

## SoftBank Group Corp. : FY21Q2 Global Conference Call Q&A

**Speaker: Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO**

**Q1:**

Your NAV declined from 27 trillion yen as of June end to 20.9 trillion yen as of September end. What has driven this 6 trillion yen decline or \$54 billion decline in NAV and how do you see NAV going forward?

**A1:**

The biggest portion of that is from the drop down of the share price of Alibaba. That's most of it. A small portion is Vision Fund decrease. Vision Fund1 has declined one trillion yen in one quarter. Half of that is the SoftBank portion. So that's 5 billion dollars. Most of the others are just Alibaba.

**Q2:**

My question is about the new investments coming into Japan. Among the Vision Fund companies you've invested into, we've already seen Paytm doing very well, helping PayPay to become very successful in Japan. And I think WeWork Japan also has done quite well. Could you tell us a bit more about how the Vision Fund has worked for those two investments, and also what other investments do you think could do well in Japan? It looks like DoorDash and Coupang are starting to invest in Japan. Could you tell us more about those please?

**A2:**

Yahoo Japan was preparing the QR code payments by themselves. They spent a few years developing a product. But a couple of months before the actual launch, I looked at it and I said, well, this is just a catch up to the other services that other companies have already started in Japan. We have to surpass, not catch up. And already in China, Alipay was very successful. In India, Paytm was very successful. Alipay and Alibaba have been big investors in Paytm. So they have trained and educated the methodology and technology, business model and so on. Of course, their original code is written in India. Vijay was kind enough to bring 100 engineers from Paytm into Japan and specifically helped launch PayPay. Not only the great engineers and technology, but they have the knowhow. They have already fought against the other competitors in India and became very successful number one. So those experiences, those business models, those engineers, they drastically help. But not just the technology. SBKK had Yahoo! BB salesforce and experience to cultivate so many numbers of offline merchants on the street. We have made thousands of sales guys knocking doors to open up accounts. So that was very powerful. Yahoo Japan of course, has all kinds of reach to Internet users. Integrate PayPay to many other Yahoo Japan's services. So PayPay is a great example of SBG, myself talking directly, influencing directly the management of PayPay for the idea of promotion, integrating Alipay through the Vision Fund Investment, bringing Yahoo Japan, bringing SBKK. All those powers unite together to have such a massive success in payments because PayPay was not the earliest. It was almost the latest to start in the competition. But with this throughout the family synergies, it has worked out beautifully. Yahoo! BB was also the joint effort helped by Yahoo Japan, and SBKK's salesforce. Even though they are independently public companies now, we have the merit of win-win synergies. Of course, they're independent companies, so they shouldn't do the job where there is no win-win. But very often we can find a beautiful synergy, and this would have never happened without the function of each other. It's a four company's effort. Paytm, SBG, SBKK and Yahoo Japan. So, I hope this kind of example repeats with many other opportunities. Now, Vision Funds, etc. have more than 360 family portfolio companies. They're all equal. There are many, many other ideas and opportunities that we can start, just like PayPay for Japan.

**Q3:**

When I look at the discounts to NAV, clearly there's a mismatch between the perception the markets have of SBG and the reality that one can see if one digs and looks at what you're doing. And one key area is the mismatch between perception and reality seems to be in the ESG world. We are seeing a huge amount of capital from our clients going into ESG focused funds. And yet it's very hard for us to include SoftBank because of the rating agencies' look of SoftBank. What do you think you can do to improve the profile of SoftBank in the ESG world? And clearly SBG is an impact investor given its impact on health and energy consumption and education. So, you should be very much sought after by these tens of billions of capital chasing impact investing. And yet, they're kind of ignoring you. What can be done? Because that would help the discount hugely and would be much cheaper than buybacks. You could carry on investing elsewhere.

**A3:**

Maybe we have not been spending enough effort explaining how SBG is an ESG respecting company. As you said, we are by far the largest solar energy provider in Japan, India, and the US. We initiated many of those. And we are already carbon neutral ourselves, right? Many companies say they want to be carbon neutral in five years. We didn't say it upfront, but we are already carbon neutral, right? Because we started so early with the concept right after the Fukushima accident. I thought the solution was renewable instead of nuclear power plants. And in terms of the medical field, we helped many initiatives of fighting against cancer, fighting against COVID-19, many mask donations and so on. But we are not spending enough effort to communicate that. Vast majority of our investments in Vision Fund, we are helping people to live longer, to reduce car accidents, and to educate more efficiently throughout the world. Helping financing to the small and medium companies, and improving efficiencies of the logistics and creating jobs, and so on. I think we are one of the most ESG focused companies in Japan. We are one of the very few companies with a female, foreign, and majority independent board of members. We were once criticized and we improved, and we are probably one of the most disclosed companies. But I hope people will realize our real power. And as you said, we still have lots of residual images that we are overly leveraged. In fact, we are one of the healthiest companies in terms of the balance sheet. And most of our assets are now public companies. People say we are a complicated company. But the fact is we are a very simple company. We can present our company's situation in one page, which is the NAV chart that I have shown you today. That is the single most important page to present the value of our company. People sometimes say we are too complicated. That's not the truth. We are the simplest company to be able to understand. It's NAV. NAV chart. That's it, right? Because that has the asset, that has been discounted for net debt. So NAV is the single most important measurement to see the value of our company.

**Q4:**

But in terms of ESG profile, are you actually adding resources to get the recognition you deserve so that you can attract the tens of billions of capitals, who if they knew that SoftBank was an impact investor, helping health and education, and energy consumption, would be chasing SoftBank stock? And SoftBank stock would be traded at a premium, not a discount like we see in all the renewable areas. All the fancy areas of the market that are being chased by these funds.

**A4:**

Yeah, maybe we should spend more effort on that. Thank you.

**Q5:**

Could you share your current view of your Chinese investments and regulatory and investment climate in the country as well as your long-term outlook for your investment in China? And maybe comment on how you adjusted your investment approach in China right now? And what have you learned over the last six to 12 months based on what you encountered in that market?

**A5:**

We have suffered a decline in share price for the last three months. Decline in share price of Alibaba, DiDi and Beike. Many other Chinese companies' share prices dropped down dramatically. We suffered from that. We are more careful on the new investment into Chinese companies until we see the clarity on the regulatory impacts. However, I'm a strong believer of the Chinese future in terms of frontier technologies, especially AI. They have amazingly great entrepreneurs, great technologies, they're one of the most leading AI technology companies, very innovative. So, we still continue to invest in smaller companies and more high growth companies with a smaller ticket size. Because the ticket size is smaller, the proportion of our new investment into China is not that big right now. But as I said, we are long-time believers of the bright future of Chinese technology companies. We're not investing so much in consumer or media data sensitive companies at this moment, but there are many companies that the Chinese government is not showing red flags for, which are like robotics, which is like medical, B2B, helping small businesses and so on. And those are not, I think, sensitive areas for the regulatory. So those are the areas that we are still actively investing into.

**Q6:**

I have two things in mind, obviously the fact that it continues to list companies would increase visibility. And I think both credit and equity investors, that should be something that we value. There are, however, also a lot of private investments, which over time will really recognize the true value. In the interim right now, close to buyback announcements and where your loan to value, as you say, we can track, which is of course is a big bulk of the stuff, we can track because most are publicly listed entities, we are at 19%, proforma that I appreciate will happen over time, but it's going to make this, and getting towards that sort of level, which is of the low circumstances. Do you now consider the decline in Alibaba as the reason to maybe go past that 25% of LTV threshold? Or is that now because you're so diversified not going to have an impact on the financial policy that's been very disciplined?

**A6:**

Just one year ago, Alibaba was almost 60% of our total NAV. Right now, it's roughly 30%, so it has much less impact compared to one year ago. And Alibaba fundamental is such a great company. It has already declined so much in share price. So I don't see a lot more risk of Chinese stock going down from today's price. Because it has already got enough and it's a smaller, much smaller portion of our NAV. So, I'm not that much concerned about it. But the size of new investment and so on, we would always carefully watch our level of LTV and we manage. And I think we have now gotten into the position we feel comfortable, at least for now. We feel comfortable that we can continue to make a significant new investment for Vision Fund2. We can still maintain our LTV at our healthy level and still on top of that, we feel comfortable to do the one trillion yen share buyback. So that's the balance we've found, and we feel confident right now, unless sudden change happens in the market. If the sudden change happened, we would manage with a balance.

**Q7:**

I wanted to talk about AutoStore. You invested \$2.8 billion in that company for a 40% stake, if I remember correctly. And that's a lot higher than your average \$200 million and 15 percent ticket size that you have in Vision Fund2. So could you maybe talk us through what was so exceptional about AutoStore? And is there any other sector apart from logistics where you want to increase your ownership in coming quarters?

**A7:**

First, I'm a big believer of AI robotics and that is the company that has shown a great example of artificial intelligence and robotics can improve productivity. So not just robotics for the future, but robotics for today, proving that it can be more efficient in terms of the cost and performance compared to human labor. And we have so many E-commerce companies within our family, they should be able to utilize it and it's already profitable and growing tremendously. So, I had a strong conviction that the AutoStore would be successful. So, as you may understand, we made an investment into the company roughly six months ago and it has doubled in six months. So, in terms of return on investment, it's also pretty good.

**Q8:**

It's also AutoStore, actually, which I find extraordinary in terms of the return of such a short period of time. And I guess some of the value is to do with your involvement. So, SoftBank coming in is potentially creating value in itself, not just a halo effect, but as you said, you've got the family of companies and AutoStore may actually be growing faster under your stewardship. Do you see many more such opportunities where the mere fact that SoftBank can go in, is creative value in itself? And then that does mean that in terms of competing for assets, in terms of returns, in terms of this, that it would be a massively positive driver of value if that could be repeated?

**A8:**

Yeah. This is a great example of our family companies' synergies. Because we have, as I said, we have so many companies that can be utilizing AutoStore and we have actually already introduced them to many of our family companies. And right now, AutoStore has so much demand, they cannot keep up with the supply. But it's growing very quickly. If they had more capacity of suppliers, they could have been growing even faster. Even though today they're growing very well, if they had a less supply constraint, they could have grown even bigger. So that means they have a continuous more potential demand so that, I think, they can sustain the growth for the good future. I'm very excited about the company and the synergies. This is a great example, I think.

**Q9:**

And when you look at your pipeline, do you see many more such scenarios playing out? Out of the hundreds of companies you screen, do you see more companies where you can actually add value as SoftBank, uniquely, versus any of your competitors, VC and others?

**A9:**

Yeah, I think so. There are many companies. If I go one by one, well, it's going to be 48 hours. But I'm feeling very excited about many of our companies because we have the operation, not just the

investment, we have operations in Japan. We are the biggest shareholder in most cases, so we can bring more synergy than in general.

**Q10:**

Do you believe that the business of Alibaba has changed as a result of these regulatory developments? And if yes, how? I mean leaving, maybe Ant aside, the core business of Alibaba, the e-commerce business, and maybe the cloud business. What are your thoughts around the value of these businesses?

**A10:**

Alibaba is the trusted brand for many of the merchants and many of the consumers, such that they continue to bring new services, including Ali Cloud and Ali Local, Ali Express, and many, many other Ali services. And they have a great number of engineers. They are a powerhouse of engineering for the front-end technology, including even designing these new chip sets for the Cloud, and so on. So, I think Alibaba is one of the very few, very powerful companies. The only equivalent company is like Tencent, maybe Bytedance. We are also a shareholder in Bytedance. I think Alibaba's potential power is quite big. Many of the technology companies in China are suffering from the share price. And actually many of those challengers to Alibaba are still not making profit. So given the market situation, those competitors will have a tough time raising funds, because the market environment is much more cautious to Chinese companies and providing new equity would be a tough situation. So that means Alibaba, with lots of cash in the bank, already very profitable, will have more competitive advantages, I think, to continue to grow the services. So it's a tough environment, but maybe Alibaba is one of the few companies that can survive and continue to grow the services.

**Q11:**

Two quarters ago, one of the questions you were asked was about Z Holdings. And at the time you said that the jury was still out in terms of how successful the integration would be, et cetera. Any updated thoughts on how Z Holding is doing?

**A11:**

I think the synergy between LINE and Yahoo Japan has already started happening and LINE was a money losing company just until a few quarters ago. But since the announcement of Yahoo Japan and LINE, LINE has immediately become profitable and growing profitability every quarter. So I think the synergy between Yahoo Japan and Line is going to be enormous. It just got started. The result will be coming, next year and going forward. I'm very much looking forward to the success.

**Q12:**

About NAV and discount, we have been experiencing the SoftBank share price in the depressed level like March last year, you engage in the large scale, share buyback and other sort of corporate actions. I'm just thinking, do you have a plan for the longer term? Not have to be every quarter, once the discount widens, then you kick in for share buyback. Do you have a plan for longer term narrowing the discount for SoftBank Group?

**A12:**

NAV discount is the situation for us for the last several years. Before that we did not have a NAV discount, you know, roughly equal to our NAV. I think people still have the, as I said, residual image of why SoftBank should be discounted because of the debt and so on, it's a misunderstanding, misperception. Now people were saying that one of the reasons for the discount was because of Sprint. Sprint as a discount reason is gone, right? The other, another discount reason was because of Vision Fund, because people did not believe the value of Vision Fund, so they discount all of the value of investment that we made in Vision Fund, especially for when we had a tough time in WeWork, Uber and so on, just little over a year ago. Now, the Vision Fund is already very successful and made six trillion yen gain, so people should no longer discount it because of the Vision Fund. So what else? Now people say China discounts. Well, but the China portion in NAV for SoftBank is already very small, so not much more room to discount because of that reason, not anymore because of the debt. So, one by one, the reason to discount is getting out. I think we should continue to prove that our NAV continues to grow. If you look at the last 20 years, if you look from a long distance, our NAV kept on growing every year. So people would be gradually getting tired of putting reasons to discount. I think eventually people have to accept the fact that our NAV grows. Our NAVs, the absolute amount of NAV. We are almost the same size as Berkshire Hathaway, and we are growing much quicker. So why should Berkshire get a premium and we should continue to get a discount. Eventually people have to accept it, I think. Of course, we are two different companies, so we shouldn't compare directly. Just looking at SoftBank it is a unique company. I think people will eventually have to accept that it's a great company.

**Q13:**

As you discuss investment in China and the rest of the world. I'm just curious at this moment, where in terms of region and country do you find the most attractive for your long-term investment?

**A13:**

Regarding the geography as I have presented today, the US asset has been growing steadily and healthily. The rest of the world has been growing very quickly in terms of the value. China is the only one, the last three months we have suffered. That's a fact, but as I said, the China discount is already given enough I believe. It's already a much smaller portion now, so I hope people will understand it.

**Q14:**

As interest rates and yields go up over the years, how do you make sure that you don't overpay for your investments as recent IPOs have been quite hot and the price of those new listed companies came down in the following months?

**A14:**

Yeah, at least for the Vision Fund2, we are much more disciplined in terms of not overpaying for the valuation. We are very careful about it. We've made many mistakes in VisionFund1. We have learned a lot. So I think we are much more careful and disciplined about the multiple on the gross margin and the growth of the company. We have a very specific way not to overpay.

**Q15:**

On the share buyback, could you just talk us through, what's the method of when to buy the shares over the next year? Is there a blind trust, for example, that's given instructions by the Board? How does it work practically?

**A15:**

We work with trust bank. We give them a charter. We give them the formula and the ladder, with the ladder, with this much price, we should buy how many percent of the volume of the daily volume of the trade and so on, because we have to be careful about the insider situation. So while we are not in the insider situation, every quarter, we give them assignment and once we give them assignment, we let them actually do the operation so that we don't violate any of the insider trade issues.

**Q16:**

Can you give more color about the status and probability of success of the Arm and NVIDIA deal and can you say how much the share buyback is conditional about the success of this deal?

**A16:**

I am a believer that the NVIDIA and Arm merger will be approved by the authorities. I'm a believer in that, but even in the case that does not get approved, the share buyback is an independent decision. We will continue to buy, exercise the share buyback, regardless of that situation.

**Q17:**

Could you provide, share your view on the Latin American fund? Obviously you increased exposure to Latin America and commitment to the region. Maybe if you could just talk in general about your thoughts on this fund and some of the more promising investments within the fund, in your opinion.

**A17:**

Latin America is one of the regions that is growing very successfully. I'm quite happy with the management. They have made good investments and very good returns. So we are continuing to support the team to increase the investment. Of course depending on the performance, depending on many other situations, we may change it, but so far so good. It's a repeat of the success of the US and China. So many of the FinTech company, logistics company, the delivery company, and eCommerce company, many of those companies are just repeating the success. What has happened in the US, what has happened in China is actually repeating in Latin America.

**Q18:**

I'm interested in your thoughts on the Buy Now Pay Later market. You've obviously seen Square buy Afterpay and PayPal buy Paidy in Japan, you've invested in Klarna, obviously doing extremely well in Europe. Are you looking to work with them to bring them to Japan, for example, but so far, the Buy Now Pay Later market in Japan is really about charging consumers fees versus the traditional method of using the merchant fees to help the consumer.

**A18:**

The Buy Now Pay Later program definitely will grow in Japan. It's one of the most important services. PayPay has been waiting. PayPay wanted to start since several months ago, but it is just simply waiting for the government approval to get started.

**Q19:**

Any opportunity to work with Klarna for example and use their expertise and technology and systems to make it a better consumer experience with PayPay as well or not?

**A19:**

Maybe, but so far, PayPay has enough members and consumer trust and the Buy Now Pay Later program is not such a difficult program as a concept. So I think PayPay can grow by itself.

**Q20:**

It's quite exciting that you finally found at least one Japanese company that you can invest in and maybe more because obviously you would be quite uniquely positioned to make the most of anything that's out there in Japan. I was wondering if there are AI capabilities within a number of larger groups. Is there any clever way of sort of working on spinning off some of these capabilities into more sort of nimble entities, more entrepreneurial businesses? I mean, are they, if you think creatively, are there opportunities of that kind because there seem to be a lot of R&D out of Japan, but yet literally the way of businesses making the most of it. What's your thoughts on that?

**A20:**

I'm not that hopeful. Spin out of Japanese traditional large enterprise has the right culture in general? Last 40 years, I've been looking and in the beginning of the Internet, we all thought the spin out of one division out of the large enterprise would be amazing because they have a trusted brand, they have a great resource of human capital, they have money, they have engineering and trust and so on. It seems so obvious that they are one of the best companies to be successful in Japan, but actually most of them failed. Most of them, right? SoftBank is a unique example, but most of the other incumbents in Japan don't succeed in new business, especially for the Internet. I think that for AI, the same thing would happen. Most of the case, those that spin out from large enterprises may not be successful. Rather startup, small startup, entrepreneur, with the passion to grow. I think that has a better chance of success. I welcome any challengers in Japan. Of course, spin out even from large enterprises is okay if they can succeed. The number of AI utilization companies is too small. I'm definitely looking for opportunities. We already start seeing some momentum happening.

**Q21:**

And when you connect with heads of businesses in Japan and you put this point to them, how do they react? It's kind of a missed opportunity for them because they have, as you said, they have the brand, they have the engineering resources, sometimes got really good R&D, and yet it's going to waste. What's their reaction when you confront them with this kind of statement?

**A21:**

They don't have the culture to incentivize these challenges. They put the division and they still manage as if it is still one of the divisions. Even if they spin out, they don't give incentive. They don't have



different human resource management, independently quick decisions, and so on. It's difficult as a part of the big enterprise process. Everything is too slow.

**Q22:**

There are news reports recently that SBG is planning to sell Fortress. What is the reason for the change in your view about the value of Fortress for SoftBank?

**A22:**

We have not announced that we will be selling. One possibility, we may look into that, but we have not decided. Fortress is a great asset. We should always look for any possibilities, but for anything, we will decide very carefully.

**Q23:**

Granted, the discounts to NAV have definitely grown in recent months. However, from a credit perspective, LTVs are pretty closely watched and those are also creeping up. Given the buybacks, the share buybacks, which were announced today, which are not contingent on any M&A?, so that's ARM. Or otherwise, It sounds like the trust will run the buybacks contingent on the stock price. Just wondering if there's anything in that formula to the trust, which would allow you to stay on top of LTVs in particular in the event of future market volatility? Or do you think this is something you'd resolve elsewhere? I.e. adjusting the investments or asset sales?

**A23:**

LTV is one of the most important measurements for protecting ourselves. So if anything happens, we would adjust the speed of investment, the size of investment. Even as I said today, the speed of the share buyback. We would do one trillion yen share buyback sooner or later, but if a sudden change in the market happens, then it may take longer than 12 months. As per Japanese corporate regulation, we cannot announce anything beyond the 12 months. So we say in 12 months there is a possibility we may not finish one trillion yen buyback if the market crashes and for whatever reason. But even beyond 12 months, I would do my best effort, my belief, strong belief. Once we announce this one trillion yen buyback, just in case 12 months could not happen, we would still continue to do so. If six months longer, whatever. But anyway, LTV is something that we have been protected by. On a normal day, we would manage plus minus 25%. In an abnormal situation with a market crash condition, we may temporarily touch 35%. But we would immediately adjust if any of that situation happens to slow down investment, slow down anything else, to go back to our safety zone. Our safety zone is 25% as I have already said.

**Q24:**

On China, last quarter you said that founders were still quite greedy, and that they had not adjusted valuation down to reflect the lesser interest in Chinese investments. Are you finding that valuation now that you're looking at your latest Chinese investments, are they marked down significantly versus where they were, which would bode well for future returns? Has this happened?

**A24:**

Well, I think they are starting to realize that fundraising in a Chinese company is much more difficult. So the valuation that we are seeing, at least with the new investment that we are discussing, the valuation is, multiple is much more reasonable now. We are not looking at a reduction of valuation from the existing company. Once they go public, it is difficult for them to adjust. We are rather looking at the new

companies, fast-growing new companies. With them, they're growing quickly, but the valuation has not increased that much at all. So that's why multiple is much more reasonable.

**Q25:**

What about competition for assets? Are you also finding that there's a lot less competition for assets, particularly from the U.S. players?

**A25:**

Yes.

**Q26:**

So arguably, it's a great time to put more money to work in China and these smaller businesses, B2B, logistics, medical, because the risk-reward is massively skewed to the upside now, potentially?

**A26:**

Yes. That is true. That's why we are not exiting from China, continuing to invest, but the ticket size is much smaller now.

**Closing remarks:**

As I said, I am very excited as a shareholder of SoftBank to announce the share buyback. I'm a strong believer of SoftBank's value and the future, and in the discount that I have shown today that does not include the appreciation of NVIDIA stock, the future value of PayPay, and our return from T-Mobile, that we have the earn-out from T-Mobile, that's not included in there. And Vision Fund2 is definitely growing. Including the Latin America Fund, it's growing with a much better measurement. So now I feel very, very confident that the future success of Vision Fund is very healthy. That's what I feel. I didn't say that 12 months ago. I didn't say that 24 months ago. Now I can truly feel that we have got the ecosystem. We have got the system, we have got the organization, and so on. So I feel much more comfortable about the Vision Fund's future. Thank you very much.