SoftBank Group Corp. : FY22Q1 Investor Briefing Q&A

August 10, 2022

Presenters:
Yoshimitsu Goto, Board Director, Corporate Officer, Senior Vice President, CFO & CISO, Head of Finance Unit & Administration Unit
Kazuko Kimiwada, Corporate Officer, Senior Vice President, Head of Accounting Unit
Yotaro Agari, CSusO, Head of Investor Relations Department, Head of Sustainability Department
Navneet Govil, Managing Partner and CFO, SB Investment Advisors

Speaker 1
Q1:
First, page 6 of the Finance section, loan-to-value (LTV). Currently, it is 14.5%. From your perspective, are you comfortable with this level at the moment or would you like to be more defensive? Of course, it depends on the external environment. What is your view on the level of 14.5%?

A1:
Yoshimitsu Goto
Around 25% is good enough, so 14.5%, which is the current level, is way good. I mean if it is a business-as-usual environment, 14.5% is not because we may not fully leverage the power. In order to maximize corporate value, we need to seek the optimal level of leverage. So, if it is business-as-usual, 14.5% may be too low. But under the current environment, the monetization of our assets needs to be carefully looked at for financing and we need to effectively keep financing while hedging. On the other hand, we are slowing down new investment. So, there is an opportunity for further improvement of LTV.

Q2:
You have a plentiful cash position. Could you share your view on how to utilize it? I asked this question because, on page 7 of the Finance section, the external environment gets worse and the discount rate on NAV (Net asset value) can go higher. Under those circumstances, from the financial perspective, share repurchase might be the more important option. Could you please share with us your view on share repurchase activities?

A2:
Yoshimitsu Goto
Under the current market condition, a share repurchase program is something that we want to execute as planned, which is one of our priorities. Since the NAV discount is over 50%, unfortunately we may cause you some concern. Under the current circumstances, we believe that we can have a better impact from share repurchase than new investment. But we want to make sure that we have a sound financial management which is the utmost priority. So, even though we have a plentiful cash position, we do not want to spend too much money for the share repurchase. Of course, we will keep watching how the market condition changes.

Speaker 2
Q1:
My question is about SoftBank Vision Fund (SVF), a question to Navneet. On page 26 of the SoftBank Vision & LatAm Funds section, the left-hand side shows the proportion of portfolio companies that have more than 12 months of cash runway. Conversely, it may tell that 3%, 5%, or 16% of the companies actually do not have enough cash runway. How much was the proportion

three months ago? I believe that you have a cash flow projection for each company. How do you see these numbers are going to change, in the next six months or 12 months?

A1:
Navneet Govil
We expect the number to get higher because a lot of them just raised funding rounds in 2021 as well as in 2022. They are also reducing their cash outlays by changing the operating levers in the company. So, a combination of those – having raised money in 2021 and being able to change the operating levers gives them ample runway.

Speaker 2
How about three months ago - at the end of March? Also, if possible, can you share with us how the number will be six months later?

Navneet Govil
We can show you what the numbers are every quarter.

Q2:
On page 24 of the Finance section. I believe this is one of the most important slides, as Goto-san said. The net interest-bearing debt peaked last December and it is decreasing. Looking at the cash runway of SVF portfolio companies, meaning that there are still some rooms for markdowns, and the market situation, what is your ideal level of net interest-bearing debt? Do you have any target for that? How should we expect that you are going to decrease the net interest-bearing debt?

A2*:*
Yoshimitsu Goto
Actually, I do not have any specific target as numbers for net debt. It is just a factor for the calculation of LTV. That is the kind of way that I am looking at the net debt amount. When we have non-recourse financing, an exit of monetization, or distributions, which contribute to our cash position, net debt is going to improve a lot. It is normally balanced because we keep investing in new portfolio companies. However, right now, although there are many people who say that this is an opportunity to invest, we believe that we slow down the new investment activities at the current market situation. That is the idea of Son-san (Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO). We, the finance team, also feel the same way.

As long as we see this situation continue, I believe net debt will continue to decrease. I can say that is quite a high possibility. I do not believe that there is any argument that it is too low in this market condition right now. When the market recovers, we will consider, but at this moment, we should be looking at more improved KPIs from the finance point of view, including net debt. That is the kind of policy we are taking at this moment.

Speaker 3
Q1:
I have a question for Navneet. For SVF1, SVF2, and SoftBank Latin America Funds, I am sure you reviewed the private portfolio companies' values. How many of them have you marked down, and against what standard? If you could share that with us, it would be great. How many of them have you not marked down in the last quarter or in the last six months? If you have not marked down, is there any chance or opportunity for you to mark down later and against what standard?

A1:
Navneet Govil
The details of those are in page 13 and page 15 of Son-san's presentation (Earnings Results Briefing for Q1 FY2022, dated August 8, 2022). In terms of which standard, we use IFRS 13. In the future, it

will depend on the market, the comps, as well as the performance of the companies.

Speaker 3
Okay. Understood. But roughly how many of them? How many private portfolio companies have you not marked down?

Navneet Govil
As I mentioned, we have full details on page 15 of Son-san's presentation.

Kazuko Kimiwada
Just one thing. When you talk about "marked down" or "not marked down," I do not understand your definition because every quarter for every portfolio company, we apply fair value calculations. So depending on the market circumstances, if necessary, we change the valuation against the fair value standard.

Q2:
Maybe it is a strange question to Goto-san. I wonder what SBG in a defensive mode is all about. What is the corporate value or what is your role as SBG in a defensive mode? I am sure you have asset value, but in the future, where can we expect corporate value to come from? Of course, Goto-san's financing capabilities should carry some value, but at the moment you are in a defensive mode, so what is the value of SBG from your perspective?

A2:
Yoshimitsu Goto
I would like you to look at the mid-to-long-term future – five or 10 years ahead – because there are lots of ups and downs. When things are down, the true value of the company is tested. We are an investment company. We are not an operating company. We do not have factories or stores. We are directly linked to the financial environment, which our business model is based on. When things are bad and if we keep taking risks against such circumstances, we might end up being not a good investor but a speculator. So, even though there are opportunities, sometimes you have to take safety and soundness as the highest priority. This condition may not last five or 10 years, which I believe. Sooner rather than later, we can be offensive again. By then, we have to prepare ourselves in the "days of winter" in order for us to be successful as an investor and capitalist. We need to get ourselves prepared for the spring. That is where we are now.

Speaker 4
Q1:
For Goto-san or Navneet – I am not sure – about SVF and the valuation of private companies. The markdown is delayed by public securities, which I believe is something that you have previously discussed. What is the logic for that? In that case, for the second quarter, should we expect a further markdown of the private portfolio?

A1:
Yoshimitsu Goto
There are several valuation approaches for the valuation of private securities, one of which is to refer to the public comp. That is one aspect we need to refer to. In that area, we need to see the actual figures, otherwise it cannot be reflected. That is why, once we see the changes or movements in public companies, it is going to be reflected later on to the private securities. So, for that, I think we have no choice. Do you have any additional comments, Navneet?

Navneet Govil
No. I agree with you, Goto-san.

Q2:
At the end of July, SEC had announced Alibaba being put on their provisional delisting list. That was covered by the media. If that really happens, is that going to impact your asset-backed finance? If there is anything you can comment on.

A2:
Yoshimitsu Goto
That is an assumption at this moment. If it is going to be delisted from the New York Stock Exchange, I would not say there would be no impact at all. Alibaba shares are also listed on the Hong Kong Stock Exchange as well. Therefore, if there is the case that it is delisted from the New York Stock Exchange, we will be looking at the transaction volumes on the Hong Kong Stock Exchange for our financing. Of course, the transaction volumes on the New York Stock Exchange are quite large. The size of the financing also depends on the volumes of the trading, so it may decrease, but I believe that we have several ways so it does not have a large impact on the financing.

Speaker 5
Q1:
It looks like you have raised the value for Arm by 200 million dollars in the first quarter. I just want to know what sort of methodology of all the different ones you have discussed drove that and whether we should expect fluctuations in the value of that asset every quarter going into the IPO.

A1:
Navneet Govil
There is no change in the dollar value of Arm. Perhaps you are seeing a change when it is translated into yen. In terms of whether the value of Arm will change in future quarters, it depends on the performance of Arm and it depends on the comps for Arm in the market and the overall market condition. We do fair value, as Kimiwada-san said, based on IFRS 13 every quarter.

Speaker 5
On page 19 of the Accounting section, there is a table that has Arm and it says “FY21-end” and it has a dollar value and a yen value. Then, it has “FY22Q1-end,” again with the dollar value and the yen value, and the dollar value is 200 million dollars higher. I am just reading that wrong?

Yotaro Agari
Basically the valuation methodology for Arm has not changed from FY21Q4 to FY22Q1, and the only difference is coming from weakening yen.

Q2:
Page 22 of the Accounting section shows that there is a relationship between the management company, which is written as “Masayoshi Son,” and SVF2, and there is a balance of receivables that was 2.80 billion dollars and now it is 2.82 billion dollars. Does that reflect what the management company owes SVF2 that they have yet to pay?

A2:
Kazuko Kimiwada
This is because of the co-investment program. When we started the co-investment program, the management company – i.e. Son-san – had not invested in cash from SoftBank (Group)’s perspective. That is not received. Also, premium receivables are on top of that. Actually, we disclosed this information before in the last two quarters. Please refer to those slides or financial reports.

Speaker 6
Q1:
Goto-san, could you please tell us about your expectations for interest rates in Japan over the next year or so – I think there will be a new head of the BOJ – and any impact you see on SoftBank Group.

A1:
Yoshimitsu Goto
Regarding the interest rate, I am not in the position of having a detailed analysis, but we are still at a very steady level of interest rate in Japan. Even if there is any hike due to some issues or reason, we have quite good headroom there even if there is any movement in the interest rate. So, in the meantime, if there is any hike in the interest rate, even if we see some increases in the financial cost, it will not be a large risk for our financials.

Q2:
Navneet, could you tell us a little bit about the impact of the high inflation we are seeing in the U.S. on SVF companies, excluding finance costs. What kind of risks or opportunities are you hearing about from this inflation from the companies?

A2:
Navneet Govil
Two things. One is in terms of discounted cash flow valuations. The discount rates that we use are very high because these are high-growth companies. Our discount rates are like 30-40%. So, inflation does not really fundamentally change the discount rates. The impact on the discount rates is relatively small. Then, there is the real impact on revenues and expenses for companies, but most of what we are seeing from inflation is impact on energy. Most of our portfolio companies are insulated, except some of those that are on the logistics side where actually it is helping those companies.

Speaker 6
So you do not see inflation actually as a risk to the operating side of most of these AI companies, right?

Navneet Govil
Correct.

Speaker 7
Q1:
I have a question on page 6 of the Accounting section. For SVF1 and SVF2 private portfolio companies, markdowns for SVF1 are 2.3 billion dollars and those for SVF2 are 6.6 billion dollars. SVF1 is down by 5%, and SVF2 is down by 17%. For SVF1 private portfolio companies, it is only marked down 5%. Is that enough? I wonder if there is any reason why you do not have to mark down even further.

A1:
Navneet Govil
The private portfolio companies in SVF1 are down less because we have some very, very strong companies there which have large values – Arm, ByteDance, and Fanatics. So, if you exclude those three companies, the write-down is quite similar to SVF2. SVF2 is early-stage companies, and because the market comps have come down, there is a significant impact on those. So, if you look at high-growth private companies, the markdown in SVF1 and SVF2 is similar. But in SVF1, as I mentioned, there are three companies that are performing very well with large values – Arm, ByteDance, and Fanatics. That is why the overall percentage looks low.

Speaker 7
That makes me feel better. But when it comes to ByteDance, which could be impacted by a conflict between China and the U.S., even if the performance is good. I wonder if some environment between China and the U.S. might have an impact on the valuation of ByteDance.

Navneet Govil
On ByteDance, we will see how things progress over time. It is a very strong performance, but we will see how they continue to do.

Q2:
On page 25 of the Finance section, about prepaid forward contracts using Alibaba shares. According to the media, there are a lot of reports that SoftBank (Group) sold a lot of Alibaba shares, but my understanding is that settlement in kind or not are the options. It does not necessarily mean you have sold a lot of Alibaba shares. Is my understanding correct?

Also, about 200 billion worth of gains related to in-kind settlements were recorded in the June quarter from an accounting perspective. What kind of standard do you apply when choosing settlements in kind?

A2:
Yoshimitsu Goto
About the mechanism of the prepaid forward contracts, you are right. At the time of settlement, we have an option to settle in kind, but we have an option to settle in cash, so we will decide which is better at the time.

For the second question, when maturity comes or the due date comes, If we decide to settle in kind, we do settle that way. So what you see is an example of how the transaction takes place when the due date comes.

Speaker 7
So, as maturity comes, you do a settlement in kind.

Yoshimitsu Goto
We decided not to use the option to settle in cash, but rather settle in kind.

Speaker 7
You thought that it is better to deliver shares as opposed to settling in cash?

Yoshimitsu Goto
Yes, that was the decision.

Speaker 7
So, the media report saying that the several trillion yen's worth of Alibaba shares you sold is not necessarily the truth.

Yoshimitsu Goto
I agree with you.

Speaker 8
Q1:
I have a question about the economic exposure of remaining Alibaba shares. Can you quantify the sensitivity of the Alibaba share price to NAV? For example, if Alibaba stock rises 25% or 50%, what

would be the impact on NAV?

A1:
Yoshimitsu Goto
If there is any increase in share price in Alibaba, we would of course positively reflect into our NAV. For Alibaba shares, we have used some for forward derivative transactions, but some of the shares are not touched at all for any financing. So, for those shares which are not used for transactions, they are going to be straight to receive or enjoy the increase in share price. For those shares which are used for derivative transactions, at the time of the repayment, if the share price rise is continuous, then we may not settle in shares, but we may renew the derivative transactions at that time. So, that may be also an option for us. You can find the data for calculation on page 37 of the Finance section. Please refer to that page as well.

Note: Content in parentheses are additions by SBG IR.

Act pursuant to Rule 12g3-2(b) thereunder.
To the maximum extent permitted by applicable law, SBG and the Group disclaim any responsibility or liability to ADR holders, banks, depositary institutions, or any other entities or individuals in connection with any unsponsored ADRs representing its common stock.
The above disclaimers apply with equal force to the securities of any of the Group which are or may in the future be the subject of unsponsored ADR programs, such as SoftBank Corp. or Z Holdings Corporation.

Notice regarding Fund Information contained in this Presentation

This presentation is furnished to you for informational purposes and is not, and may not be relied on in any manner as, legal, tax, investment, accounting or other advice or as an offer to sell or a solicitation of an offer to buy limited partnership or comparable limited liability equity interests in any fund managed by a subsidiary of SBG, including SB Global Advisers Limited ("SBGA"), SB Investment Advisers (UK) Limited ("SBIA"), and any of their respective affiliates thereof (collectively, the "SB Fund Managers" and each an "SB Fund Manager") (such funds together with, as the context may require, any parallel fund, feeder fund, co-investment vehicle or alternative investment vehicle collectively, the "SB Funds" and each an "SB Fund"). For the avoidance of doubt, the SB Funds include, among other funds, SoftBank Vision Fund L.P. (together with, as the context may require, any parallel fund, feeder fund, co-investment vehicle or alternative investment vehicle, the "Vision Fund I"), which are managed by SBIA and its affiliates; SoftBank Vision Fund II-2 L.P. (together with, as the context may require, any parallel fund, feeder fund, co-investment vehicle or alternative investment vehicle, the "Vision Fund II"), which are managed by SBGA and its affiliates; and SBLA Latin America Fund LLC (together with, as the context may require, any parallel fund, feeder fund, co-investment vehicle or alternative investment vehicle, the "SoftBank Latin America Fund"), which are managed by SBGA and its affiliates.
None of the SB Funds (including the Vision Fund I, Vision Fund II and SoftBank Latin America Fund), the SB Fund Managers any successor or future fund managed by an SB Fund Manager, SBG or their respective affiliates makes any representation or warranty, express or implied, as to the accuracy or completeness of the information contained herein and nothing contained herein should be relied upon as a promise or representation as to past or future performance of the SB Funds or any other entity referenced in this presentation, or future performance of any successor or the future fund managed by an SB Fund Manager.
Information relating to the performance of the SB Funds or any other entity referenced in this presentation has been included for background purposes only and should not be considered an indication of the future performance of the relevant SB Fund, any other entity referenced in this presentation or any future fund managed by an SB Fund Manager. References to any specific investments of an SB Fund, to the extent included therein, are presented to illustrate the relevant SB Fund Manager's investment process and operating philosophy only and should not be construed as a recommendation of any particular investment or security. The performance of individual investments of an SB Fund may vary and the performance of the selected transactions is not necessarily indicative of the performance of all of the applicable prior investments. The specific investments identified and described in this presentation do not represent all of the investments made by the relevant SB Fund Manager, and no assumption should be made that investments identified and discussed therein were or will be profitable.
The performance of an SB Fund in this presentation is based on unrealized valuations of portfolio investments. Valuations of unrealized investments are based on assumptions and factors (including, for example, as of the date of the valuation, average multiples of comparable companies, and other considerations) that the relevant SB Fund Manager believes are reasonable under the circumstances relating to each particular investment. However, there can be no assurance that unrealized investments will be realized at the valuations indicated in this presentation or used to calculate the returns contained therein, and transaction costs connected with such realizations remain unknown and, therefore, are not factored into such calculations. Estimates of unrealized value are subject to numerous variables that change over time. The actual realized returns on the relevant SB Fund's unrealized investments will depend on, among other factors, future operating results, the value of the assets and market conditions at the time of disposition, any related transaction costs and the timing and manner of sale, all of which may differ from the assumptions and circumstances on which the relevant SB Fund Manager's valuations are based.
Past performance is not necessarily indicative of future results. The performance of an SB Fund or any future fund managed by an SB Fund Manager may be materially lower than the performance information presented in this presentation. There can be no assurance that each SB Fund or any future fund managed by the relevant SB Fund Manager will achieve comparable results as those presented therein.
Third-party logos and vendor information included in this presentation are provided for illustrative purposes only. Inclusion of such logos does not imply affiliation with or endorsement by such firms or businesses. There is no guarantee that an SB Fund Manager, an SB Fund's portfolio companies, any future portfolio companies of a future fund managed by an SB Fund Manager or SBG will work with any of the firms or businesses whose logos are included in this presentation in the future.
SBGA and SBIA manage separate and independent operations and processes from each other and those of SBG in the management of Vision Fund I, Vision Fund II and SoftBank Latin America Fund, respectively. Any SB Funds managed by SBGA or SBIA are solely managed by SBGA or SBIA respectively.