

SoftBank Group Corp.: FY24Q1 Investor Briefing Q&A

August 7, 2024

Presenters:

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Q&A

Speaker 1

Q1:

I have a question regarding the share buyback. In your previous explanation, you mentioned that while share buybacks can temporarily boost a share price, the increase in NAV is crucially important. Is it correct to understand that the buyback at this timing is indeed due to an emergency situation? On the other hand, is it correct to assume that even in such times, you have an ample investment pipeline that allows you to invest properly even in an emergency, that the investment speed will not slow down, and that you can manage both investment and share buybacks? Could you please explain the background of this share buyback and the status of the investment pipeline?

A1:

(Goto) There are various points to consider that lead to decisions, but of course, the fact that the NAV discount has become quite wide is one factor. While it is not a situation of absolute emergency in terms of whether we are in a normal time or an emergency, we are in a situation where the largest drop and the largest rise in history occurred within two days, so we need to be cautious in how we view the market. In such times, we concluded that it would be appropriate for the company to deliver a certain message. This timing also presents investment opportunities, but on the other hand, in times of emergency, the top priority may be financial stability. The Board of Directors finally agreed on the amount of ¥500 billion while ensuring sufficient capacity in managing financial stability.

Q2:

This question is about Graphcore. I believe Graphcore will be utilized within the group through partnerships in the future, but from Arm's perspective, what kind of synergies or opportunities should be expected in this partnership?

A2:

(Thornton) SBG only acquired Graphcore a month ago, so I think it is a little bit early to talk about the opportunities of working together. But maybe that is something we can comment on later.

Speaker 2

Q1:

This question is for Mr. Goto. First, regarding the share buyback. The share price has declined, but is it correct to take the traditional view that you announced the share buyback because you have confidence in your medium-term business growth? On the other hand, the share price is currently in the ¥7,000 range, just as it was a year ago. When comparing the current situation with a year ago, of course, the widening NAV discount is a factor, but could you please explain in more detail what prompted the announcement this time, including the strategy, the finance, and the cash position?

A1:

(Goto) There are various factors to consider when making a decision on a share buyback at the Board of Directors. Given the current sharp decline in share prices, the widening NAV discount, the overall level of share prices, and the recent unprecedented market volatility with record drops and rises within a few days, we are in an environment where it is crucial to carefully monitor the market's future direction. While it may not be an emergency, there is a risk that it could escalate into one, and therefore, we would like to deliver a message early on. However, as we have stated, we will continuously seek the optimal balance between new investments, shareholder returns, including share buybacks, and financial improvement. If we only had shareholders or credit investors, we could focus solely on ones, but as a company, we must strive to reach an agreement that satisfies all stakeholders, even those with conflicting interests. This decision was made with careful consideration of that balance.

Q2:

This question is regarding page 7 of the Finance section. Earlier, you mentioned the distinction between normal times and times of emergency. I assume that currently, while you are prioritizing strategy, you might also be shifting the gears slightly back to neutral, carefully assessing the situation. In an emergency, what would signal a change in your approach? As you mentioned earlier, factors

such as the share price and various other conditions might be considered, but I would like to ask you once again, what is the most important point you focus on?

A2:

(Goto) This cannot be summed up in a single sentence, so it is necessary to analyze various phenomena. When various phenomena occur, we need to consider whether they could potentially shift the market tide. This is not something I can determine alone; it is, of course, a topic for discussion at the Board of Directors. Even before presenting it to the Board, we will assess the situation through discussions involving CEO Masayoshi Son. Although the materials use the terms "Normal times" and "Times of emergency" for simplicity, it is not a matter of dividing strictly between the two. The process of transitioning from normal times to emergency or from emergency to normal times may, in fact, be the most crucial aspect. Deciding what actions to take during such transitions is a very important discussion topic for a company with our business model.

Speaker 3

Q1:

My question is for Navneet. It looks like expectations in the US for rate cuts. Do you think that could actually speed up some of IPO exits for SVF?

A1:

(Navneet) We remain cautiously optimistic for a stronger IPO window reopening towards the end of 2024 and in 2025, once as you said we see the rate cuts. In fact, NASDAQ CEO, Adena Friedman, said recently that the IPO market has been muted because of higher cost of capital which impacts future earnings. If cost came down, that could be a catalyst for more IPOs going forward. Having said that, what really matters are that you have high quality companies, balancing growth with profitability. You can see this with some of the IPOs that have happened over the last 12 months, notably Arm and a number of others, where the quality of the tech stack, unit economics, and execution really matter.

Q2:

It sounds like you are increasingly optimistic, right?

A2:

(Navneet) Yes.

Speaker 4

Q1:

Regarding Arm, I have a question for Ian. The guidance announced in this earnings results shows that royalty revenue growth has been slightly reduced due to cyclical adjustments in end-users' industrial demand. On the other hand, license revenue has been revised upward due to stronger-than-expected performance. Given the strong performance of license revenue, it is already certain that royalty revenue will increase in the next two to three years. Does this mean that the company's outlook is better now than it was three months ago?

A1:

(Thornton) Yes, you are quite correct that there is an around two to three-year lag between someone licensing some new technology, starting their chip design and getting it all the way to production, and then for royalty revenues to start. There have been two reasons for our licensing revenue being a little bit higher this year compared to what we originally were considering. The first reason is that we are assigning licenses to companies who want to deploy our technology into more chips and so you should expect in two to three years' time that there are going to be some new chips that otherwise may not have been based on Arm technology that are now going to be based on Arm technology, therefore, will pay a royalty. The second reason, which is more important, is that companies who are starting a new chip design today know that they are going to have to build AI into that chip. In three years' time, it is going to have to be running some form of AI algorithm. But the AI models are changing so rapidly that it is very difficult to anticipate what the performance is going to be required of that chip in two to three years' time. And so, companies are licensing today more advanced Arm processors with more AI capabilities or higher performance Arm processors which can deliver more compute. Those more advanced and high-performance processors, as well as having a higher license fee which is benefiting license revenues today, will also have a higher royalty rate when those come to market in two to three years' time. However, it is very difficult to say how many dollars of royalties that will be in two to three years' time, because who knows how big the markets will be and who will be successful in selling their chips and products. So it is not a one-to-one relationship, but it is certainly very encouraging that more licensing today should result in more royalty in the future.

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