

SoftBank Group Corp.: FY24Q2 Global Conference Call Q&A

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Presenters:

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Q&A

Speaker1

Q1:

I have questions surrounding OpenAI and that investment. First is, it was done through Vision Fund 2, and it was my understanding that the investments that are done through Vision Fund are generally done with an idea that there are returns down the road. But it is a pretty high valuation, so I am wondering what kind of timeframe you expect for that sort of upside to be realized. The second follow-up question to that is whether there are any qualitative benefits that you could explain that might help us understand that better.

A1:

(Govil) OpenAI has a clear roadmap for growth and an eventual IPO. It fits very well in terms of the Vision Fund 2 strategy. As you know, we are late-stage growth equity investors. We take minority stakes that are more financial returns driven rather than a platform strategy driven. That is why it made a lot of sense for investment in OpenAI to sit in Vision Fund 2.

Now, specifically, in terms of your question on valuation, I will share a couple of statistics with you. It is the fastest consumer app to reach 100 million users. It did so in two months. And it now has 350 million monthly active users, which is significantly higher than competitors. For example, Anthropic has 70 million users. Google Gemini has 300 million users. And then, if you look at its revenues, it scaled from \$28 million in revenues to \$3.7 billion in revenues in less than two years. When we look at it in terms of multiples, forward revenue multiples are now in low-mid teens. It is about 12.5 times based on expected 2025 revenues. This is in line with high-growth SaaS companies.

It is on track for approximately \$4 billion of revenues in 2024, of which more than 70% are recurring revenues compared to the next largest competitor, which is Anthropic with about \$1 billion in revenues. So hopefully, that gives you a sense of how we look at the valuation and why we believe it makes sense for it to be in Vision Fund 2.

Q2:

Are there any qualitative benefits beyond that? Maybe SoftBank Group has some special distribution deal in Japan, anything of that nature?

A2:

(Govil) I will not comment on the specifics, but other than to say that this was a very competitive funding round, the investment was led by Thrive Capital. They came in at about \$750 million. We came in at \$500 million with a 0.3% ownership interest. But the important thing is we got the same rights as the lead investors. We got the same information rights, ROFR, co-sale rights, post their reorganization, et cetera.

Speaker 2

Q1:

My first question is around T-Mobile. The performance has been impressive. Considering the progress with your Alibaba position, how should we think about your outlook on potentially hedging this position? Have you considered using derivatives, given the equity value accumulated during this rally?

A1:

(Goto) As you know, T-Mobile is a publicly traded company, and we are unable to respond to questions regarding publicly traded stocks. We kindly ask for your understanding in this matter.

Q2:

I have a question on the timing of some of these monetization events, in particular, the India listings, obviously, fairly opportunistic, strong outcomes. Just curious how the business is thinking about the timing of those relative to the Arm transaction payments to SVF1. Is there any correlation there? Should we think about cadence of monetization events in the future being associated with the timing of these payments? Just thinking about liquidity management and how that may have or may not have factored into those listings.

A2:

(Govil) The short answer is no for the India listings. The cadence actually depends. Every company determines when the right time is to list. And then once they list, for public companies on average, depending on the region, we have a six-month lock-up period. But I think the more important part is, if you look at our India portfolio, it has very nicely matured and is now in a position that we are ready to harvest it.

We had two IPOs in the September quarter, FirstCry and Ola Electric. And then this week, Swiggy is going to be listing. And in terms of the future pipeline, we have OfBusiness, which is the leading raw material platform for SMEs in India, high growth, profitable. It is in the process of appointing the investment banks that will serve as lead underwriters. Lenskart, which is the largest Pan-Asia eyewear retailer, it grew 46% in fiscal year 2024 with strong profitability. Meesho is the

fastest-growing and only profitable 3P commerce in India. And it recently appointed four independent directors on the board. All of these companies are ready to go public at the right time. And our late-stage portfolio is now worth \$34 billion.

Speaker 3

Q1:

Why did SoftBank Group buy Graphcore?

A1:

(Goto) Graphcore is a company with exceptional human resources that align with our efforts to develop various AI chip-related businesses centered around Arm. Our desire to leverage these resources for future challenges is the primary reason behind our decision to acquire this company at this time.

Q2:

Why has SoftBank Group licensed Arm designs? You reported that you have paid them \$43.2 million of a license in the quarter, and I am wondering if that is an ATA (Arm Total Access)-type license for chips?

A2:

(Goto) This should be considered one of the various initiatives we are undertaking as a group to expand our AI-related business. Currently, it is in the trial phase, so we would like to refrain from sharing details at this time. The licensee is effectively SoftBank Group.

Q3:

So just to clarify, is this for internal designs of chips, or is the intention here for chips to be sold externally to other parties?

A3:

(Goto) We would like to refrain from commenting on the details at this time.

Speaker 4

Q1:

I would like to ask about the slide where you talk about investing in AI chips, AI data centers, and AI robots. I think some of this is a continuation, but could you comment what kind of investments we might expect and which entities these might be focused on?

A1:

(Goto) In this slide, we highlighted areas such as AI chips, AI data centers, and AI robotics as examples. These are fields in which we have been investing continuously since the launch of the Vision Fund, so

this is not our first foray into these areas. For robotics, for instance, we have been engaged for quite some time through SoftBank Robotics. At the same time, entrepreneurs developing new fields and business models continue to emerge, and we intend to actively pursue investment opportunities that have the potential to lead the future of AI. Regarding data centers, while SoftBank Group has yet to undertake specific initiatives, SoftBank Corp. in Japan has already announced a domestic data center construction project.

Speaker 5

Q1:

Can you talk about why SoftBank Group thought it was now the good time to buy SB Energy Global? What is the motivation? What is the plan to do with this business longer term?

A1:

(Goto) As mentioned in the earlier question, SoftBank Group aims to focus on expanding into the data center sector in the future. Within this context, we recognize that addressing power demand, which is critical to the future of AI, is an urgent and essential challenge. Therefore, we have turned our attention to SB Energy Global, which has built a strong track record in the renewable energy sector in the United States. SB Energy Global had external investor stakes, but we recently had the opportunity to acquire those stakes. As a result, we decided to proceed with this acquisition at this time.

Q2:

Who was the third party you bought from?

A2:

(Goto) We do not disclose specific names. However, there are rumors based on media reports.

Speaker 6

Q1:

Looking for just any color you might be able to give on the mix of valuation uplift being business model re-rating upwards for unlisted holdings in terms of that performance, versus the comparable market multiples used in those valuations.

A1:

(Govil) In the September quarter, in fund one, which had a total gain of \$3.1 billion, \$2.9 billion was from the public assets. And then market factors, which is really multiples and all, was about a positive \$200 million. And then the rest was a combination of recent transactions and performance of individual companies. In fund two, the publics were mostly flat. And then market factors, some of which I alluded to in terms of our fintech portfolio, contributed about \$468 million uplift. So, the total uplift in fund two was \$925 million. And then a combination of performance and recent transaction

was about \$400 million uplift as well. And then on the LatAm funds, that was about \$200 million uplift. It was a little bit of a variety of things, recent transactions, performance, market factors, and public portfolio.

Speaker 7

Q1:

What was the reason that the second quarter tax rate for Softbank Group was so low?

A1:

(Kimiwada) Regarding the tax rate, SoftBank Group has subsidiaries in various countries. As a result, tax rates vary, and some countries have lower rates than Japan's standard income tax rate of 30%, leading to an overall lower tax rate for the group.

Q2:

Is it possible, to the extent you can, to describe the expected tax rate for this year?

A2:

(Kimiwada) The annual tax rate is significantly influenced by transactions, losses, and profits that occur throughout the year, making it challenging to forecast at this point in time.

Q3:

It looks like you sold some shares in DoorDash and JD Logistics in the second quarter. Is that correct?

A3:

(Govil) Given these are public positions, we do not really comment on when we are selling those until we have fully exited a position.

Speaker 8

Q1:

I would like to hear the thoughts with Trump coming in. Is next year likely to see a big jump in IPO transactions and how you think about that? And then in a case where you did have a lot of SoftBank Vision Fund IPOs and that leads to lots of cash coming back to SoftBank Group, how should we think about the balance of the use of that cash in a situation where the amount of cash is going up quite a lot?

A1:

(Govil) In terms of IPOs, a couple of thoughts. One is, it is to a large extent independent of the political administration. As a reminder, we launched Vision Fund 1 in 2017. At that time, we had the Trump administration, and then it was followed by the Biden administration, and now we will be back to the Trump administration.

I think what really drives the IPOs is the Goldilocks economy, which is you want to have low cost of capital. We are beginning to see that with significant rate cuts across the board. The second is lower volatility. The volatility in the equity markets was quite high prior to the US elections. So hopefully going forward, we will see lower volatility in the US markets. And then the third thing is specific company fundamentals, top line growth and path to profitability.

I think there is a little bit of a positive selection bias. What I mean by that is quality companies have stayed private for longer, and they can afford to do that. So, in the US, you have companies like Fanatics, Vuori, and others. They can afford to wait given the strong business position and balance sheets. But at the same time, there is a long queue of companies that are ready to go public, and I think we saw that from the NASDAQ. The head of the NASDAQ, Adena, had mentioned that. You look at our portfolio where we have \$34 billion plus of late-stage companies that are ready to go public when the time is right.

And I think the other last part, is the overall fundamentals of the economy. In the US, for instance, unemployment is hovering at near half century lows. Inflation has largely returned to pre-pandemic normal levels and the Federal Reserve seems to have achieved a soft landing so far. All of these point to the IPO window opening much stronger in 2025.

A1:

(Goto) Regarding your second question, the Vision Fund portfolio generates cash flow for SoftBank Group through capital returns from IPOs and exits, as well as distributions such as dividends. This cash flow serves as one of our primary sources of funding. We carefully evaluate its use based on our capital allocation policy, determining whether to allocate it to new investments, improve our financial position, or return value to shareholders.

As mentioned during the earnings announcement, the timing of new investments and capital returns is not always aligned. In fact, it is preferable for capital returns to occur first. Until we identify new uses for such funds, we aim to manage the cash effectively.

Q2:

A follow up on regulations or deregulation. I think last time we had Trump, the T-Mobile-Sprint deal went through, which was very positive. Are there any of the companies where there has been some regulatory issue that is a blockage that we could think about?

A2:

(Govil) I think the only one that comes to mind is ByteDance, and we are following that very closely. Having said that, the way we have done the valuation and where we are marking ByteDance is we are not ascribing any value to their US TikTok business. So, it is the China business and outside of China, but excluding the US.

Speaker 9

Q1:

I have a question around the buyback. The buyback most recently was announced when there was some volatility in tech markets over the summer, and shares were under pressure broadly across tech. In light of a more supportive tech valuation backdrop, is there a scenario where this buyback does not necessarily get fully used, or how are you thinking about the use of this buyback in the context of a re-rated marketplace right now?

A1:

(Goto) Our policy is to continue purchases until the established limit of share repurchase amount is reached. However, this is not an obligation, and we would like to note that if there are significant changes in circumstances, we may reconsider our approach. That said, we are fundamentally committed to executing the full amount of the limit, as we have consistently carried out all our plans in the past.

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