

SoftBank Group Corp.: FY22Q3 Investor Briefing Q&A

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Speakers:

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

Navneet Govil, CFO, Member of the Executive Committee, SB Global Advisers

Ian Thornton, VP Investor Relations, Arm Limited

Speaker 1

Q1:

Thank you very much for taking my questions. On page 9 of the Accounting section, SVF business performance. Maybe my question is to Navneet even though it is related to Ms. Kimiwada's presentation. 5 trillion-yen investment loss is recorded. Since the first quarter, loss amount has been decreasing or getting smaller. Looking at valuation of private investment, maybe it is in recovery phase or improvement phase. I understand you have ample cash position. But I wonder if private investment markdowns are fully reflected in the loss.

A1:

(Govil) Our valuations reflect company performance as well as market multiples. So, if you look at the first half of 2022, a lot of the write-downs we took reflected market multiples, especially, with performance of the public company comparable. What we saw in the second half of 2022 was a lot of the portfolio companies revising their projections of growth and profitability, given some of the macro headwinds. So, overall performance is hard to forecast but what really matters in the case of our portfolio companies is the quality of the technology stack*, the size of the addressable market, unit economics, and their ability to scale.

* Technology stack: a combination of tools, applications, and services to build and run a web or mobile app

Q2:

Next question is about cash tax, which is on page 8 of the Accounting section. Maybe I missed your explanation. 250 billion yen of cash tax is after considering a loss carried forward?

A2:

(Kimiwada) Thank you very much. To your second question, around 250 billion yen of cash tax. It is after consideration of loss carried forward that can be utilized.

Speaker 2

Q1:

Thank you very much for taking my questions. The first question is to Ms. Kimiwada, about physical settlement of Alibaba prepaid forward contracts. According to Mr. Goto's presentation, the physical settlement is 6.9 billion dollars or 1 trillion yen, but on page 6 in the Accounting section, it is 373.8 billion yen, and the realized loss is 86.3 billion yen. The numbers with the Kimiwada-san's page and Goto-san's page are not matches, so can you elaborate, please?

A1:

(Kimiwada) 373.8 billion (yen), this is the second quarter-end fair value, which is the share price at the time multiplied by the number of shares. This shows how much being decreased in book value wise.

Q2:

So, what is this the 6.9 billion dollars or 1 trillion yen?

A2:

(Goto) This is the market value of actual settlements amount.

Q3:

How about the realized loss of 86.3 billion yen in the footnote 4 on page 6 in the Accounting section?

A3:

(Kimiwada) A little bit misleading or complicated, but this (86.3 billion yen) is the realized loss for the settlement of shares itself. However, derivative-wise we do record a gain, which is how it is explained. Let me try to express much better in the next time. Thank you very much.

Q4:

Vision Fund private securities has been showing quite a big valuation loss, and I understand this is due to the performance issue. Has that been revised for the calendar year 2022 performance so that the valuation has been marked down or is it because of the forecast of 2023 to kind of mark down? Has that been also including the 2023 forecast or is it only the actual performance 2022 for the markdown? Which is that?

A4:

(Govil) The valuations are always forward-looking. At the end of December, the valuations reflect the forecast for 2023 and beyond. Even though the private markets are slow to reflect some of the repricing, we have considered and taken into account the macro headwinds to reflect the adjusted forecast for the portfolio companies going forward.

Speaker 3

Q1:

First question. Navneet, it seems like you have quite conservative valuations for Vision Funds, but maybe if we look at the SoftBank (Group Corp.) share price, it seems like they are quite discounted by the markets. Goto-san, is it not a good time to buy back shares and get discounted AI stocks? You mentioned three scenarios, but they all show recovery. So, is there some urgency around buybacks currently? That is the first question.

A1:

(Goto) First, I would like to answer your question about share buyback. Whether we have an urgency for share buyback or not, in terms of the share price, including the level of discount, it's difficult for me to answer clearly. Recently our share price is trending relatively higher than the price levels for the periods we have been buying back shares. But on the other hand, the discount is still wide. That is also the fact.

Like I said earlier in my presentation, we are looking at the balance of two big stakeholders, shareholders, and bondholders, whereas we need to make a strategic investment. While making sure we have a good balance, we need to make most appropriate decision. We cannot make a decision on share buyback only looking at share price or market condition. But we constantly discuss this topic at our Board meetings. As of today, we do not have any announcement of share buyback, but going forward we will continue discussing exploring opportunity for share buyback in the future.

Q2:

Second question, Navneet, could you confirm the outstanding preference portion in Vision Fund 1 please?

A2:

(Govil) If you take a look regarding your question on preferred equity for Vision Fund 1, please take a look at slide 8 of my presentation. Of the 40 billion (dollars) in preferred equity commitments, we drew 36.2 billion (dollars), we returned 18.6 billion (dollars). At the end of December, there is 17.6 billion (dollars) of preferred equity outstanding.

Speaker 4

Q1:

Thank you very much. First question is for Goto-san. Going back to the previous slide where the Alibaba numbers were showing. In the December quarter, the stock price went up, but the value has gone down, so net-net it looks like there were some more sales specifically in the particular quarter, outright sales or prepaid forward contracts. Can you clarify exactly what that amount is? This monetization when you call it, because sometimes it is also margin loans against some of these assets. The December quarter asset-backed finance, is it primarily prepaid forward contracts and

no margin loans?

A1:

(Goto) Currently, it is only the forward contract 6.1 billion (dollars). Margin loan is not executed for Alibaba shares for now.

Q2:

The second question is for Navneet. A slightly more conceptual question. You have talked about AI. If I look at the data sheet for the third quarter, and I look at the Vision Funds investments which are listed ones and I look at the largest ones. Page 5 is what I am looking at of the data sheet for the third quarter. It is a 23-page document. It is sorted by fair value so the largest one is Coupang which is e-commerce similar to Amazon. Didi Global which is ride-hailing. Grab Holdings is also ride-hailing. These are three of the biggest ones. If I look on Vision Fund 2, AutoStore and WeWork are two of the biggest ones that are listed there.

My own understanding is e-commerce, which is Amazon or even AWS, there is not much of AI in there. There is obviously a matching of demand and supply and humans do not do that, machine is doing it. Same way, stock exchanges have been matching demand and supply for a long time. So, if these ride-hailing companies are matching that, then which of these exactly is AI investment per se?

A2:

(Govil) Thank you for that. So, AI, artificial intelligence, is a general-purpose technology. The examples that you listed; these are companies that are basically where AI enables their business models. It essentially underpins them. As you may recall, a lot of these investments were done in the early years in 2017-2018, when Son-san (Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO) saw around the corners how artificial intelligence was entering mainstream. These companies continue whether it is you talked about supply demand matching, there is pricing algorithms. There are a number of applications, and those applications continue to expand over time, which is why some of the companies you listed have been doing very well like Coupang, DoorDash, and a bunch of others.

Q3:

By extension, would it be fair to say that the companies like Amazon and Google have been doing AI long before we started talking about AI. Because they have been doing all this thing. This mechanism is underpinning their business models for a very long time.

A3:

(Govil) To some extent. I think if you look at the companies we have invested in, these are truly disruptive and they will continue to leverage AI, big data, neural networks, and then move to foundational models.

Q4:

Is any of the companies specifically addressing these three parts of natural language processing, speech recognition, and machine vision? Any specific one which is addressing these three?

A4:

(Govil) These are – what you are referring is generative AI, which is just one subset of mass application. It is very interesting, but it is not the only opportunity, and we continue to look at opportunities in the space, more broadly.

Speaker 5

Q1:

I have a question to Navneet. In the presentation material, page 29, late-stage portfolio companies are shown here. Arm, of course, was touched upon in the earnings briefing and PayPay also we have some understanding. But other companies, and revenue, profit, any changes, or any trend if you could elaborate on that, that will be great. Also, Fanatics, recently valuation was up but it is not included here. Is Fanatics not at the late stage yet? Is my understanding correct? Thank you.

A1:

(Govil) I only listed two examples from each of the funds. The 37 billion (dollar) late-stage value reflects about 30 companies in our portfolio, but we only listed two examples from each of the funds.

Q2:

Okay. Thank you so much. I think ByteDance and Fanatics have a high composition ratio, so can you share with us fundamentals as much as possible please?

A2:

(Govil) We do not really go into specifics of each of the companies. But you mentioned Fanatics. Fanatics is one of the late-stage companies that is part of these 37 billion (dollar) portfolios.

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