SoftBank Group Corp. : FY21Q2 Investor Briefing Q&A

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Presenter:
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Speaker 1
Q1:
About the share buyback. It is unique in a sense that it comes with an LTV limit, perhaps because you expect some volatilities in the financial market. What kind of discussions were made at the board level regarding positive and negative financial market risks? This is probably related to how you see the market from the Vision Fund perspective.

A1:
(Goto) First, for the share buyback, there are some considerations we have. You are talking about market volatility which of course we need to pay attention to. It is hard to comment on future market volatility, but it is obvious that in the past year, one of the biggest concerns around our value has been China risks. Since it is hard to predict future changes in the Chinese market or from China issues, rather we want to make sure that we have a fundamental policy that we stick to. There are risks, of course, in the market. Whenever any risks emerge in the market, we need to make sure that we comply with our principles or discipline.

Q2:
Mr. Son (Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO) mentioned that NVIDIA's value has been growing a lot. Assuming the case the deal is closed as planned, what kind of conditions are attached to NVIDIA shares for cash monetization? Also, when you realize returns, how are you going to allocate the funds among growth, shareholder return, and financial improvement?

A2:
(Goto) Of course, we hope that the deal will close as expected. At this moment, there is nothing that we can disclose to you, but after the deal is closed, NVIDIA listed shares will be added on our assets. NVIDIA shares are big in terms of liquidity and size, and are definitely driven by AI, on which we are focusing. We take advantage of assets that we have for our financing, and we believe that NVIDIA shares would also contribute to it. We hope that the deal will close within the planned time frame and it will contribute to our financial flexibility.

Speaker 2
Q1:
You announced a buyback this time, and the NAV discount at the time of the announcement was 52% or so I believe, according to the company disclosures. Compared to the previous case, I believe the discount is a bit smaller. Has the potential value of NVIDIA and PayPay been included for considering the NAV discount? If you have such an assumption, what is your estimate for such a value?

A1:

(Goto) The discount level is around 50% or so I would say. As Mr. Son repeatedly commented, as he is a major shareholder, so as a shareholder, he wants to buy because it is cheap. Compared to the last buyback, the discount level is better. Having said that, last year we had a 2.5-trillion-yen buyback, and the average acquisition cost was higher than the current share price. With this comparison, I believe that the discount is still large.

Another thing is, as you said, our actual or effective enterprise value can be increased, including several potentials. I will not state any specific names of companies. You mentioned NVIDIA and PayPay. I believe they are very attractive companies in terms of potential and size, but there's more. We have Vision Funds with lots of portfolio companies. The portfolio companies will be continuously blooming. Such a system has been established, so I believe that such an expectation on this system is something that we include to our enterprise value. With that in mind, I believe it is important to share such views with the market.

Q2:

I believe Vision Fund is going to stably provide distribution to SBG or it could even increase distribution possibly. In that case, the Vision Fund business will be in a stage that shows good success. In the past, when you made a big M&A or investment success – for example, when SoftBank Corp. was listed – you increased dividends, as far as I remember. In the long run, what is your view or policy on the share buyback and dividends?

A2:

(Goto) For the return to shareholders, I believe, as you mentioned, one way is dividend, and another is buyback. It is important to see which is more preferred by shareholders. On the other hand, from the investor's point of view, it is not an all-or-nothing discussion. When you look at trends of peers, for example, those of GAFA and other IT-related and AI-related precursors, they have been rather focusing on the total return, but not the payout ratio. Having said that, there are also investors who appreciate dividends. That is a balance that we need to see. We have been maintaining the dividend and it has gradually increased over time. We would like to explore the variety of options of the return to shareholders. That cannot be only a share buyback. Sometimes, other options may be available. Still, considering a comprehensive benefit including taxations, I believe that the buyback is slightly superior to other options.

Speaker 3

Q1:

Shares of WeWork were transferred to Vision Fund 2. What is the background or reason? You are effectively the sole investor in SoftBank Vision Fund 2, so from a segmented perspective, I see it is difficult to tell the difference from the investment business of holding companies. Again, what is the reason why you transferred WeWork shares to SoftBank Vision Fund 2? Also, what is the difference between your investment business of holding companies and SoftBank Vision Fund 2?

A1:

(Goto) Internally, we discussed which entity of ours should have what kind of portfolio and what would be the most optimal portfolio by our entities. We are implementing certain rules around that. Assets held by SBG stand-alone should be closely related to our businesses and operations. I do not know if "synergy" is the right word, but those are assets that are closely related to SBG. Also, small entities should be held by SBG, and listed shares should be SB Northstar, and the remaining would be private equity. So, our principle is to have SoftBank Vision Fund to invest in private equities. That is the background behind the transfer of WeWork shares from SBG to

SoftBank Vision Fund 2.

Speaker 3
So, going forward, Vision Fund should play a key role in investing in private equity, and other exceptional and special investments will be held by the investment business of holding companies (SBG). Is my understanding correct?

(Goto) Yes. You took WeWork as an example. That is true to other stocks as well according to the rule. If I may add one comment, in principle, investing in funds should be done by SBG, though there might be exceptions. That is our principle.

Q2:
About the share buyback. Last year, you carried out a 4.5-trillion-yen program. The story back then was streamlined and beautiful, – exit of 4.5 trillion yen and redemption of bonds and share buyback. For this program, I assume that you have that sort of thought process, but we have not heard a clear cash story. Also, we are trying to figure out how we should interpret when you say the share buyback may not end within one year. Let's assume you will have two or three trillion yen of cash inflow in the next two years. You will also have increased bond redemptions and the buyback of one trillion yen will be done under that kind of circumstances. But in terms of exits, you may not be able to decide how much you will make in the next one year. Some may take two years. Based upon such a cash projection that you may have, what kind of reason do you have behind the budget of one trillion yen and the one-year period of the buyback?

A2:
(Goto) The period of one year is set in line with a rule and was approved at our board of directors. That is the fundamental precondition. Back to the 4.5-trillion-yen program, let me talk about the biggest difference between this time and last time. Back then, we announced a monetization program of 4.5 trillion yen, and based on the program, the breakdown of the use of cash was announced. The cash inflow was clear from the beginning and we divided the proceeds into three dimensions.

This time, of course we expect a certain distribution from our investments and also, we will continue to monetize assets going forward as necessary, but this is something that we cannot promise now. Even though we will not be able to make a promise now, we have a lot of potential in our hands. So, even after considering some risks that we should anticipate, one trillion yen over a one-year period should be something that we can complete. In terms of distributable profit, there is no problem because we have about two trillion yen. Therefore, one trillion yen is the number we can comfortably announce and want to achieve, after considering several factors conservatively. Having said that, there are still some uncertainties in business, economics, and international environments. In that sense, we wanted to be very honest.

So far, we have executed as much as we announced. But we do not want to make an excuse after we have not fully executed. So, we wanted to flag in advance. Still, once we announce it, we will be doing it by checking all assumptions that enable us to accomplish.

Q3:
So, this program is different from the last time. The share buyback comes first as opposed to the last time when the share buyback plan came next to an even bigger monetization program. Then about the NAV discount, in the past, the discount was higher at some point, so I wonder if there are any triggers that could have an impact on the share buyback plan. For example, Goto-san mentioned China risk. Any factors that triggered or made you decide a share buyback?

A3:
(Goto) I do not know how I should interpret when you say “trigger.” Well, China risk is one of the large factors I mentioned in terms of analyzing discount. Some just brought up the NAV discount of 50% as an example of a discount level. We do not have any clear correlation between the number, say it is exceeding 50%, and our decision on buyback. We do discuss it though. Let’s say the discount is 50%, which is big for sure, but that is not really a single trigger for us to decide. One (financial discipline) and two (new investment opportunities) (on slide 10 of the Finance section of the Investor Briefing Presentation Material) are important to decide what we should do. Three (NAV discount, same as above) you are looking now alone is not a trigger. One and two are vital to assess three. Those three are what we are looking at, at the same time, to decide. So, whether a discount level of 30% or 50% is high or low depends on the situation.

Speaker 4
Q1:
Could you share your thoughts about the level of distributions going forward from SoftBank Vision Fund 1? It seems to be increasing. Should we expect that to further accelerate from here?

A1:
(Govil) It will really depend on a number of factors. It will depend on how many more public listings in the first fund. It will depend on where those are trading relative to our entry valuations and what kind of a return we can achieve. Then, it will also depend on whether it is in a lockup period or not and how much liquidity each of those stocks have in the various exchanges where they are trading. But given the momentum we are seeing; we expect those distributions to at least continue at this pace or increase. Since we have another seven to nine years left in the first fund, we want to make sure that during the course of the life of the fund, we have made distributions to our limited partners.

Q2:
From an overall financing perspective, could you talk about the pros and cons of having external investors for SoftBank Vision Fund 2 in the future?

A2:
(Goto) As of today, we are not considering inviting third-party LPs to our Vision Fund at this moment. As a company, while we are keeping the safety of the business, we can also provide capital to the fund activity without any stretch. Therefore, we would like to mainly keep this way because that will give us more flexibility and also, I think that will make us comfortable to run it this way. Having said that, I do not deny the possibility of inviting third-party investors in the future. Depending on the changes in the environment or our growth stage, there may be some time when it will be better to invite outside LPs.

Speaker 5
Q1:
The discussion has been focusing on the share buyback. In fact, the share price goes up and down depending on the share buyback. I assume this is not what you are aiming at as a company that operates businesses. However, it is because the NAV discount is there, and the reason behind the NAV discount is that there are uncertainties around your funds. Why are there uncertainties? Because, in my opinion, diversification of scales, sectors and risks of regions and countries was not going so well at SoftBank Vision Fund 1. For example, in terms of the size, the billion-class investments such as WeWork, DiDi, and Uber have not performed so well. In terms

of sector, concentrations in transportations such as DiDi and Uber made the strains even bigger. In terms of country risk, China, for example. There is growth, but I think it is a matter of consequence what kind of exposure we have to China, which has a different social system. That was probably the lesson learned by SoftBank Vision Fund 1, but when it comes to SoftBank Vision Fund 2, the ticket size is smaller and you mentioned innovation supercycle, so it is well-diversified in terms of sector and region and country. Against that background, going forward, how can you convince the market and investors to make sure they are confident about the future of SoftBank Vision Fund 2?

A1:
(Goto) In the case of Vision Fund 1, whether it is a failure or success, it is early to say now, I think. Performance-wise, as you can see on page 10 of the finance section in the presentation, at this moment, this is the cumulative investment performance for our invested capital, so I think they are doing well. They did a good job, but they are still in the process. The dark blue (in the same page) is indicating unlisted shares currently held by our funds, so their success is also important, but there are a lot of things that we should improve based upon the lessons learned.

In fact, because of the lessons we have learned, for example, compared to SoftBank Vision Fund 1, SoftBank Vision Fund 2's ticket size is one-fourth. Let us say one ticket is 100 billion yen on average for Vision Fund 1, but Vision Fund 2 is 20 billion yen. If you look at page 11 (of the Finance section of the Investor Briefing Presentation Material), we are expecting this will be further diversified in terms of ticket size and regions as the fund grows. I think our focus on AI is sometimes difficult for investors to value positively and leading to the discount, so we need to show our performance. It is a very important theme when we try to address the discount in a fundamental way, not in a technical way.

(Govil) The Vision Fund 1 is five years old. Vision Fund 2 is only three years old. So, ultimately the results of both funds should give investors' confidence going forward.

Speaker 6
Q1:
I have a question about the Vision Fund. I would like to ask about the exit for the Chinese portfolio companies. There are some portfolio companies that are expected to go public in the third quarter and onwards. When the Chinese portfolio companies aim for IPO, I believe listing in Hong Kong stock exchange will be preferred over U.S. stock exchange. Do you see any obstacles, or do you see any challenges from the Chinese portfolio companies aiming to go public?

A1:
(Govil) Some of these regulations are relatively new. We have to see how they stabilize over time. The options to list in China are there. There are options to list in Hong Kong. In fact, even in the U.S., it is possible. The only sensitivity is around consumer data. Companies that do not necessarily have the issue with consumer data, they can list in the U.S. as well, but let us see how the regulations stabilize over time.

Speaker 7
Q1:
On slide 38 and 41 of the Finance section (of Investor Briefing Presentation Material), you talked about ESG. In the disclosure of your initiatives, it is unclear for me how the governance works at the holding company level. Is it correct to understand that the ESG assessments are conducted

for the holding company's investees in the same manner as the Vision Funds' portfolio companies? Also, as Vision Funds continue to grow, I think sustainability will be increasingly important. I highly appreciate your ESG initiatives being integrated into your portfolio companies. But when it comes to engagement, an engagement survey or loyalty survey of employees engaging in the investment activity will be also very important. So, going forward, Goto-san, as the Chief Sustainability Officer, what kind of challenge do you recognize for the next year?

A1:
(Goto) Well, investment rules have to be applied at the corporate-wide level. So, as a fund and as an investment holding company, and investees in the portfolio, it is most desirable to operate under the same policy, not only in the world of consolidated accounting, but also in our substantial "Cluster of No. 1 Strategy". There is still a lot of work to be done to achieve this. We are still building processes and also, we are reviewing current issues. From Q1 next year, we want to fully start an annual review. Until then, we will keep identifying issues and build processes, and we want to make sure that we have good operations and processes in place that are the best for us.