FY2020 from people staying at home, we think it is reasonable to apply a discount to software revenue for FY2021. We expect foreign exchange rates to provide a slight boost.

Q2: [EP&S segment] Could you give us an idea of how the expected 13.9 billion yen in profit growth breaks down into the various product categories?

A2: We expect cameras to drive the majority of sales and profit growth. The digital camera category was affected the worst by the pandemic in FY2020, and it is now on a recovery track. We have some excellent products, and, while the pandemic is likely to subside at different times in different countries, we expect to see further growth as it does.
