THIRD POINT

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Dear Investor:

Third Point has invested $1.5 billion in Sony Corporation because we believe it is one of the most undervalued large cap businesses in the world today. Sony's valuation does not reflect either the quality of the Company's businesses or the opportunity to create meaningful, long-term value through targeted capital allocation and further operational improvement.

We rarely find companies like Sony that have a depressed valuation, high-quality underlying businesses, numerous options for portfolio optimization, and a capable management team. These conditions are reminiscent of our 2017 investment in Nestlé.[1] Over the past two years, we have provided constructive input to Nestlé's CEO Mark Schneider and the Board, during which time the company has improved organic sales growth and operating margins, returned CHF 20 billion of capital to shareholders via buybacks, upgraded its Board, and focused its portfolio by divesting non-core assets, recycling the proceeds into high-quality acquisitions. Today, we see a similar opportunity to unlock value in Sony, a company we know well.

We first invested in Sony in 2013 because we believed it was inexpensive due to inadequate investor disclosure, excessive debt, an overly complex corporate structure, and consistent losses in its consumer electronics segment. We also recognized that the Company had tailwinds for change, driven by Japan's then newly-elected Prime Minister, Shinzo Abe, who had articulated an ambitious Three Arrows plan for economic reform. Since 2014, under the skilled leadership of the prior CEO, Kazuo Hirai, and Kenichiro Yoshida (first as CFO and now as CEO), Sony's business has undergone a dramatic transformation. Yet, despite these substantial improvements, Sony continues to be as undervalued today as it was in 2013, trading at its lowest forward multiple of earnings in the last decade.

Now that Sony is on a better path operationally, we believe CEO Yoshida-san has an opportunity to create a "Stronger Sony" by shifting his focus to unlocking the value of the Company's

[1] Like our investment in Nestlé, our Sony investment is also made in part via a special purpose vehicle created for this opportunity.

tremendous portfolio of assets. With the stock trading today at just 11x 2020 EPS, we see compelling upside from current levels catalyzed by a deliberate portfolio review, focused capital allocation, and strategic reorganization.

Long-considered a consumer electronics company, today Sony generates over 75% of its profits from four "crown jewel" businesses: Gaming, Music, Pictures, and Semiconductors.

- **Gaming**: Sony's PlayStation gaming franchise represents the world's largest video game business by revenue, with a current-generation console installed base approaching 100 million globally, more than double the scale of its closest competitor, Microsoft's Xbox. Over the past six years, PlayStation has successfully evolved from a low-margin hardware manufacturing business to a high-margin software and subscription services platform, with revenue increasingly generated from non-cyclical sources such as in-game purchases, first-party software sales, and recurring payments from Sony's 36 million PS Plus subscribers. Recent competitive fears relating to new entrants in cloud gaming are overblown, as Sony currently operates the world's largest cloud gaming service (PS Now) with a five-year head start relative to cloud competitors.

- **Music**: Sony is one of three major players (along with Universal Music Group and Warner Music) that dominate the recorded music and music publishing industries. Subscription-based streaming services like Spotify, Apple, and Amazon have reversed a multi-decade decline in music industry revenues and the industry is now experiencing rapid growth and expanding margins. With the 2018 acquisition of EMI, Sony wisely doubled down in music and, in the process, became the largest music publisher in the world.

- **Pictures**: As one of the five largest Hollywood studios, Sony Pictures benefits from a rich library of iconic intellectual property that spans nearly a century. Following a wave of consolidation in the media space over the last two years, Sony Pictures remains one of the few independent film studio franchises not owned by a major telecom or media distribution company (e.g. Comcast, AT&T, Disney); this independent status provides Sony a competitive advantage, as it remains free to license television and movie content

to any of the well-funded and fast-growing streaming platforms in the market such as Netflix, Amazon, and Apple.

- **Semiconductors**: With an over 70% market share in smartphone image sensors (which power digital cameras on phones), Sony has exposure to an end-market with one of the best secular outlooks in the semiconductor industry. Photo and video imaging are becoming more important parts of the smartphone and the automobile, driving sustainable content growth well in excess of unit volumes in each of these large markets.

These four segments have generated a 38% CAGR in operating profit over the past five years. Given the secular themes to which these businesses are exposed, we expect robust earnings growth to continue. So why does this company trade at just 11x earnings, a substantial discount to the market and a multiple befitting a declining business, rather than one moving from strong to stronger?

We believe Sony's valuation discount is attributable primarily to portfolio complexity, which will be a permanent problem unless it is decisively addressed. We have seen countless "conglomerate discounts" over the years where investors consistently discount valuation or avoid certain stocks altogether due to the challenges of forecasting numerous, unrelated business drivers.[2] Of the 14 sell-side analysts covering Sony's stock, only two have relevant internet and entertainment backgrounds; the rest are Asia-focused electronics analysts. Third Point's own diligence required the simultaneous efforts of numerous sector teams across media, semiconductors, financials, and even healthcare to understand Sony's businesses. This process yielded strong conviction in Sony's untapped value, as was the case in 2013. The difference today is that Sony is now poised to address its portfolio complexity and the resulting valuation discount.

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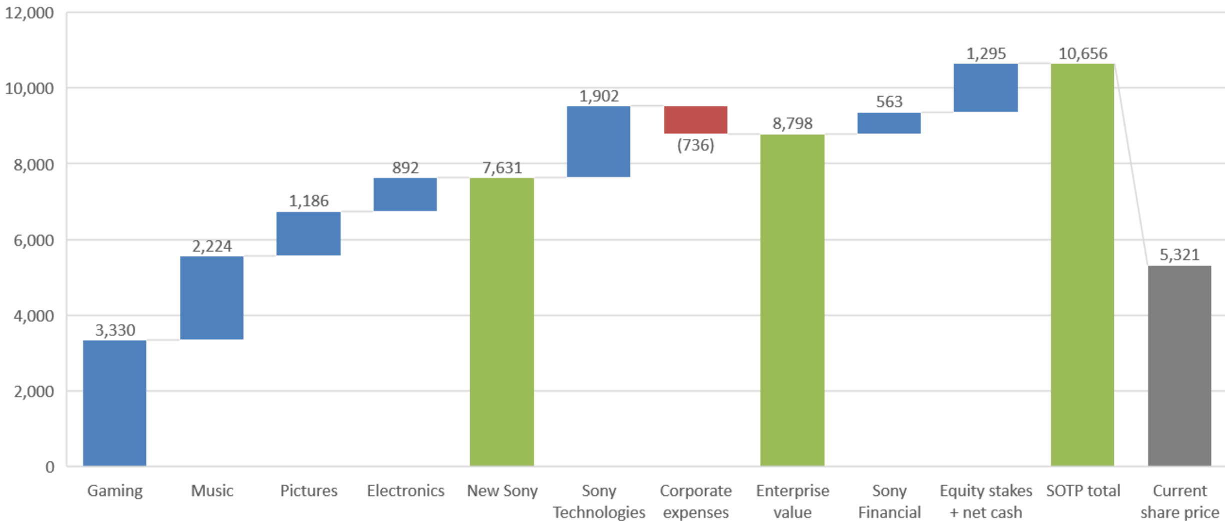
[2] In 2018, Goldman Sachs summarized this argument, writing: "*The complexity of Sony's business structure, which ranges from video game platforms to cutting-edge semiconductors and life insurance…appears to have discouraged entry by a broad range of investors. If investors were to invest in Sony on order to profit from earnings growth driven by the shift to digital distribution in the game and network services business, the firm's largest business, they would also need to accept risks arising from competitive conditions in the semiconductor business and restructuring in the mobile communications business since games account for less than 40% of total earnings.*"

There are many paths to unlock Sony's value. Sony has a net cash balance sheet, generates a 7% unlevered FCF yield (despite significant growth investments in image sensor fabrication capacity), and owns stakes in publicly-listed companies totaling over $12 billion (nearly 20% of its total market capitalization). This opportunity set is staggering: if management were to monetize these stakes and take leverage to a conservative 1.0x, the company would have $34 billion of capital to invest for growth or return to shareholders, equal to more than 50% of the current market capitalization. Encouragingly, it appears Sony management shares our view. In February, the company announced a ¥100 billion (~$900 million) share repurchase, its first buyback in 15 years. This was followed by an additional ¥200 billion (~$1.8 billion) repurchase announcement in May.

Today, Sony trades at roughly half our estimate of intrinsic value, with additional upside from optimizing capital allocation:

Sony sum-of-the-parts YE21 (JPY per share)



Source: Third Point valuation analysis; Company filings. Net cash as of YE21

A Stronger Sony

In order to release this value and put the Company on an even stronger footing for the future, we believe that Sony should: 1) consider a spin-off of its semiconductors division into a standalone public stock, re-named "Sony Technologies", to be listed in Japan; 2) position New Sony as a leading global entertainment company; 3) consider the divestiture of its public equity stakes in Sony Financial, M3 Inc, Olympus, and Spotify, and; 4) optimize its capital structure. We make these recommendations with Sony's long-term success at the forefront of our considerations and believe these actions will help Sony to more effectively and sustainably grow value for stakeholders in the decades to come.

Semis: A Japanese Technology Champion

Sony's semiconductor business is dramatically underappreciated by the market despite its position as the global leader in image sensors with over 70% revenue market share of the smartphone image sensor market. Japanese companies pioneered the semiconductor industry more than 60 years ago, and at one point commanded a dominant 40% global market share. While Japan has ceded semiconductor market share to other Asian countries, Sony Semiconductors has held its own, demonstrating strong revenue growth and technological prowess. Contributing only 18% of Sony's consolidated earnings, this division is often treated by investors as an afterthought despite its status as one of Japan's leading technology companies.

In 2017, the Japanese government passed tax reform legislation that allowed companies to spin-off divisions "tax-free". *Nikkei* explained: "Next fiscal year's package will seek to encourage management to act boldly with shareholders in mind. Part of the plan is to reduce the tax on spinoffs, which can give the newly hatched company more freedom over its operations and help change the makeup of industries."[3]

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[3] "Japan Eyes Tax Break for Spinoffs." *Nikkei Asian Review*, Nikkei. 19 November 2016. https://asia.nikkei.com/ Politics/Japan-eyes-tax-break-for-spinoffs

As a standalone public company listed in Japan, Sony Technologies would be a showcase for Japan's technology capabilities. Rather than just an uncut rough stone buried inside Sony's portfolio, Sony Technologies would be visible as a Japanese crown jewel and technology champion. The company would attract a new cohort of dedicated semiconductor investors with an appropriate appreciation for the growth profile, capital needs, and cyclicality of this asset. With its own board and management team, Sony Technologies can focus 100% on maintaining its leading position in the fast-growing image sensor market. Perhaps most importantly for its long-term success, Sony Technologies would be able to invest more deeply in capex and R&D, without compromising the strong free cash flow profile of Sony's entertainment assets. If Sony Technologies lists in Japan and executes on the long-term vision articulated at the 2019 IR day, we believe it could be a $35 billion public company within five years.

"New Sony": A Creative Entertainment Leader

Sony's gaming, music, and pictures segments would become the Company's core after the Semiconductor spin. As capital-light, high-growth businesses, they too will benefit from a standalone public listing and management team. New Sony's portfolio would include the largest console gaming platform in the world as well as a top 10 mobile game studio; the #1 music publishing and #2 recorded music company globally; and one of the world's top five film/TV studios. New Sony is levered to three of the most important secular growth drivers in the media space: 1) accelerating growth in console gaming revenue driven by in-game purchases and live services; 2) the shift in music and video consumption to subscription-based streaming services; and 3) the rising strategic value of music rights and film/TV libraries amid fierce competition for content among streaming distribution platforms. We believe that these tailwinds would enable the pro forma company to grow EBIT at a 10%+ CAGR going forward. With its robust cash flow generation, New Sony would be able to rapidly grow earnings and return substantial capital to shareholders, a rare combination.

While small relative to the entertainment assets, Sony's legacy electronics assets are no longer the drag on profitability that they were six years ago and will be a meaningful cash flow contributor to New Sony. Thanks to focused management intervention, TVs and cameras are solidly profitable, and aggressive actions are being taken to improve the profitability of mobile phones. The free cash from these businesses can be redeployed into entertainment investments,

and as entertainment grows, electronics will become a smaller percentage of New Sony's value and narrative over time.

Sony's Listed Stakes and Capital Structure

We also encourage Sony to consider whether its listed stakes and capital structure are best serving the company's stakeholders. With its robust financial profile, Sony no longer relies on Sony Financial's cash flow. The other businesses (M3, Spotify, Olympus) contribute very little to the Company's earnings, but have significant value. Recent Japanese corporate governance reforms have urged companies to divest cross-shareholdings and doing so would allow Sony to lead by example as corporate Japan evolves. We believe the proceeds of these divested stakes should be invested in long-term growth or capital return to shareholders.

Finally, with its strong cash flow generation, we believe that Sony can modestly increase its leverage to 1.0x net debt/EBITDA to increase ROE and improve its balance sheet efficiency. This would bring leverage in line with global media and entertainment peers, most of which have leverage in the 1-2x range.

Conclusion

We are pleased to have played some role in drawing the market's attention to Sony's undervalued franchises six years ago, and today, we again see a clear case for value that the market fails to appreciate. The difference between now and 2013 is that Sony is in an excellent position to do something about its conglomerate discount. At www.AStrongerSony.com, we share more of our analysis about the optimal routes for value creation at the Company. We have shared these views with Sony and appreciate management's open approach to our dialogue. We look forward to working together to create long-term value for the Company's stakeholders by building an even Stronger Sony.

Sincerely,

Third Point LLC

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