SoftBank Group Corp.: FY23Q2 Investor Briefing Q&A

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Presenters:

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Q&A

Speaker 1

Q1:

On page 4 of the accounting section, why are there four installments for SBG's payment to purchase 25% of Arm shares from SVF1? Given the three more installments over the next two years, will SVF recognize any gain or loss if Arm's share price fluctuates? Also, what is the use of proceeds for $4 billion payment? I suppose some of the proceeds go to LPs, but how about the rest? Will they be reinvested?

A1:

(Goto) Thank you for your question. First of all, it is good from SBG's cash management standpoint that the payment to SVF is split over two years. Each time a payment is made, SVF will make a distribution to LPs. SBG as LP is therefore entitled to receive 50% of the payment. Also, all the terms and conditions are fixed in addition to the payment in installments, so the amount will not change.

(Kimiwada) In other words, there will be no positive or negative effect from the fluctuation of Arm's share price.

Q2:

My second question is to Navneet. Referring to page 13 of the accounting section, unrealized losses on valuation of investments of SVF are quite large. Can you update us on the status of this area, whether this is due to multiples or the performance of private companies?

A2:

(Govil) On SVF1, there was a gain of about $2.5 billion and it was primarily driven by the sale of 25% of Arm shares to SBG. And then a part of it was offset by losses on two private assets, one was Flexport and the other one was GoBrands. And in SVF2, there was a loss of about slightly over $2 billion primarily due to the public assets. AutoStore was one of them and of course, WeWork. And LatAm Funds were mostly flat. So overall if you look at SVF1, SVF2 and LatAm Funds, it was a gain of about $300 million.

Speaker 2

Q1:

Page 13 of the accounting section shows SVF's profit and loss for the six months (April - September), while the data for the three-month period (July - September) is also presented in the data sheets. Looking at just the three months from July to September, there was a realized gain of ¥923.9 billion because of the sale of Arm shares, but there was an unrealized loss of ¥846.4 billion, which was a bit too large and surprising. In the second quarter, SVF1 and SVF2 posted a loss of $1.6 billion and $2.2 billion, respectively, so a total loss of $3.8 billion. In contrast, ¥846.4 billion is very large. Could you please explain why this is the case?

A1:

(Kimiwada) How you look at this table is, for example, when gains are realized in this period, we have to reverse the unrealized gains that were posted in the past. Otherwise, only the difference between the realized profit and previously recorded profit would be shown as profit in the realized gain section. So, the full realized amounts are placed in the column "realized" for the current period, and those recorded in the past are placed in the column "unrealized" as a negative figure. For this period, since the sale of Arm was realized, a little over ¥360 billion was posted as a reversal as a negative figure.

(Supplemental) The amount appears to be inflated because -¥846.4 billion includes -¥362.5 billion is related to Arm, which was unrealized gains recorded from prior years to the end of the first quarter that was reclassified to realized gains/losses.

Of this amount, the amount that was recorded as unrealized gains/losses in previous years that was reclassified to realized gains/losses (-¥189.8 billion for Arm alone) is shown in a separate line ("Reclassified to realized gain (loss) recorded in the past fiscal years"), but the amount recorded as unrealized gains in the first quarter and reclassified to realized gains (-¥172.7 billion for Arm alone) is included as a negative figure in unrealized gains/losses ("Change in valuation for the fiscal year"). Subtracting these and the foreign exchange impact, the amount is close to SVF's loss of -$3.8 billion (SVF1+2).

Q2:

In terms of future cash outflow, SBG will be paying out $12 billion from the purchase of Arm shares and another $1.4 billion from the WeWork credit in October, so I think quite a bit of money is going out. Although you mentioned earlier that half of the amount will come back to SBG, given SVF is utilizing asset-backed financing that needs to be repaid and it also has a preferred equity coupon payment, I think it is not quite possible for half of the amount to be returned. I would appreciate it if you could please sort out the money that is going out and the money that is coming back. This is also on page 4 of the accounting section.

A2:

(Goto) As for the distribution from the fund, we are indeed entitled to receive 50%, but there are many things that have to be paid before that, so we are not promising how much we will get back at the moment. I assume your question refers to SBG's cash management in the third quarter and the following quarters, but since we have already contributed the collateral for WeWork, there will be no new cash flow, and our current investment speed is not that fast, so we do not anticipate any events that would cause a rapid decrease in liquidity on hand.

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