

SoftBank Group Corp.: FY24Q3 Global Conference Call Q&A

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Q&A

Speaker 1

Q1:

My question is on Stargate. Of the \$100 billion to \$500 billion total budgets, does SB Energy have any contractual arrangement or participation in that?

A1:

(Goto) SB Energy Global has been engaged in power generation projects in the U.S. for many years. In projects like this, particularly in the power generation sector, we believe we can leverage our experience. Therefore, there is a possibility of working in this field.

Q2:

However, I assume that SB Energy Global holds the same position as other power generation companies. For example, when the Stargate project procures specific equipment, does SB Energy Global have a preferential opportunity to bid? Or do they participate in a competitive bidding process under the same conditions as other companies?

A2:

(Goto) If Stargate undertakes the project as a mega data center, the power generation facilities will be structured with a primary focus on supplying electricity to the data center.

Q3:

Another question is related to Cristal intelligence. I think it has been described at some point that SoftBank Group has exclusivity with OpenAI, and I want to understand how far that extends. Is it just agentic AI that is developed as part of Cristal intelligence, or do you have exclusivity on all of OpenAI products?

A3:

(Goto) It is as announced. Cristal intelligence will provide services for enterprises. Regarding the sales of the service, SoftBank Corp. has the priority right under the contract.

Q4:

Are you the only people selling that?

A4:

(Goto) SoftBank Corp. will be responsible for the sales. The first customer is expected to be SoftBank Group.

Q5:

For the services that will be sold through SoftBank Corp., do SoftBank Corp. and the SoftBank Group companies have exclusivity on those products in Japan?

A5:

(Goto) Let me clarify this again. The exclusive sales rights are held by SoftBank Corp., the telecom company. The first customer will be all of the companies within SoftBank Group, with the holding company SoftBank Group, initially paying \$3 billion. Subsequently, each group company will pay us based on their actual usage, following the basic structure we envision. The specific figures and details will be determined moving forward.

Speaker 2

Q1:

I have two questions. First, could you talk about the potential for additional asset-backed financing capacity if needed? You mentioned about taking more loans against Arm. If you needed to raise more capital, is there still room for asset-backed financing?

A1:

(Goto) Currently, we have ample capacity for asset-backed financing. As you know, Arm's current valuation is significant, and our holdings represent a substantial amount. Therefore, while we may consider utilizing asset-backed financing in the future to maintain financial flexibility, we do not have an immediate need for it.

Q2:

Second question, could you talk about what types of potential lenders you would be targeting for the Stargate projects?

A2:

(Goto) Regarding lenders, the debt side of project finance is expected to be divided into multiple

tranches. In addition to senior loans and mezzanine loans, we may also structure preferred equity or other financial instruments, depending on the situation. We aim to design financial products that allow lenders with expertise in different risk-return profiles to select the appropriate tranche.

Q3:

Could you talk a bit more about the timing for Stargate? I think these data centers take a very long time to establish. When there is mention of deploying the money over four years, how long do you expect each project to last, just roughly speaking? And any thoughts about when you will really start to see more of these projects get going?

A3:

(Goto) At this stage, we are not yet able to disclose the schedule, so we appreciate your patience until we reach a point where we can provide that information. However, as mentioned in today's briefing, it will be completely different within each project. We expect to explain the schedule for each project one by one, including when it will start and when it is expected to close.

Speaker 3

Q1:

Firstly, on Stargate, could you provide some color on present ownership control? I want to know if this will be consolidated.

A1:

(Goto) The equity contribution ratio for Stargate is still under discussion and has not been disclosed. We will disclose it once a final decision is made. However, I can say that the 2 companies, SoftBank Group and OpenAI will be at the center of this.

Q2:

There has clearly been a lot of news in the press, Ampere, a direct investment, and OpenAI. I understand you may not be able to comment on those, but what is the maximum amount you would invest over a three- to six-month period, and how would you go about funding larger investment if it was over a shorter time frame?

A2:

(Goto) That is defined by our financial policy. As long as we can operate with an LTV below 25%, we will make additional investments. Given that our current LTV stands at 12.9%, we believe there is still substantial capacity available.

Q3:

That obviously does not include the margin loans, so you could max those out in theory, and the LTV would be unchanged.

A3:

(Goto) We have established a policy to operate with an LTV below 25% based on our defined LTV calculation.

Speaker 4

Q1:

I have two questions. The first one is about SVF. In the SVF section of the investor briefing material, I was surprised to see that the private investments recorded a \$1.5 billion loss. However, when I checked the data sheet, it showed that the private investments recorded an \$800 million loss in SVF1 and a \$900 million loss in SVF2. Earlier, I believe Navneet mentioned that the loss was mostly due to foreign exchange effects. If that is the case, then I wouldn't be too concerned, but could you please explain the background of this in more detail?

A1:

(Govil) I can give you a breakdown fund by fund. SVF1 had a loss of \$1.0 billion, and about \$900 million of that was Coupang, and that was really driven by what was happening in South Korea, the political situation. So, the biggest driver for SVF1, loss was essentially Coupang. If we look at SVF2, it had a \$1.2 billion loss. Of that, about \$200 million was from the public assets, and about \$900 million was from the private assets, and the largest driver of that was foreign exchange. It was about \$900 million attributable to foreign exchange depreciation. In particular, the Japanese yen was down 9% quarter over quarter, and the Indian rupee was down 3% quarter over quarter. There was a small amount of performance re-underwritings, and this is every year we get our portfolio companies to resubmit their forecasts for the projections for the next three years, and based on that, we will adjust the valuations. The LatAm funds were essentially flat. They were down approximately \$100 million.

Q2:

According to the data sheet, it states that the loss in SVF1 also comes from the private investments. Is that correct?

A2:

(Govil) It does, because we have about 400 plus portfolio companies, and there are pluses and minuses on all of them, and what I am describing to you is the largest driver. So of course, there is some performance, and it could be \$20 million on one investment, \$10 million on another, \$15 million on another, and it is like 50 of those, and it could add up, and it is offset by something else, but what I am describing to you is the biggest driver. So again, SVF1, the biggest driver was Coupang, about \$900 million, and SVF2, it was about \$900 million loss, primarily due to foreign exchange, and LatAm was an about \$100 million loss, which was relatively flat.

Q3:

That is correct for Coupang, but what is the \$900 million loss from the private portfolios in SVF1?

A3:

(Govil) In SVF1, there are small pluses and minuses that largely offset each other, so when you look at it overall, it is a one-billion-dollar loss, with Coupang as the largest driver.

Q4:

One more question for Goto-san. I'm a bit confused about SB OpenAI Japan. Regarding the \$3 billion payment, which is approximately worth 450 billion yen, my understanding is that SoftBank Corp. will pay based on usage, meaning a consumption-based model, which is not an issue. However, if SoftBank Corp.'s usage remains in the hundreds of billions of yen range, would SoftBank Group still be required to pay the full 450 billion yen to SB OpenAI Japan? In other words, does SoftBank Group have an obligation to pay the full 450 billion yen regardless of the actual usage by each group company?

A4:

(Goto) First, under the contract to pay \$3 billion, SoftBank Group will take on the service, and thereafter, we will let each group company use it as needed. For the group companies, the concept will be "pay-for-use", meaning they will only pay for what they use. Of course, if there is any unused portion, SoftBank Group may bear the cost. However, this is the first transaction, and various adjustments will likely be made moving forward. In a way, we are serving as a test case ourselves, and we will continue to update everyone as we progress.

Q5:

My concern is that if SoftBank Corp. only uses 100 billion yen, SoftBank Group would end up with a 350 billion yen loss. But I assume the expectation is that such a scenario is unlikely to happen. Is that correct?

A5:

(Goto) First, we need to thoroughly review the details of the service and assess the extent to which each group company will use it. As I mentioned earlier, this is the first transaction, and at this stage, the service itself has not been finalized, so we are not yet at a point where we can discuss specifics. We will first wait for the service to launch and then engage in discussions regarding concrete figures.

Q6:

How should we think about the potential for further expansion of the margin loan using Arm shares? Since Arm represents the largest asset within your portfolio, the recent \$5 billion capacity increase has been described as one of the largest ever for a single-stock margin loan. Is there still room for further increases? Of course, I understand that this ultimately depends on financial institutions.

A6:

(Goto) The potential for further capacity increase of the margin loan using Arm shares needs to be considered from multiple perspectives. While Arm shares hold significant value, liquidity is also a key factor when raising funds through a margin loan. Currently, we own 90% of Arm's shares, with only 10% available in the market. This limited float may act as a constraint on the overall capacity for such transactions.

Q7:

Coincidentally, the same \$5 billion has been added to SVF2's commitment. Was this \$5 billion allocated to SVF2?

A7:

(Goto) It is just a coincidence.

Speaker 5

Q1:

I have a question related to DeepSeek. Are there any challenges, including cost, efficiency, or other factors, that open-source models face compared to OpenAI, your investment? And will that impact your investment strategy into the China tech and in the other related? Second question is, since you are making a huge investment in the U.S. and now is more in Japan, how do you balance this huge investment in terms of your priority, and the use of cash?

A1:

(Goto) DeepSeek has only recently started to gain broader recognition. Given that many engineers and experts, including those from OpenAI, have not yet provided comprehensive evaluations of DeepSeek, it is difficult for me, as a non-engineer, to offer precise and detailed comments.

Regarding investment priorities, SoftBank Group remains committed to AI-related investments on a global scale. In addition to investments through SVF, we will also make investments using our own capital. Furthermore, through vehicles like Stargate, we will actively invest in businesses related to data centers and infrastructure in the U.S. Moving forward, we will continue to focus on AI-related investments with a global perspective.

Q2:

Will the \$100 billion or \$200 billion investments in the U.S. be made through SVF?

A2:

(Goto) Are you perhaps referring to the conversation between Mr. Trump and Son?

Q3:

Yes.

A3:

(Goto) Son did indeed mention it. That refers to investments in the U.S., which likely include Stargate as part of it, as well as other investments in the U.S. through SVF.

Speaker 6

Q1:

The first question is about Stargate. I saw some news reports stating that the entire capacity is for OpenAI. Is that true, or is it also for general, non-OpenAI clients? And the second question is about the deal—I know it's valued at up to \$500 billion. Does your investment in the next phase of the deal depend on the utilization of the first phase?

A1:

(Goto) First, regarding the users of Stargate's services and data centers, we are currently focusing on OpenAI. While this involves a \$500 billion investment over four years, it is difficult to predict the exact situation three or four years from now. Therefore, we cannot say for certain whether there will be clients other than OpenAI. Depending on the circumstances at that time, there may be room for consideration. However, for now, our primary focus is on OpenAI.

Q2:

Is there anything you can share about the ROI of this investment? Even just qualitatively, could you provide some insight into the return profile on this investment?

A2:

(Goto) At this stage, we are not yet in a position to discuss specific figures. We believe that such figures will be explained on a project-by-project basis. As we move forward with the initial project, we will engage in discussions regarding these numbers.

Speaker 7

Q1:

From when does SoftBank Group have to pay OpenAI that \$3 billion of annual commitment? Even if the SoftBank Group entities like LY Corp., ZOZO or SoftBank Corp. do not use the entire \$3 billion budget, do you still need to pay that \$3 billion to OpenAI?

A1:

(Goto) The timing of the \$3 billion payment has not yet been determined. What we can say is that the basic idea is that payments will begin after the service is clearly completed and launched. Additionally, while various group companies will utilize the service, if, under the "pay-for-use" model, there is any remaining portion that is not used, SoftBank Group will bear the cost. However, since we are the first customer, this also serves as an opportunity to conduct various tests. From that perspective, we appreciate your understanding as we take on this role as the initial customer.

Q2:

Is this payment contingent on certain conditions being met by this product? Is there a specific deadline by which you must pay the \$3 billion? Could you share more details about it? It seems like a sizable commitment on your part.

A2:

(Goto) Since this is a service-related cost, we believe that payment cannot be made before the details of the service are finalized. Therefore, the top priority should be to complete the service first.

Q3:

Are the Stargate project and the potential stake in OpenAI related? For instance, Elon Musk has offered to take an OpenAI, which may delay maybe conversion of OpenAI into a for-profit organization and your stake in that company. If that were to happen, is the Stargate project also likely to get delayed because of that?

A3:

(Goto) I was also somewhat surprised to see the recent news that Elon Musk made an acquisition proposal to OpenAI. However, given that they are competitors, it is not surprising that various negotiations and strategic moves are taking place. Ultimately, it is up to OpenAI's board to decide whether to accept the proposal, so we intend to observe the situation calmly. Of course, it goes without saying that our relationship with OpenAI remains solid and unwavering.

Q4:

If this cause a delay in your stake in OpenAI, does it also delay the Stargate project?

A4:

(Goto) Elon Musk's proposal could potentially have some impact on our joint business with OpenAI. However, at this moment, we do not see any indications of such developments.

Q5:

If \$100,000 worth of NVIDIA systems are sold, what would be the revenue that Arm would receive from that?

A5:

(Child) Regarding your question about the financial impacts of NVIDIA servers, we are not allowed to provide specifics about royalties on particular partners, However, I can provide a general overview. Typically, for a v9 custom server chip—like Grace—the royalty is around 50 cents per core. My understanding is that the current Grace Blackwell configuration uses a 72-core CPU per Blackwell, which would amount to approximately \$36 per chip. As for how this relates to your \$100,000 benchmark, I do not have the exact details, but this should give you a rough idea of the relationship

between CPU and GPU pricing.

Q6:

Is a Blackwell not roughly a system around \$50,000?

A6:

(Child) That is somewhere in that range. If that is the case, then it is in the \$100 to their \$100,000, or somewhere in that range.

Q7:

So, roughly a \$100,000 spend would generate around \$72 in revenue from Blackwell.

A7:

(Child) Yes, based on our average economics, it would be somewhere in that range.

Speaker 8

Q1:

Between Arm, Graphcore, and now more operating directly around data center with OpenAI, how do you think about SoftBank Group's ambition and priority in semiconductor design, potentially for customers like OpenAI?

A1:

(Child) There is certainly plenty of potential to extend our design capabilities. At this stage, we are excited we are particularly excited the recent Stargate project. As a technology partner, we are effectively the CPU of choice, which remains our near-term focus. Given the overall magnitude of investment expected in AI data centers, millions of chips GPUs and CPUs-are likely to be deployed making this a huge opportunity for us. As for going beyond that, there are certainly possibilities, but nothing the company has announced thus far.

Speaker 9

Q1:

I have a few questions regarding your financial position. First, with the expansion of the margin loan capacity using Arm shares and other measures, your cash position has now increased to ¥5 trillion. However, looking ahead to the next six months, there are several anticipated cash outflows, including the installment payments for the buyback of Arm shares from SVF, the remaining ¥300 billion share buyback capacity, and approximately ¥1.5 trillion in investment capacity. Additionally, you previously mentioned that around \$2 billion per quarter serves as a benchmark for new investments. Of course, I understand that there is potential for cash inflows from future SVF distributions and asset sales. However, considering the possibilities of future outflows—including the installment payments for the Arm share transaction, share repurchases, and new investments—it seems that your cash position

could decrease to around ¥3 trillion.

I acknowledge that you are maintaining financial discipline by securing two years' worth of bond redemption in cash, but compared to the past one to two years, your cash position level appears to be declining. As someone looking at this from a credit perspective, I am trying to understand how to interpret this.

Goto-san, do you see this as completely fine since you are meeting your financial policy requirements, or do you have a strategy to maintain the current ¥5 trillion cash position level through other measures? I would appreciate hearing your thoughts.

A1:

(Goto) We have no intention of maintaining the ¥5 trillion cash position level, nor do we see a need to do so. In the first place, securing two years' worth of bond redemption in cash already provides a substantial buffer, so as long as we comfortably exceed that level, we believe it is sufficient. Additionally, I feel that the calculation of cash outflows you mentioned differs somewhat from the actual figures. In any case, as long as we maintain financial discipline with ample flexibility, we believe there is room for discretionary financial maneuvers.

Q2:

One final question—this may be a bit premature, but I'd like to ask about your approach to the first call of your hybrid bonds. I understand that several hybrid bonds are set to reach their first call in 2026. Given your financial policy thus far, I have no concerns about redemption at the first call.

From a ratings criteria perspective, my understanding is that if refinancing takes place at least 12 months before maturity, it can be counted as a replacement. In that case, if you were to issue a new hybrid bond as early as this month, it could be recognized as a replacement.

My question is: Considering the current credit and interest rate environment, do you intend to proactively proceed with the replacement of hybrid bonds in advance, or do you prefer to wait and consider refinancing closer to the call date? I would appreciate hearing your current thoughts.

A2:

(Goto) As we have previously stated, our policy is to execute the first call on our issued hybrid bonds and other bonds, at the scheduled timing. Therefore, we expect to refinance them as part of the process. While we will approach this with ample flexibility, there is no need to rush, so we will determine the timing based on market conditions.

As you pointed out, we are currently seeing a slight rise in interest rates. This may prompt us to prepare a bit earlier, but we still need to monitor interest rate trends further. More importantly, we believe that market demand will be a key factor. We will carefully assess market conditions through investment banks and determine the timing of the issuance accordingly.

Speaker 10

Q1:

I have two questions. First, I would like to ask about the position of the \$500 billion figure for the Stargate Project within your company. Should this be considered as nearly a commitment by SoftBank Group? Additionally, how do you view the potential reputational risk if the target of \$500 billion over four years is not achieved?

A1:

(Goto) The \$500 billion is a plan. As with any plan, there is a possibility that it may not be fully achieved, which could lead to reputational risk. However, the most important thing is that the Stargate Project successfully provides the necessary data center services for OpenAI.

Q2:

I have one more question, which may be more general. Since this is a data center for OpenAI, is there a plan to sign a usage guarantee agreement or a similar contract? If such an agreement is not in place, could it impact the equity portion ratio in the project finance structure?

A2:

(Goto) We are not yet at a stage where we can discuss the details of the contract. However, there are several key themes to consider when structuring project finance. In particular, we will carefully assess what information lenders require for the offtake process and ensure that the structuring is appropriately designed.

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