FY2023 Earnings Announcement
Q&A (Summary)

Date: May 14, 2024 (Tue)

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 fiscal year ended March 31, 2024, 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] Can you comment on media reports regarding the acquisition of Paramount group? How would that fit in with your ambitions in your 5th Mid-Range Plan to strengthen your entertainment businesses?

A: As we have not made any announcements, I will refrain from commenting on the reports. However, as we see a lot of conflicting information, I would like to provide a comprehensive explanation of our current strategy, including our approach to capital allocation. Creating synergy through IP across G&NS, Music and Pictures is a unique strength of the Sony Group and a core part of Sony's growth strategy. Within this framework, SPE essentially serves as a hub for generating synergies and plays an important role within our business. Therefore, if there are promising opportunities in this field, we will consider them as long as we can expect appropriate value and investment return. Having said that, in terms of capital allocation performance over the past three years in the 4th Mid-Range Plan, strategic investments, excluding share buybacks, totaled 1.3 trillion yen, of which approximately three quarters was allocated to the entertainment businesses. The largest portion went to the Music segment, while the remainder was split approximately equally between the G&NS and Pictures segments. In terms of investment purpose, the largest proportion was allocated to IP acquisition. We currently intend to continue with this basic policy for the next three years as well. The strategic investment framework for the 5th Mid-Range Plan is a target of 1.8 trillion yen, including share buybacks, over three years. Our basic approach under the framework is to conduct strategic investments and agile share buybacks within this range over a three-year period, without overly favoring any specific segment.

Questioner 2

Q: [G&NS segment] What impact do you expect the headcount reductions announced by Sony Interactive Entertainment ("SIE") in February to have on your FY2023 and FY2024 earnings? Does the SIE new management announcement made today indicate that a certain amount of progress has been made on the restructuring efforts at SIE?

A: We booked restructuring costs in the upper single-digit billions of yen in FY2023. Elements of the restructuring process remain underway in FY2024, and we expect to recognize a similar level of costs, but we also anticipate cost savings that will offset those costs to some extent. You should therefore expect the totality of the cost savings to become apparent from FY2025. There is no direct link between the new management announcements made today and the restructuring process.

Questioner 3

Q: [G&NS segment] You place sales growth in software and network services as key metrics in your 5th Mid-Range Plan. In these two categories, what kind of growth are you expecting over the next three years? For software, can we expect to see you launch major titles in FY2025 and beyond?

A: Within the software category, we believe that third-party titles will see growth in-line with that of the market. As for first-party titles, we plan to release several major titles and live service games in FY2025 and FY2026, and we have formulated our plan based on the expectation that sales in FY2025 and FY2026 will exceed those of FY2024.
In network services, we expect sales to broadly track growth in monthly active users ("MAU"). We view MAU as being on a moderate uptrend, and we additionally expect to see a boost from the price increases that we announced last fiscal year. We therefore anticipate growth in monetary value terms to slightly outpace overall market growth.

Q: [G&NS segment] How do you view the timeline for recouping strategic investments, including in studios, especially when it comes to acquisitions?

A: We invest in studios essentially to expand our lineup of first-party titles, and we perform reviews to establish whether we were able to obtain the returns that we had originally anticipated. While our past experiences have demonstrated that the internal rate of return (IRR) from first-party title development is relatively high, we have not always been able to stick to the launch dates that we had initially planned for titles. Delays have occurred mainly when we have needed to give games a final polish ahead of their ultimate releases to make sure that we attain the level of quality that players expect. With this in mind, we believe that the key will be how effective a portfolio we can create over the next three years.

Questioner 4

Q: [G&NS segment] Your aim of achieving record profits in the PS5 generation during your 5th Mid-Range Plan by maintaining your PS4 user base sounds persuasive. At the same time, this means that the need to produce games for both PS4 and PS5 will weigh on third-party developers. Given that, why do you see the way of profit generation with PS5 as different from that of previous console generations and where do you intend to focus your efforts in order to achieve those record profits?

A: We anticipate that profit generation with PS5 will follow a different path than what we saw with PS4. Whereas growth in network services accelerated after the PS4's launch, PS5 capitalized on the already expanded user base of PS4 at the outset. On top of this, trends became difficult to read, partly due to tailwinds such as the pandemic-driven expansion in the gaming market and the massive global popularity of certain live service game titles. At present, our focus is on maintaining the health of our platform as represented by stability and growth in key metrics such as MAU and total game-play time. Core to our strategy is that we identify and continue to analyze multiple key data points, by which we aim to ensure that we generate sound growth while also maintaining the health of our platform. Comparing the PS5 install base with our MAU indicates that nearly half of users are still playing on PS4. As such, we believe that we need to manage the business to ensure the steady growth of our MAU, while handling the generational overlap in our console generations.

Q: [I&SS segment] Competitors appear to be making inroads into the high-end smartphone market. Are you continuing to see your market share of mobile sensors grow in China, or have you reached somewhat of an equilibrium in that market at present?

A: We can no longer sell to a specific Chinese customer without a license at present, so that market is no longer one where we can compete freely based on our technology. It has also become difficult to analyze what the competition is doing. At present, our intention is to expand our share as much as possible in markets that allow us to compete freely.

Questioner 5

Q: [G&NS segment] What are your forecasts for the sales and operating income of Bungie in FY2024 and FY2025? Also, what are your forecasts for the acquisition-related expenses, including for Bungie, for the upcoming three-year period?

A: There was no profit contribution from Bungie in FY2023. Bungie is currently working to develop new IP, which is expected to be a major title, and we have to carefully monitor the development status.

It looks unlikely at present that Bungie itself will make a profit contribution in FY2024, either. However, Bungie's development and operational capabilities are exceptional, and it has a title scheduled to be released in June 2024, so we look forward to seeing how it performs.
Based on our current foreign exchange rate assumptions, we forecast approximately 52 billion yen in total acquisition-related expenses in FY2024, including acquisitions other than Bungie. We expect these costs to continue to be recorded roughly until the first half of FY2027, while such costs are expected to decline in stages at an annual rate of around 20%-30%.

Q: [G&NS segment] What is the background to the appointment of Hideaki Nishino and Hermen Hulst as part of the new leadership at SIE? What are their strengths, and what is different about this leadership team from its predecessors? As the new chairman, what are you hoping to see, Mr. Totoki? What changes versus the last earning announcement inspired you to target record profits under your new Mid-Range Plan?

A: We chose Nishino and Hulst because they are well-versed in the platform business and studio business, respectively, and both gentlemen are experienced and talented individuals. The major difference is that there are now two leaders at the helm. This reflects not only the expansion in the size of SIE, but also the greater role that PlayStation Studios plays in Sony's business strategy. For this reason, we need decision-making to be granular and timely, and our hope is that the two-leader structure allows for a nimble approach to management. Both Nishino and Hulst are outstanding talents representing the future of management, and we have high hopes for them. By taking on the role of CEO at SIE, I, Totoki, was able to become acquainted with many more employees. It gave me an appreciation of the wealth of individual talent we have and how motivated our employees are. They showed me how driven they are, and they are advancing the conversation on a variety of topics, so I believe that record profits during the term of the 5th Mid-Range Plan are within our reach based on the current circumstances.

Questioner 6
Q: [I&SS segment] Are you expecting invested capital in the I&SS business to increase by several hundred billion yen annually, again in FY2025 and FY2026?

A: We expect capital expenditure in the 5th Mid-Range Plan to be roughly 70% of the 4th Mid-Range Plan level. The scale of our business will essentially expand in-line with growth in our sales, and invested capital will naturally rise in tandem. What is the key is not the absolute amount of our invested capital but whether it leads to an adequate expansion in the size of our business and margin creation. Once sufficient business expansion is reached and we begin to recoup our invested capital, we anticipate the level of our investment will begin to moderate. We intend to remain financially sound and to maintain our competitiveness while expanding our margins and business.

Questioner 7

Q: [Consolidated] You are targeting a total payout ratio of 40% in the final year of your 5th Mid-Range Plan. What ratios did you achieve over the past three years, and what was the thinking and background that led to this new target?

A: We have decided to set a target to enhance our shareholder returns during the three years covered by the 5th Mid-Range Plan, with the aim to make our total payout ratio 40% in FY2026. This is because we expect to see an increase in the operating cash flows that fund our shareholder returns, we do not expect our capital expenditures to increase, we intend to exercise some degree of selectivity in making our strategic investments while remaining mindful of the need for efficiency, and we expect the investments that we have made to date to yield benefits.

Total payout ratios during the 4th Mid-Range Plan were around 19% in FY2021 and FY2022 and 32% in FY2023 when 200 billion yen in share buybacks were included.
