

SoftBank Group Corp.: FY24Q1 Global Conference Call Q&A

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Presenters:

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Q&A

Speaker1

Q1:

The question is related to T-Mobile and Deutsche Telekom. Are those still considered strategic assets?

A1:

(Goto) We think the same way about all our holdings.

Q2:

Is there a potential that you sell those assets? You sold a little bit of T-Mobile shares, but is there more coming up?

A2:

(Goto) As a general answer, we are an investment company, so the sale of our holdings is always considered a return on investment, with the proceeds being used for new investments or other purposes. We do not comment on the question of whether to sell individual listed stocks.

Q3:

I have a question related to Arm's customer base. Arm is now selling designs to 10 different hyperscalers. Is my understanding correct?

A3:

(Thornton) All 10 are either developing or deploying Arm-based chips into the data center. For example, Oracle is deploying chips developed by Ampere. So, Ampere Computing is the customer, and Oracle is the customer of Ampere. Whereas Amazon, Google, and Microsoft are our customers, and they are developing their own chips for their own data center.

And if you were to go through the 10, there is a mix there. Most of them are developing for their own data

center, but some are also buying off-the-shelf chips as well.

Q4:

If you look at that market of companies that are designing their own chips using Arm designs, how much of that market do you think you have and how much do you think you can get? Is there a lot of opportunity still available there?

A4:

(Thornton) In terms of our market share in the data center, the server side, and the cloud and hyperscalers, we have about a 15% market share today. But almost all of that is just from Amazon AWS. Google have only just started shipping their Axion chip. Microsoft has only just started shipping their Cobalt chip into Azure. So, there are lots of opportunities for those companies to come up to providing a similar level of penetration as Amazon have done.

Plus, you then look at all the other potential hyperscalers that are out there as well, and that are beginning to deploy Arm-based chips or soon will be. And so, when we are staring into our crystal ball and trying to forecast the future, we think that on the cloud side of the data center business we could be approaching a 50% market share by the end of the decade.

Speaker 2

Q1:

I have a question about Wiz. Could you tell us a little bit more on this investment? I think this company was thinking of selling themselves to Google, but decided not to. And then do they have a new relationship with SVF?

A1:

(Clavel) Wiz is an investment that we would have made in April. There was no linkage between whatever the rumors that were out there that the company then confirmed and our investment. These are two totally separate things. Our investment went in a few months before the Google stories came out. From our perspective, it was validation, as the company's CEO said, that they would receive such a humbling offer. It was a growth investment for us in what we think is a great company.

Q2:

Could I ask about your thoughts on BoJ? Many people were surprised by their action and then the comments seem to be trying to calm down the market. What was your sense of their thinking, and how could that impact your funding situation in Japan?

A2:

(Goto) I am not a critic specializing in BoJ matters, so I will not comment in detail. However, I believe BoJ was seeking the right moment to end the stance that has been in place for many years. If the impact was expected to be larger than anticipated, they would need to make statements to mitigate it somewhat. It

appears that such measures have been taken in this short period.

At the moment, I don't believe this has any direct impact on our procurement. Regarding our debt, observing the secondary and CDS levels of the bonds provides a general understanding of the situation.

Speaker 3

Q1:

I have a question on Arm. You mentioned a December forecast of some reacceleration and a rebound in chip sales. Could you speak to what segment is driving that across your various market share breakdowns, just given the disparity in or, the opportunity in royalty rate upside from smartphone relative to others, it seems at the moment given the Armv9 penetration?

A1:

(Thornton) I was very much focusing on the industrial IoT network equipment and PC space, which have been seeing a bit of a slowdown over the last year or 18 months. And our customers in this space have been saying that this is the bottom and that it is now going to start to take off again.

This quarter was supposed to be the bottom. And now it is the December quarter that is supposed to be the bottom, at which point we start to see growth again.

Q2:

To what extent do we see the higher royalty IP being used in the industrial IoT network equipment and PC space, relative to what seems to be a highly penetrated space for smartphone, for Armv9?

A2:

(Thornton) Armv9 is only about halfway through smartphone, so you have got plenty to go. All of the main chips going into the data center, cloud data center is now Armv9-based. We are starting to see the first going into automotive being Armv9-based as well.

Today, we are not seeing any Armv9 in industrial IoT. We are not seeing any in PC today either. And a very small number of chips is going into networking. So broadly, these are mainly Armv8 or older architectures, but we do expect that in all three of these areas, Armv9 will become a very large part over time, maybe not industrial IoT to the same extent. Certainly, most of the networking equipment over the next four to five years will probably move to Armv9, and much of our PC penetration will be Armv9- based as well in four or five years.

Q3:

In terms of Son-san's vision for this broader ecosystem around AI and data centers and renewables, I would like to get your view on how we should think about the spread of this capital, the extent to which we could see SBG, portfolio companies, and wholly consolidated subsidiaries funding this ecosystem over time.

A3:

(Goto) If it is power generation, SB Energy will likely be the direct business entity involved. In the case of a

data center, it is highly likely that a subsidiary will be established. SBG is always prepared to provide the necessary funding to such a subsidiary.

However, whether it's for power generation or data centers, we will likely form syndicates and gather financing participants for each project. Consequently, the amount of capital we contribute as equity investors to the overall required funding is expected to be not that large.

Speaker 4

Q1:

Mechanically, given so much of your debt are in yen, and your assets are in dollars, as the yen continues to strengthen, we would expect LTV to weaken. Do you have any hedges in place to help manage that risk?

A1:

(Goto) In terms of the impact of exchange rates, our outstanding bonds have fixed interest rates, and since we are a Japanese company, there is little effect on payments made in yen. When considering new financing through foreign bonds, the principal amount at redemption may fluctuate depending on exchange rates, though I do not anticipate this impact being significant.

Regarding Loan to Value, we have substantial leeway, so I do not think that exchange rate fluctuations will have a significant impact at all. For example, even if there were an event causing share prices to drop by one-third over a few weeks, it only affects Loan to Value by less than 2%, so we consider the current Loan to Value level to be safe.

Speaker 5

Q1:

Will there be any change in the mechanism of buyback compared to the last time? In 2021 when you announced, I believe it was a ¥1 trillion buyback, what happened was that buyback led to a sharp rise in the share price and most of the buyback happened at a high price. And then the share price crashed. So, are you contemplating a different mechanism for the buyback this time?

In addition, is it fair to assume that this buyback will be funded by a combination of asset sales and new debt?

A1:

(Goto) There is absolutely no difference in the mechanism or treatment of this buyback compared to previous cases we have executed. The decision for this buyback was made in line with its intended purpose. Additionally, SBG's current liquidity is very ample, so we are not planning this buyback in conjunction with asset sales. We do not comment on the share buyback method.

Speaker 6

Q1:

The question is on PayPay. The target was for PayPay to be profitable. Now it is profitable. Does SVF want to see PayPay IPO soon? Is it one of the targets they think will be monetized soon, from their point of view,

given your own 30%? Given the fintech write down in the quarter, are you more cautious about fintech IPOs in the short term?

A1:

(Govil) PayPay has done quite well. They grew revenues 25% year-over-year through fiscal year 2024 through March 2024. They have achieved EBITDA break-even, the margins are increased by 3.5%, and they have forecasted to continue profitability into 2025 and beyond. PayPay Card now as well integrated and offering seamless products across payments, point, and credit.

In terms of IPOs, we do not dictate the timing of the IPOs or the exits. There is no pressure to exit. SVF has long fund lives. Our approach is that all the management companies of the various portfolio companies would make the decision of when to go public. They typically do that when the markets are favorable.

The good news is that in most cases including PayPay, they are profitable and so there is no need to raise money. It is not driven by a need to have a funding round or some kind of a way to raise money. It will really depend on whenever management is comfortable taking the company public.

Q2:

In this quarter, SVF1 posted private fair value gains of \$1.4 billion. It seems to be mostly by ByteDance. Raising the valuation of ByteDance seems to be counter to the threat against the business. Does litigation come into the process of reviewing the valuation? The U.S. government has legislated to potentially ban the product of TikTok in the U.S. Obviously, the company is countersuing to say that it is nonconstitutional. I was just surprised that you would increase your valuation. I presume then that you do not include the threat of any litigation and or termination of TikTok in the U.S. when considering the valuation of ByteDance.

A2:

(Govil) The litigation and the valuation are two separate things. In 2023, their revenue was about \$120 billion, and growth accelerated to over 40%. If you compare how they are doing to some of the other players, they grew revenues in calendar year 2023 by 50%, compared to 16% for Meta, 10% for Tencent. In terms of their EBITDA margins as well, they are very strong. EBITDA margins are over 35%. A lot of this is driven by their China business. They are highly cash generative. What we are seeing is really, really strong performance in their China business. And effectively, what we have done is, from a valuation standpoint, we have taken into account the potential risk as the litigation risk, and we have concluded that even if we fully disregard the TikTok contribution in the U.S., the valuation uplift would be warranted.

Q3:

Regarding the private losses for SVF2, it was due to fintech and SaaS. Could you elaborate a little more on what the driver was behind?

A3:

(Govil) In the fintech industry, there has been a rerating of the multiples, and you can look at a lot of these in terms of the public comps. In general, fintech public comps saw a 20% to 30% rerating quarter over

quarter. These are companies like Block, Affirm, Wise, and Adyen. And many of these are trading at historical lows. And it is really driven by the high interest environment and uncertainty around the timing of interest rate cuts. We are also seeing early signs of consumer weakening, especially in discretionary categories.

On the software side, I think a lot of it is driven by some poor consumer sentiment data that we are seeing, and that had an impact.

Speaker 7

Q1:

I have a question on IPUs (Intelligence Processing Units). The data center market is doing very well, and that has been a key target for you. Could you share your perspective on how IPUs work as a market, and in terms of Arm's business model, to what degree you overlap or have ever thought about that space?

A1:

(Thornton) In terms of the broader market, all of the accelerators, including GPUs, NPUs, and any form of accelerator for AI or even for other data center tasks, sit alongside a CPU. The CPU provides the interface into the accelerator, and these accelerators are usually very difficult to program. So, you have a nice easy programming interface in the CPU, and then the CPU runs the operating system, runs the application, and then hands off tasks to the accelerator, which the accelerator is tuned to do.

When looking at data centers full of Nvidia GPU's, Google TPUs, or other forms of accelerators, you will find a large number of CPU chips there as well.

To illustrate Nvidia's latest Grace Blackwell and their GB200 systems, those have an Arm-based CPU tightly integrated in a chiplet package to their Blackwell GPU accelerator, and CUDA, which is their programming interface that runs on the Arm CPU, and used to control the algorithm running in the GPU.

Now, one thing that is very interesting is that because these AI models are evolving so much more quickly than the hardware, the latest large language models from ChatGPT or any of the other AI companies, and the chips that are running them, were developed long before the software was invented. In order to be able to accelerate these latest models, it is going to be a couple of years before we start getting the accelerators that can run these latest language models.

Generally speaking, the CPUs are much more flexible in terms of running software. And so, there is always a changing boundary between how much of the algorithm is run on the CPU and on the GPU. Basically, the more AI there is in the world and the more rapidly it keeps changing, then that creates a greater and greater opportunity for the CPU. Obviously, we are the provider of many of those CPUs, so that is good for us.

Q2:

If SBG were able to invest a lot into these accelerators, would that have any additional synergies for Arm? Or are you going to grow very well as that trend goes anyway?

A2:

(Thornton) For Arm, it may not matter who the accelerator is. But for SBG, they might like having the GPU, the CPU, and the accelerator chip all within the house.

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