**SoftBank Group Corp.: FY23Q1 Investor Briefing Q&A**

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**Presenters:**

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

**Q&A**

**Speaker 1**

**Q1:**

On page 9 of the accounting section, you mentioned that of the investment income/loss from the SVF business, 172.8 billion yen of investment income/loss related to subsidiaries came from Arm and PayPay. How much was the mark-up for Arm? A loss of 13 billion yen, after excluding Arm and PayPay, is very strange because the public markets have gone up quite a bit. On page 11 of the accounting section, you see that WeWork's convertible bonds and loan commitments resulted in a loss of approximately 60 billion yen in the SVF business. Are these the causes of the loss?

**A1:**

**(Kimiwada)** Firstly, the consolidation treatment of subsidiaries: valuation gains recorded in the SVF are eliminated, while the subsidiary's sales and other profits are consolidated in the consolidated financial statements.

**Q2:**

Of this ¥172.8 billion, how much does Arm account for?

**A2:**

**(Kimiwada)** It is fair to understand that most of this came from Arm. Total equity value for Arm was $45.2 billion in dollar terms.

**Q3:**

At the end of March 2023, it was $40 billion, wasn't it?

**A3:**

**(Kimiwada)** Yes, that is correct.

**Q4:**

Even excluding that, the loss of 13 billion yen means that WeWork is dragging the profit down?

**A4:**

**(Kimiwada)** We do not disclose in detail, but besides WeWork, there are some public investments that are also showing losses. I can't disclose the details of private investments either. Goto also mentioned that Magnificent 7 largely drove the public market upwards.

**Q5:**

The second question. Regarding investments from SBG, what is included in 1,404 billion yen in "Others" under FVTPL on page 14 of the accounting section? There was also a disclosure that SBG and its wholly owned subsidiaries made strategic investments of 120 billion yen. Could you please explain what kind of companies you invested in?

**A5:**

**(Kimiwada)** We do not disclose the individual stocks in the 120 billion yen. 1,404 billion yen of "Others" in FVTPL is the sum of hundreds of investments.

**Q6:**

Recent investment in Symbotic will be booked in the July-September quarter results?

**A6:**

**(Kimiwada)** Yes, the Symbotic investment was in July, so it will be in the second quarter of fiscal 2023.

**Speaker 2**

**Q1:**

As shown on page 6 of the financial section, SBG and others and SVF invested $0.9 billion each in the first quarter, for a total of $1.8 billion. I believe that the investment was made after very careful consideration and in anticipation of a high return. Can you talk about this investment and the prospects for returns? In addition, please tell us about Symbotic, which you invested in July. What was the background to your decision to structure a further JV from SPAC.

**A1:**

**(Govil)** I think you're referring to the Symbotic investment here, correct? As you may recall, we started with three SPACs in order to merge with companies of different sizes. But we were very clear when we set up those SPACs, we said that these have to be companies that are category-leading disruptive companies, growing very quickly, and either profitable or with a path to profitability. Ultimately, we only found one company to partner with, which was Symbotic, and we closed the other two SPACs. Symbotic has turned out to be a category-leader and is now defining this new space of warehouse-as-a-service that Goto-san talked about in his main earnings presentation.

Based on that, we decided to make the incremental investment in the joint venture. This is quite similar to our investing strategy. If you look at other very successful investments that we've made in DoorDash, and Coupang, we started with an initial investment and then made a subsequent investment. It's also true with Berkshire Grey that Goto-san talked about. It's very common for us when we see a good investment, we'll make an initial investment, then subsequent to that, we will either do follow on investments or in the case of Berkshire Grey, we purchased the whole company.

**Q2:**

There is no share buyback announcement this time, and a lot has happened in the financial realm in the last three months: downgrade by S&P, NAV discount of 36%, and resuming investments. What is management's view on share buybacks at this point in time?

**A2:**

**(Goto)** Share buy-backs have always been one of our top priorities at management level, but we do not have any concrete plans to announce at this time. However, it is a topic that we are always proactively considering, and we hope that you will appreciate our track record of 4.5 trillion yen over the past five years, while leaving the timing and other flexibility to us.

**Speaker 3**

**Q1:**

A question to Navneet on page 8 of SVF section. The quarterly trend indicates that the situation has stabilized quite a bit. Looking back at the past quarters, there were significant markdowns. Can you give us a comment on whether valuations, especially for private companies, have now calmed down considerably?

**A1:**

**(Govil)** I think we agree with your general view. We're beginning to see stabilization in valuations. There were a couple of sector specific developments in the June quarter which have referred to

WeWork and Nuro, but overall, we feel quite optimistic about our portfolio for a variety of reasons.

Number one is that our portfolio is very well capitalized. 93% of our portfolio companies have a cash runway of more than 12 months. As you look at the portfolio, we find that 2/3 of the portfolio is already generating cash or is expected to reach free cashflow positive with their current capital base. Despite macro headwinds over the last two years, we have about 1/4 of our portfolio showing annual revenue growth of greater than 50%. In fact, nearly 40% of our portfolio is showing a 25% year-over-year revenue growth. The combination of being well capitalized and ensuring top line revenue growth gives us confidence and optimism in terms of valuations going forward.

**Q2:**

The second question is for Mr. Goto, regarding capital allocation. On page 28 of the financial section, the footnote on shareholder returns says that the level of NAV discount is also a consideration. From a financial and management perspective, what level of NAV discount would be a trigger? There may be a combination of factors, but it would be very helpful if you could comment on the relationship between shareholder return and NAV discount.

**A2:**

**(Goto)** We do not disclose what percentage of the NAV discount is the trigger, but of course the wider the discount, the more we have to consider shareholder returns as a technical solution.

Essentially, we need to make a solid effort, not through technical methods, but through investor engagement and strategy explanation, to eliminate the discount. However, there is also a history of it being difficult to tighten the discount by itself.

On the other hand, our stakeholders include credit investors as well as shareholders. In order to satisfy as many of these stakeholders as possible, we need a strategy that takes them both into account, and it is also essential to make new investments to enhance corporate value.

Therefore, the balance among the three is the most important topic for discussion. We will continue to discuss this issue internally so that we can gain the understanding of as many stakeholders as possible.

**Speaker 4**

**Q1:**

Could you tell us more about how you see the market outlook for IPOs in general for technology and AI companies and how that compares to three to six months ago?

**A1:**

**(Govil)** Clearly the IPO market has reopened as you have seen a couple of those Cava and nLight, Savers, Oddity, Kenvue and of course, we’re looking forward to the arm IPO. There’s a common thread in these companies that have recently gone public, healthy top line growth and profitability. Our view is that there is a strong investor appetite for category-leading high growth, high quality assets. In terms of rebound, I think overall the sentiment is quite constructive, coming up to the upcoming IPOs but again, investors are scrutinizing performance. Companies that don’t have durable sustainable earnings will find it very difficult.

**Q2:**
A question for Goto-san is more on the macro level. There has been some slight change in policy of the Bank of Japan. Should there be something to think about macro impact on SBG going forward?

**A2:**
**(Goto)** I believe that the Bank of Japan, with its new members, will adopt a different strategy for yield curve control and inflation targeting, which will have various effects on interest rate policy in Japan. However, we have a mechanism that allows us to respond flexibly within the given environment, so I don’t think that major changes in macroeconomic trends will affect our strategy. As a finance department, it is a matter of great interest to us, and we will continue to monitor it.

**Speaker 5**
**Q1:**
What's the landscape that's available in terms of AI high growth companies as you refer to as being your potential targets for new investment? Are we going to see a squeeze here again, on limited potential targets in terms of valuation?

**A1:**
**(Govil)** A couple of things. The bar for making investments is quite high. As I mentioned earlier, as you referred to, we're looking at next generation AI-focused companies with high growth that have positive unit economics or are on the path to profitability. Having said that, we did see some companies recently in generative AI space where the valuations were much higher or difficult to justify, which is why the bar is high, and it's also high because the cost of capital over the last 12 to 24 months has gone up. Nonetheless, we are seeing quite a few companies and there is a robust pipeline, which is why there is a slide that Goto-san showed where in the June quarter the total we deployed was about 1.8 billion which has increased quite a bit since the prior quarters. We're quite optimistic.

**Q2:**

Given the color provided by the rating agency, hesitancy around concentration of public listed holdings, does this inform your strategy going forward at all in terms of the go-to-market and the holding period post go-to-market for your various investment success stories?

**A2:**

**(Goto)** We will not change our business strategy because of our credit rating. We will only follow the strategy that we think is right. Each rating agency is responsible for its own evaluation, and we are happy as long as the discussion is rational. We respect their independent judgment based on rational decisions. However, no matter what the rating agency's assessment is, if we think it is safe, we will explain our position to investors in a thorough and detailed manner. We will not change our strategy.

**Speaker 6**

**Q1:**

Regarding resuming the investments and shifting the offense mode. As Mr. Son mentioned at the results briefing and at the shareholders' meeting before that, what exactly is your investment policy and what are your thoughts on what kind of investments you are going to make? I think SVF1 invested in late-stage, relatively liquid investments, while SVF2 made diversified investments, early-stage and considerably less liquid. Mr. Goto mentioned earlier about investments that do not reduce the liquidity of assets, but is it possible to expand assets while maintaining liquidity through investments that are a similar to those made by SVF2? Perhaps you are introducing a different investment policy, but I would appreciate an explanation from the perspective of the mode change and liquidity.

**A1:**

**(Goto)** When you say maintaining liquidity, do you mean "maintain liquidity on the balance sheet"?

**Q2:**

I thought you were referring to asset liquidity on the slide about credit rating agencies. Do you mean balance sheet liquidity?

**A2:**

**(Goto)** Rating agencies consider a decline in the ratio of listed shares to our assets as unfavorable. In particular, their message is that the ratio below 50% is considered negative. We respond by saying that we have a history of selling off Alibaba shares over the past three years, so the proportion of listed shares in our assets has inevitably fallen. Also, we did not sell our Alibaba shares to invest, for example, in private companies. We have reduced our investments in the last year and the year before.

Rather, we have moved to safer assets than Alibaba shares, and I explained earlier that we would like the rating agencies to appreciate this financial improvement.

**Q3:**
Okay, I understand. I would like to ask you about the policy and strategy for the investments. What specific assets will you be investing in?

**A3:**
**(Goto)** I would like to ask Navneet to comment on SVF's investment strategy, but our investment policy and vision as a Group-wide strategy has not changed at all, which is to invest with a focus on AI. We will continue to stick to a stronger focus on AI, drawing on our various past experiences.

**(Govil)** I completely agree with Goto-san in terms of focus on AI. Specifically, there are a couple of things that we look at. One is the quality of the technology stack. The second is the size of the addressable market. The third is unit economics, and the fourth is scalability. So, we're looking at mid-to-late stage next generation AI-focused companies with high growth potential. These have to be companies that will be truly disruptive. There's a large addressable market, they have positive unit economics, they can scale, and the quality of the tech stack is really good.

**Q4:**
While SVF1 mostly invested in companies with IPOs in sight, I think SVF2's investments were more early-stage. In resuming investments, do you think that you will be more likely to invest in early-stage companies that are somewhat similar to SVF2?

**A4:**
**(Govil)** If you look at our companies that are ready to go public, when the time is right and the markets are open, there are actually quite a few companies in SVF2 that meet those criteria. So, it's not necessarily true that SVF2 is in its early stage so I can give you examples. PayPay, SVF2 company, is doing extremely well. Ready to go public; we have Firstcry, LensKart, and Swiggy. There are a number of companies in SVF2 that are ready to go public when the time is right. That's why, as I said, our portfolio is quite significant: $42 billion in fair value of portfolio companies ready to go public.

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