

SoftBank Group FY21Q4 Global Conference call | SoftBank Group | May 12, 2022

Speaker:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

Yoshimitsu Goto, Board Director, Corporate Officer, Senior Vice President, CFO, CISO & CSusO

Q1:

My question is about the weaker yen. It seems like things in Japan are getting quite cheap in dollar terms. Are you tempted to look at selling some of your overseas assets and buying things in Japan? I guess that could include your own shares through buybacks, but could you please tell us how you see Japan in a global context currently?

A1:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

There's not much opportunity in Japan for AI companies. As you know, we are only focused on investment in AI, and there is not much opportunity (in Japan). Our own share buyback, we are always interested in as we have already announced. We are making progress on our own share buyback.

Q2:

I do see how you've looked at the LTV calculation, I think that's where the way that I tend to adjust is taking out the margin loans, for example. I just would like to understand that when you speak to rating agencies around the LTV and the calculations, I understand they do some adjustments here. What is the guidance that you're getting from them? Whether they're comfortable with the current levels of LTV or from their perspective, whether they would like you to lower it from these levels. If you could give some comments as to how comfortable you are for your current ratings.

A2:

Yoshimitsu Goto, Board Director, Corporate Officer, Senior Vice President, CFO, CISO & CSusO

Regarding the loan to value calculations, we calculate in different ways compared to the rating agencies' calculations. We do disclose our calculation method of the loan to value to rating agencies, as well as to you. Rating agencies understand that each company has a different calculation method for the loan to value. We believe our definition for the loan to value reflects the fact most for investors. Rating agencies do have their own methodology for their calculations, but at the same time, they do understand how we calculate and they don't have any issue with that.

Q3:

My question is about the defensive strategy that you're going into now. It seems to me that asset prices have sold off massively and now it would be the time to invest more heavily. Do you feel that you would be too aggressive when prices would be getting near the top? Would you like to change that strategy to give yourself more capital for moments like this going forward? Would you even think about gearing more heavily?

A3:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

No matter how much money we have right now, we have lots of cash right now, the investment opportunity is not that much. As I kept on saying today, private companies adjust their valuations one year or two years behind the public market. The public market changes valuation every day. Private

companies don't want to accept reduced valuation. Their multiples are much higher today compared to public comps. Today, no matter how much money we have right now, there's no investment opportunity that much. There will be an opportunity one year or two years later. They don't want to accept reduced valuation, but the companies are growing about 50% a year. So if you wait two years, 1.5X 1.5X is 2.25X. In two years, if the companies continue to grow, value becomes 2X, then we can participate in the flat round because the public market is drastically down. The private market has to adjust. The only cure is time. Because the companies continue to grow. Valuation adjustment could be down with a flat round in one or two years. Right now we are checking every company, their multiple comps are too expensive compared to the public market because the public market went down. Now is not the time to invest at today's valuation of the private market. We just wait for the right valuation to come down.

Q4:

My question is regarding upcoming financing and plans for raising funds as required for upcoming maturities and financing. Is it still SBG's intention to call the perpetual notes, which are coming up for next year? Where do you see the fundraising to happen? Is it going to be more onshore or would you be looking at the foreign markets as well?

A4:

Yoshimitsu Goto, Board Director, Corporate Officer, Senior Vice President, CFO, CISO & CSusO

As for the financing, we would like to choose the best market at the time. Whether we should be raising funds in Yen or foreign currency, we also would like to choose the best option at the time. Considering the foreign exchange rates as well as demand from investors. As for the hybrid or perpetual bonds, we will be calling as scheduled as announced.

Q5:

You have made a lot of comments on China today, I would say, those are pretty downbeat. The situation there is difficult, like the political setup. My question is how do you see that evolving? Maybe, in the medium- to long-term from what you know about the market and the political environments, what do you think the new normal is eventually going to be in China for business, investments and Alibaba, of course, for foreign investors? How do you think we get there?

A5:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

Well, about China, everything is unclear right now. We just have to wait and see.

Q6:

When we look at the Vision Fund 1 and 2, and Latam books, the public asset and the public book year to date is down about 50-54%. In the last 12 months it's down about 75-80%. Against that, when we look at the private book, just want to understand broadly what kind of mark to markdowns have already been done in the private book year to date, if any?

A6:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

Mark to market downs is done throughout every investment portfolio asset by the professional team, both externally and internally. When the public comps are down, we take conservative view to write them down. That's done every quarter.

Q7:

Goto-san mentioned the reiterated commitment to call the hybrids callable next year. How you would be looking at doing that in the sense that if the markets remain the way they are right now, and my understanding is you can't really use cash to do so. How you're thinking about it, and if the markets are this way what are the other options that you would potentially be considering for that?

A7:

Yoshimitsu Goto, Board Director, Corporate Officer, Senior Vice President, CFO, CISO & CSusO

We have made a commitment. We have said the words to investors and rating agencies that we are calling. We have been keeping our words, and we will be keeping our words. There's no change on that. The reason is because we are the company that's using leverage. For such a company, I think the most important thing is trustworthiness. We don't want to lose our trustworthiness for investors or rating agencies.

Q8:

Regarding bond redemptions, what options are you looking at? Because the only way that you can call them is via coming to the market. I don't think that cash can be used really to do so. Otherwise you lose the rating, the equity treatment for all other hybrids. I understand your commitment and that's strong, but my question is more on the options that you have if the markets remain the way they are right now.

A8:

Yoshimitsu Goto, Board Director, Corporate Officer, Senior Vice President, CFO, CISO & CSusO

We have decided that we will be calling through refinancing which is reasonable for the rating agencies. As for our cash position or cash flow, you have no worries about that. You have seen our numbers today and the liquidity is more than enough. We will be keeping our words with rating agencies and investors. There's nothing more than that.

Q9:

On the rating agency treatment of the hybrids, that is number one, something that can be renegotiated over time or can be discussed, whether the hybrids are repaid with cash or not. That is my understanding. I was wondering if you could confirm that.

A9:

Yoshimitsu Goto, Board Director, Corporate Officer, Senior Vice President, CFO, CISO & CSusO

We've been saying that we will be calling. We will be calling.

Q10:

I have two questions about Alibaba. One is backward looking, and one is forward looking. The backward-looking question is, if I understand the disclosures correctly, you're saying that in the year that just ended, you monetized about \$13 billion of Alibaba stock, which is a mix of prepaid forward sales and presumably margin loans. If I look at the same number back in December, it was about \$9 billion. So it looks like you have monetized about \$4 billion of Alibaba in some way in the last quarter, which obviously helps to keep the LTV lower. Is my backward-looking question correct? Was that \$4 billion made through an asset sale, prepaid forward sale or a margin loan?

A10:

Yoshimitsu Goto, Board Director, Corporate Officer, Senior Vice President, CFO, CISO & CSusO

This is asset-backed finance, a derivative type of asset-backed finance using prepaid forward and collar and so on. And that helped improvements of our loan-to-value. This is financing, not asset sales, because at maturity, we can choose whether to settle in cash or in kind. At maturity, we would like to choose the best option and availability whether to settle in cash or in kind.

Q11:

Going forward, would you consider doing more, let's say either margin loans or some sort of structured finance sales of Alibaba stake? Because I suppose that you are happy to reduce your exposure, then you can keep your LTV as low as you would like, and presumably buyback as much as you would like of your own stock. Would you consider doing much more of this going forward?

A11:

Yoshimitsu Goto, Board Director, Corporate Officer, Senior Vice President, CFO, CISO & CSusO

Yes, this is one of the important financing schemes for us. Although the share price of Alibaba is declining, the liquidity is more than enough so we believe the asset-backed financing is one of the important sources for us.

Q12:

I just saw the announcement in April, roughly \$680 million repurchased. Going forward, what's the pace you're looking for and other than share buyback, are there any other ways to enhance shareholder value in this very difficult time?

A12:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

Share buyback is something we have already announced. And we tried to do 1 trillion yen by November, and we are on course to make that happen assuming the LTV stays where we would like to keep it.

Q13:

Any other divestment plan or are you just thinking the buyback is sufficient?

A13:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

Divestment is being done every month, depending on each of the stock prices and opportunities. Last 12 months, we have sold \$50 billion worth of shares. We may do a similar scale. It depends on the market, but we would have plenty of cash and smaller sizes of investments. So, we have plenty of room and an Arm IPO is also waiting. We have plenty of healthy room to enhance anything.

Q14:

I was just wondering about your Vision Funds portfolio companies and how well funded they are overall. Assuming the availability of funding is limited for the next two years, as you suggested, will most of them make it through the next two years without any additional funding?

A14:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

Some of them always go bust. That's always the case, but I think the majority of the companies that we

have invested in the Vision Fund 2 will survive. They have enough cash in the balance sheet and they're growing very quickly.

Q15:

If you have a scenario of a company you like very much with a lot of very long-term value, but they face a liquidity crunch, say 12-15 months from now, will you be then doing a follow-on round to protect the long-term value even if it's a bit against your principles of no bailouts? So how would you look at long term opportunity versus short term liquidity crunch?

A15:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

We don't help nor bailout. We only invest when we think value is going to go up. If a company has a down round because of whatever cash crunch and if we feel that we get 30% IRR by investing in the down round or a flat round when the company is growing quickly, then we may consider. But in principle, we never invest to save companies. We only invest for good returns.

Q16:

With the limited amount of capital available in these difficult times, do you see some businesses facing less competition as a result of being more valuable? Like you said, the Vision Fund 2 companies will survive their liquidity crunch and others may not amongst their competitors. Do you see more long-term value, emerging from less capital going to fund competing businesses?

A16:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

I think so. Many VC Funds, they cannot raise the next round because their performance is getting damaged. But we have plenty of cash. If we want to invest, we have plenty of cash. So we have more room to stay strong.

Q17:

My first question is related to your ESG or sustainability commitment. In your sustainability report, you mentioned that each company has set a greenhouse gas emission target. Unfortunately, I still do not see any group targets. Do you plan to have a group wide target to achieve net zero by 2050? The next one is related to TCFD, which is called the Task Force on Climate-related Financial Disclosure. Do you have any plan in the future to release that report, as you mentioned that you are going to do it?

A17:

Yoshimitsu Goto, Board Director, Corporate Officer, Senior Vice President, CFO, CISO & CSusO

As for greenhouse gas emissions, we don't have a specific target for the holding company level, but each group operating company does have their own targets. Once they have proceeded with the project, then we like to gather together for the holding company level's target. As for your TCFD question, we are preparing for the disclosure at this moment, and for this turn, we may not be able to break it down into numbers. However, we would like to share with you our direction or policy. Going forward, we would like to be fully prepared so that we can get good information for putting into the numbers.

Q18:

Just trying to do a basic calculation, it seems your investments in the Vision Fund 2 dropped to \$2 billion or something this last quarter, and it sounds like they're going to decline more. Am I right in thinking the

amount you invest in buybacks could well exceed your investments in the Vision Fund for the first time in the next couple of quarters?

A18:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

We would reduce the pace of investment compared to last year, probably half or one quarter of last year's, but we are not saying which quarter would be how much. It depends on the situation. Overall, 12 months looking forward, we would be reducing to by half or 75%. That will be the case. With that, when we liquidate the other assets, we have enough room for improving many things or share buyback.

Q19:

You mentioned that private transaction prices are higher, or much higher than public prices. Have you ever thought about buying stocks in the public market like stocks you already own in the Vision Funds that you've listed? Is there a case for trading some of them and increasing your exposure at times that you find the pricing attractive?

A19:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

No.

Q20:

You have 475 companies, which I imagine is quite a challenge to monitor. I know you have a big team, but is there an optimal number of companies that you think you would like to eventually have? Is this the right number?

A20:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

No, we don't have a specific number to follow. It depends on the opportunity.

Q21:

Where do you see the biggest opportunity going forward in terms of sectors and geographies? Given that a lot of new venture capital has come to the market, how do you differentiate yourself from competitors and where do you get an advantage over them, for example Tiger or the likes of those? Secondly, what % of Arm shares have you pledged as collateral for margin loans?

A21:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

The U.S. is the biggest opportunity by far. Strong companies, and big markets. Also, Europe and some Asian companies. But the center of innovation is still in the U.S. We have dedicated about 30 teams depending on geography or subjects. We have developed more expertise for each specific field whereas most VC firms have small numbers of partners or are more generalists. We have more specialists for each segment of industries and geography. Geography-wise, the U.S. is still the center, but we are looking at worldwide.

Yoshimitsu Goto, Board Director, Corporate Officer, Senior Vice President, CFO, CISO & CSusO

As for the margin loan, we don't disclose margin loan proportions, so I hesitate to answer any of those.

Q22:

One question around the founder mindset. We are from the public markets and feel one mindset as we see the prices fluctuate daily, but you actively talk to your portfolio companies. I am just curious whether there's correlations around, "Okay, we need to limit cash burns," or are private founders still a bit more optimistic on their growth trajectory, taking share, and continuing the push forward into revenue growth on a medium-term horizon?

A22:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

It depends on the companies. Some of them continue to be aggressive. Some of them start to be a little bit more cautious, understanding the next round of financing becoming tougher. But if you look at six months ago, every company, unicorns, they were all aggressive and they didn't have any concern on raising money, money was not the issue. Today, with this environment, whether they have already started changing the action or not, they have to start understanding that they need to see their funding source more cautiously.

Q23:

You've spoken before about how you're hoping for a strategic partnership with Deutsche Telekom, one of the companies in the portfolio you've got. Obviously Arm now is going to be pursuing its own kind of standalone path separate from NVIDIA. Have you actually seen any concrete benefits from that partnership with DT and do you see other opportunities for there to be accelerated growth in, for example, Arm's market share in automotive and cloud in particular from interaction with other portfolio companies in the group?

A23:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

Arm is a very strong technology platform, and Arm has been a great IP provider for many of the technology companies who are designing and producing chips. So, the portfolio company of Vision Fund is a little bit, one step away, from manufacturing and designing chips, but Arm is still the engine for the industry's computing power. So, it will have directly or indirectly helped many of the companies who are using AI, more computational powers, and that is also going to be utilized for autonomous driving companies, the cloud companies, the metaverse companies, and mobile application companies. So, it's the core of our assets, whether you have direct or indirect synergies with Vision Fund portfolio companies. It will gradually increase more relationships, but not everyone is necessarily directly connected.

Q24:

I was wondering whether you could comment on inflation and the extent to which it may have a positive impact on the value of the Vision Fund companies. What I mean by that is a lot of these companies are about technology to increase productivity, make savings, whether its energy savings otherwise, so does it make sense to think that if inflation was to stay, companies will have to use AI and the companies you've invested in a lot more to remain competitive? So, in a way, even though the interest rates are going up and people think this is bad for technology companies, and it is in terms of discount rates, arguably the demand for money-saving technologies and productivity-enhancing is going to be all the greater. Can you see that in the profile of the demand of some of these companies?

A24:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

As we discussed two years ago, when the COVID-19 started hitting, I said we have to take conservative approach and go into protective mode because nobody knows how deep, how long, how wide COVID-19 is going to hit, and whether the market will crash. But the COVID-19 made online transactions more evolved. So, our online companies were actually beneficiaries of the situation. As we see right now with inflation, companies have to be more productive, and so technology is a solution for those issues in the long run. When the market settles, the online companies are the ones which will have the biggest rebound.

Q25:

Given where the bond prices trade, where the bonds are trading right now, would you be considering buying back some bonds in the same way you're considering buying back shares? And do you have any idea about the amount? Is there going to be any program formalized in the same way you have the target for the shares?

A25:

Yoshimitsu Goto, Board Director, Corporate Officer, Senior Vice President, CFO, CISO & CSusO

So far, whenever we see the price reductions in bonds, we have explored the buyback, and we have been doing some buybacks of the bond. For the future if the market is going to be weaker, of course, we will be considering a planned program for the buyback of bonds. At this moment, we are not yet ready for the disclosure or anything, but we are studying internally right now.

Q26:

Just talking about Arm and you talked before about the IPO, how do you think about this company? Do you see it as a long-term core asset for SBG? Or has it become like Vision Fund assets where you'll be strategic, you'll keep it, you might sell it depending on the opportunity? And in regard to that, do you think that you would be open, longer term, to selling down to strategic investors? So maybe customers of Arm or something like that structure so that the company remains independent, and you satisfy some of the concerns a lot of the regulators raised with the NVIDIA deal.

A26:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

For now at least, I would like to keep as many shares as possible. I'm a strong believer of Arm's future, and Arm's value going up for a long time. This is just the beginning of the golden era for Arm, so that's why I would like to keep as much share as possible.

Q27:

Regarding the Arm IPO, do you have any other alternative to raise cash from this company if the IPO doesn't go a good way in the next coming months, taking into account the market condition, to think about the alternative solutions, please.

A27:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

I think Arm is doing great. I don't think the IPO schedule is going to get delayed unless the market suddenly crashes completely. But if the market crawls for three months, or six months, no panic, we can just wait until the market opens up. From our side, there is no more reason why we couldn't have an

IPO. It's the only market. If the market crashed for three months, or six months, we have plenty of cash. So, no panic.

Q28:

You mentioned that the private market is a few years behind the public market and that you're not finding opportunities because you still think that they seem expensive. I'd be just interested; I know in the past you provided this detail as to what percent of the Vision Fund is listed and what percent is unlisted. So, what percent is unlisted currently and in that unlisted, I'm just wondering if, when you value your own companies that you've invested in, are you biased in the similar way that these people who are not willing to reduce the price? Or are you very aggressive in valuing them or are you kind of taking the cues from the market and lowering the valuation? I mean, is there any metric, like price to revenue, an average price to revenue or anything else that you can give us that we can kind of understand how aggressive or reasonable you are in valuing the understood portfolio?

A28:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

We have conservative view of reducing the valuation, but the detail you should ask to Navneet. So, tomorrow Navneet is participating in the explanation with Goto. So, you should ask those specific questions to him.

Q29:

The question I have is if equity markets continue to remain under pressure as they've been recently, what are the options available to the company to maintain that LTV discipline, loan to value ratio discipline of 25%? Are there any kind levers that the company could pull to kind of reduce that ratio further?

A29:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

Last 12 months we have sold almost \$50 billion. And so, we would continue to liquidate, case by case, but \$30, \$40, \$50 billion liquidation is still coming every year as a normal course. We're not doing anything in a fire sale or anything. Just after the lockup post IPO, we also have many companies already public from Vision Fund. So, we have lots of portfolio companies, which we would generate \$30, \$40, \$50 billion liquidation and cash. As our size of investment is reduced for new investments, even when we exercise the share buyback, we would have plenty of healthy room for the LTV and Arm IPO is also coming. So, I'm very comfortable, confident that we can maintain a good LTV ratio.

Q30:

Looking at the capital allocation across the group, as of the end of March, you had sort of 20% Alibaba, 50% Vision funds. In 12 months time, would you rather have replaced Alibaba with more early-stage investments, have essentially 70% Vision fund and 0% Alibaba, or do you still believe that Alibaba provides sort of a financial anchor for the group, or do you think it can generate similar returns to an earlier stage growth investment?

A30:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

Alibaba share price is depressed below its fundamental value. So whether the share price should be this at this level or higher, only the market will tell. But it is a great company. We are doing the derivative,

whatever the financing in the past, but Alibaba is a great company. Fundamentals are very very good and maybe it's oversold for the fundamental value. And it also has lots of cash. So, Alibaba is a great company. We have the private companies, smaller opportunities to invest when we keep dignity on our investments level. So, I think we would have more defense mode to keep more cash in hand and share buyback protective mode, just maintaining a good, comfortable LTV level.

Q31:

So in your view at the moment, it's kind of acting as a source of cash and stability within the group. Is that sort of how you're seeing it at the moment?

A31:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

Yes.

Q32:

Looking at your portfolio of unlisted investments, what are you most excited about? Where do you think we'll find the next Coupang or Grab whatever that's going to deliver really big stellar returns for the firm and the Vision Fund in the longer term, what are you most excited about in your portfolio?

A32:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

We have 475 companies. I would rather not say which one is the best bet. It's pretty much a bunch of diversified assets. In the Vision Fund 1, we have concentration in 10 companies, but the Vision Fund 2 investment is very much distributed with a much smaller ticket size.

Q33:

Can you give any commentary on one of your specific investments in Indonesia, which is Gojek Tokopedia? I know this is a small part of your portfolio, but nevertheless, it's one of the largest public listed companies in Indonesia. So, your comment will be appreciated.

A33:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

It is a great company. It has a strong platform for ride hailing, payments, delivery... Management is strong and now it also has been integrating Tokopedia. So, the payment is also growing. It's a great company. I'm hopeful the company will have long term success.