

SoftBank Group FY22Q1 Global Conference call | SoftBank Group | August 8, 2022

Speaker:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

Yoshimitsu Goto, Board Director, Corporate Officer, Senior Vice President, CFO & CISO

Yotaro Agari, CSuSO, Managing Director, Global Head of Investor Relations and Head of Sustainability Department

Q1:

I have a question about the LTV. It looks to be under good control. One clarification. I saw a headline that said after July, SoftBank Group had sold an additional \$6.8 billion Alibaba shares. Could you confirm if that is correct? About the LTV going forward, it seems the stock market is a little bit better, but you are not investing very much. So, should we expect the LTV to continue to decline this quarter?

A1:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

LTV should be managed as you see. We are in a defense mode and we are going into defense mode continuously.

Yotaro Agari, CSuSO, Managing Director, Global Head of Investor Relations and Head of Sustainability Department

For your first part of the question, the \$6.8 billion monetization of Alibaba shares in July, which is in our disclosure as a subsequent event. You can find the numbers in our *Tanshin* (financial report).

Q2:

I wanted to ask if you can provide us with an update on the Arm IPO, how's the process going, and when we should expect that IPO to happen.

A2:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

The Arm IPO preparation is progressing. The Arm China issue is managed well. The business is doing good. Preparation is progressing. It will be sometime in 2023, and which month of 2023 depends on the market. We are ready and Arm is ready. We are just looking at what is the best timing within 2023 based on market conditions. The IPO market is very weak now. We are just looking at the best optimum timing just for the sake of the market.

Q3:

I understand that the timing is dependent on market conditions, but are there any operational targets that you would like the company to hit ahead of this IPO? Do they need to show anything to you or to the market ahead of this IPO in addition to what they're producing now, and what is your five-year vision for Arm? Where do we see it in five years?

A3:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

Five-year vision of Arm, we are not discussing yet, plus the timing of the Arm. Arm is healthy and

growing well. Despite the recession, Arm is doing great. We believe Arm would make a great IPO, but timing-wise, we are just looking at market conditions. Nothing else.

Q4:

On the leadership of the Vision Fund, can you just give more details on who the new CEO will be, and going forward what will change in terms of the structure of the Vision Fund and the leadership?

A4:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

We are still discussing it, internally. I just gave the direction that we have to reduce the expense dramatically, not just for the Vision Fund, but throughout the SoftBank Group.

Q5:

Does Rajeev Misra still remain as the CEO of SVF1?

A5:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

Yes, for SVF1. For SVF2, I am taking the deeper leadership.

Q6:

My question is pertaining to the cash balance that the company shows. Obviously, it significantly increased. Are there any plans to deploy it to reduce your debt, or is this basically saving for opportunities that might come by in this market?

A6:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

We are piling up cash just to be in a protective mode.

Q7:

So there are no specific plans for reduction using this.

A7:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

There will be debt maturity. We are piling cash. It's the same thing.

Q8:

I was wondering whether you can help us understand the funding position of the Vision Fund companies and how many of them are fully funded to be cash positive and how many would rely on additional funding to deliver on their five-year business plan - just to get a sense of how many can survive, assuming things are tough the next two years or so.

A8:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

We checked the percentage of the companies that have sufficient cash funding for the next 24 months. If my memory is correct, around 80 to 90% of them have sufficient cash for the next 24 months.

Q9:

As a result of that, do you see them doing even better? Because if their competitors are short of cash, the same business may actually be improved with low funding available for competing companies. Have you started seeing the positive impact of reduced funding on the competitive intensity of some of the sectors you've invested in?

A9:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

In most cases, we have chosen No.1 companies. That was one of the key criteria for us to decide on the investment. As you point out, No. 1 companies with good funding are likely to survive. More fragile companies will have a much tougher time raising money. I think the strongest would survive and the weaker would have a tougher situation. Our regret is in the process of choosing the No.1 company. We may have overpaid, but if you believe they survive, it would be a good investment, I believe.

Q10:

I suppose there probably is a time where you'll have to upgrade the numbers for these companies that survive because they're taking more market share. But you haven't reached that point yet.

A10:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

Not yet.

Q11:

In your report, you flag \$4.5 billion raised by SVF1 through asset-backed finance. I just wanted to get an idea as to whether it was chiefly linked to one or two of the properties of SVF1, or if it was a broader portfolio that was pledged.

A11:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

I think it was a broader portfolio, and this is part of making more efficient use of capital and distribution to partners.

Q12:

You have announced a new buyback program, 400 billion yen in addition to around 300 billion of outstanding balance of your existing program. Do you expect to increase the pace of buybacks in the coming quarters? Apart from buybacks, what do you view as other potential catalysts to reduce the holding discount?

A12:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

It depends on many things, so it's too early to tell.

Q13:

Could you share your view or updated view on the political environment in China and how it impacts your portfolio companies and future investments? Obviously, you've seen some articles about the environment improving somewhat to the extent that you have any reports from your companies on the ground.

A13:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

We are more cautious about investing in China for all the reasons that you know. We are still making small investments in small companies. I hope even though they are small in size, one of those will become the next Alibaba and it's all great. But the overall allocation to China is much smaller now for those reasons.

Q14:

On the net asset value, there's been a positive impact from foreign exchange of 2.23 trillion yen. Can you help us understand where that's coming from? Does SoftBank Group have underlying short-term debt through the funding process?

A14:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

Most of our assets are dollar assets. We are a Japanese company, so our base is analyzed in Japanese yen. When you convert the valuation in yen, our assets happened to have a positive impact because of the weaker yen. We didn't do anything special, but just the exchange ratio made NAV value bigger.

Q15:

It also likely means that most of the funding is in yen. Is that interpretation correct?

A15:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

As for funding, half of the debt is in yen, and another half of the debt is in dollars. In accounting, because of dollar-based debt, we have to use more yen to pay back the same amount of dollar debt. We reported an accounting loss because of US dollar-based debt. That's the accounting loss because of the current system. Most of our assets are in dollars. In NAV calculation, the weaker yen is actually more beneficial. In yen terms, the NAV looks bigger than that of dollar-based calculation. That's how NAV calculation helps our NAV value in yen. For accounting, the weaker yen is bad. For NAV, the weaker yen is good. It's counter intuitive, but overall, I am happier with the weaker yen because NAV is what I care about, not the accounting profit. NAV is more important. We are yen-based stock. Your investment in SBG stock is in yen. We have more yen-based assets and variation. With the weaker yen, SBG stock is a better purchase because the NAV is better in the weaker yen.

Q16:

I was wondering, based on your experience in markets like this and the interaction you also have with your portfolio companies right now, where do you think we are in this broad-based growth tech correction? And at what point should we be thinking about you guys increasing risk and stepping into some of these opportunities that have created them? We find in front of us stocks down 70% with assets selling for fractions of what they sold for. I just would love your take on where we are in this correction.

A16:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

It's definitely heavy rain. Someday the rain will stop, but nobody knows when. It could be three months, it could be three years. How deep will the rain damage our asset value? We don't know. Therefore, we cannot take too much risk. That means we have to go into protective mode. In this kind of environment, cash is the only thing that does not change the value. Cash does not devalue. The cash is flat. The stock

goes up and down. Currency goes up and down, but cash is cash. That's why we are piling up lots of cash now with a defense move.

Q17:

Some other Chinese large asset holders, like Naspers, are also concerned about the discount level. In late June, they announced open-end share repurchase, which is a limited share repurchase by selling 3 to 5% of Tencent. Is that a good model for SoftBank Group? That means not just focusing on the asset value, but also on the discount level for a longer term for Alibaba or other assets. I think their key message is they're going to do it till the discount level becomes reasonable. Right now, they believe the 50% discount is too much.

A17:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

We are in the defense mode, meaning we have to pile up cash. That's my defense move.

Q18:

I have a question about credit rating. I know it's been your ambition to try and get to an investment grade that depends on LTV, diversification, liquidity, etc. Now, with the large drop in LTV, are you making a renewed push to try and convince the rating agencies that you deserve the right rating for your debt, which is the investment grade? And if so, do you see a time arise over which you could be succeeding in sort of convincing them that they should look again and give you that rating?

A18:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

I always say we are unfairly rated compared to the other investment companies or holding companies. They said we have too much concentration in one stock, that is Alibaba. If we had our investments more diversified, our rating would be better. Now we have more diversified investments. We have lower loan to value. We are more in protective mode. We have more cash. I hope rating agencies will look at us in a more fair manner, but they move based on their pace and that's something we cannot control.

Q19:

But are you actively communicating? Because you have to be explaining maybe more because you're SoftBank Group, you have to do more explaining them maybe somewhere else.

A19:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

Yeah. Every time we make a hard message to them, they hate us. So we are going soft.

Q20:

Can we talk about the big AI winners that in a more positive sense, which companies are really making a breakthrough? I know you invested in ByteDance. They seem to be doing very well globally using AI, but are there any comments you could make on their business model or other companies you see as really benefiting from AI recently?

A20:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

ByteDance is one great example. The great technology of AI is good for the worldwide user base and the customer base. There are a bunch of other great initiatives with entrepreneurial spirits. Today is still a very early stage of the AI revolution. To me, it's like the years 1997 and 1998 of the Internet pace. Just two, or three years after the Internet started going up. Then the net bubble crashed. It's like AI growth stock got crashed because of all the reasons that you know. Still, it's a very early stage. After the net bubble crash, Google started picking up, Amazon started picking up. Facebook was not even born. This is still the beginning of the AI revolution. As the Internet revolution got smashed by the Internet bubble burst, AI companies got smashed. But in those days, Internet companies were all small companies. None of them are making a profit. People called them bubbles. At least AI companies, some of them are already becoming profitable and they are growing quickly. So I think this AI revolution is going to be a big thing. My vision never changed. My confidence level in the vision has never changed. But now it is a tough time for the investment environment. And we just have to go, protective to survive. Once we survive, we will be strong, I think.

Q21:

Could I just want one thing, I mean today, I sense your additional buyback, you have a feeling your shares are a way to get exposure to that AI customer and company group. Is there still room for you to increase the buyback over the next 12 months? The incremental amount is not that large.

A21:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

We are in protective mode, as I said. Right now, cash is our priority. Go into protective mode when the situation changes. But right now my focus is going into protective mode.

Q22:

Just two quick questions. One, you mentioned you are in defensive mode right now. When I look at the LTV, it seems pretty okay at 14.5%, do you have a target in mind as to where you want LTV to be, or how much cash you want to raise? And along those lines, can you share your thoughts on Alibaba? The stock has brought back a lot, but we are clearly in protective mode, so we are selling down. Should we expect that to continue?

A22:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

Well, Alibaba is public stock. We shouldn't be making comments. Alibaba is oversold, I think. It has a stronger underlying value, but we are also in the protective mode. So there is a balance. Right now, as I repeat, we are in the protective mode, defense mode. We need to pile up cash. When I turn into offense mode, I can be very brave. I can be very brave and people criticize me for being too brave, or too aggressive. Right now I'm in protective mode. I'm piling up cash. So, you have to understand that the protective mode is not forever.

And right now, many of you say, "Oh, you are in the protective mode. How deep are you going to go?" You ask. "Maybe you are too protective," that's the comment that I receive. But, when we have a tough situation in the market, I would rather go into overprotective mode, so that we can make sure we can survive. Once I feel we are confident, once I feel the market changes the situation, I have more

confidence. I convert into offense mode very quickly and I can be aggressive again. But right now, it's a defensive move. The cash is the priority.

Q23:

So it sounds like Masa, you are kind of expecting this kind of external environment to last for a long time, and you're going to be preparing for that for quite some time.

A23:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

I don't know. It could be three months. It could be three years. I don't know. And nobody knows, by the way. So, and look at the Taiwan situation, suddenly the Chinese army starts doing all kinds of exercises. Who imagined that only one month ago? So suddenly things could change. Who imagined the Russia-Ukraine situation 12 months ago? So, right now, when the situation is tough, anything deeper problem could happen. So, in that kind of volatile situation, we cannot over-leverage. We have to pile up cash so that we are prepared for any tough situation to come.

Q24:

We've seen Klarna have its valuation reset. I think it was one-seventh of its previous round. Looking at all across your portfolio, how long do you think it would take for private market valuations to catch up to public markets overall?

A24:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

Right now the private market is overvalued. The public market is hammered for the growth companies. It's hammered, 50%, 70% reduction for the high-growth companies. So NASDAQ overall is 20% down in three months. But the high-growth company got even more hammered. But the pre-IPO companies have not adjusted the variation in their mind, and when they go into the next round, they find out not many other investors are coming to invest. Then they have to change their price tag and they are suffering whenever they go into new fundraising now, but it takes another 12 months for them to really understand the world of the price tag is totally changed, but many of the entrepreneurs still imagine their value of the company in the old price tag. So, it needs another 12 months to 18 months to adjust the private stock, entrepreneurs catch up with their mindset for an adjusted price. They don't realize it until they become short of cash.

Q25:

I have a question regarding Alibaba. Now without asking you to comment on Alibaba stock itself, I understand that Alibaba is one of SoftBank Group's core assets. So I'm just wondering if there's any update on the forward contract execution, and any further plan to sell off Alibaba stocks, maybe to better allocate the raised cash for the buybacks or for future opportunities.

A25:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

Well, we disclose everything, what we have done. We don't comment on what we have not announced, or what we have not done. And it's public stock, so we have to be careful how we comment. You understand. But, we now have lots of cash. We still want to have some more cash. There is a balance that we have to think through.

Q26:

I think there's some confusion around the buyback you announced today. Can I just confirm, is it 1 trillion yen plus the 400 billion yen? So 1.4 trillion yen total, or it is 700 already done plus 400. So 1.1 trillion yen total?

A26:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

The answer is in between. We have 1 trillion yen. We have three months remaining. After three months, 30% of purchased capacity disappears in three months. If we don't exercise the buyback for that slot. So in the minimum case, if we don't buy back any stock for the next three months, that remaining 30% disappears in three months. However, with today's announcement, another 400 billion yen, new capacity is created. So in the minimum case, if we don't do any share buyback for the next three months, it's 700 plus 400, 400 has the duration for the next 12 months from today. So from today, the next 12 months, the minimum is 700 billion yen plus 400 billion yen, that's 1.1 trillion yen. The maximum case, if we buy all of the remaining 300 billion yen of the original capacity, that's 1 trillion yen, and today's announcement of 400 billion yen will be additional. So the maximum is 1.4 trillion yen, the minimum is 1.1 trillion yen, and that will be in between.

Q27:

Where would you like it to be in that range? Would you prefer it to be 1.4, or prefer it to be 1.1?

A27:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

It's a question that depends on many things. That's why I'm talking in the range.

Q28:

My question is pertaining to the recent mix of debt, where we move more towards asset back financing. Is this primarily because we are getting better rates in this kind of tech, versus what we were reading in the market? Because our share of bank borrowings and bonds are actually going down. If you look at the March numbers.

A28:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

If you're talking about the bond price trading in the market, if that's the question, I understand the bond market had a concern about the SBG health of the balance sheet. With today's announcement, you understand that we have a 14.5% loan to value, which is much better than three months ago. That should make the bond price turn positive. So, I hope the bond investors would realize we are in the protective mode, we have more cash, and we have more sense of the balance. So the bond discount should decrease significantly. That's my hope.

Q29:

And just as a housekeeping question, is the company still on track to call its 2023 bonds? This is a question that we've been asking every call. Just wanted to get your confirmation today.

A29:

Yoshimitsu Goto, Board Director, Corporate Officer, Senior Vice President, CFO, CISO

Yes. I think that you are asking about the hybrid bonds and that as promised we are planning to do that first call.

Q30:

Quick question regarding Japan and the LatAm. As the yen has depreciated a lot, have you thought about increasing more investment in Japan and the similar one in LatAm? I mean, you have already done \$10 billion. What do you think of the future investment in that area?

A30:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

Well, there are not that many great unicorns, or AI unicorns in Japan. We are always looking at great companies, but valuation is not reasonable in today's environment, and not, not that many companies, or exciting unicorns for AI in Japan. So I hope that was not the case, but that is a reality for Japanese opportunities. For LatAm, we had a lot of aggressive investment in the last few years and we had a paper gain in LatAm for the last couple of years. Now, we are facing the same kind of value write-down because the public comps reduce the price. So again, we have to carefully watch the opportunities and carefully manage the investment, not just in Japan or LatAm, but throughout the world. We have to carefully look at what is the right multiple, as the metrics for what we can invest.

Q31:

I would actually be drawn on the perpetual bonds. There is equity content on it, of course, because it's a perpetual bond. I'm wondering how you are going to manage this equity content. If the bond will be paid free in cash, could you give me some color on that, please? You said that you are looking to call it so that's okay if you call it. So it will be payback by cash fully if you are not able to roll it. If the case is to pay by cash in full, what could be the equity content in the equity part in terms of an accounting point of view? What could be the impact on the equity content, if you are going to call it next year?

A31:

Yoshimitsu Goto, Board Director, Corporate Officer, Senior Vice President, CFO, CISO

Regarding the call, as we promise that we will be calling in the first call and how we are going to call, that's depending on the discussion with the rating agency, so that we would like to explore the comfortable way that the rating agency is going to feel. So that's the answer for you.

Q32:

Just on the comments you made this morning or earlier today on Fortress potentially being up for sale. I was just wondering more broadly when you look at your assets in detail, in defense modes, whether there are more non-core assets, which could raise capital by selling them at right. Assuming the valuations are right. Just beyond Fortress, anything else that's out there that you could raise capital from?

A32:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

Any asset that people pay a reasonable price tag, we are open-minded to sell.

Q33:

But I suppose there are assets which are more sort of long-lasting, more suited to the AI vision and things like Fortress, which had a historical purpose when you started as an investor, but now less so. Are

there other things of that nature where there is a higher priority of the set list, for conceptual reasons or business model reasons?

A33:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

Well, other than several key core assets, we are open-minded for anything else. We are in defense mode.

Q34:

And the key core assets that are not for sale. What are they?

A34:

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

You can imagine.

Q35:

I have a question regarding the margin loan backed by Alibaba Shares. May I confirm if the end of June number is around 6 billion U.S. dollars? And just want to know more about the mechanism of the margin loan. Like right now, if based on the Alibaba shares stock price, as of the end of June, what would be the LTV ratio for the loan, and then what would be the threshold for the loan, or a potential margin call and how do we see the margin loan refinancing?

A35:

Yoshimitsu Goto, Board Director, Corporate Officer, Senior Vice President, CFO, CISO

This is a very plain type of margin loan, and that is \$6 billion financing that we've been doing. And the number of shares wise, we are using more than equivalent to that. And for the calculation of the loan to value, we are deducting the 6 billion equivalent assets out from the calculation of loan to value. And this margin loan is very much standard margin load so that we have a margin trigger or the heart trigger, but we do not disclose any threshold numbers for here.

Q36:

With the T-Mobile U.S. stock approaching 150, can you maybe remind us what are the conditions for SoftBank Group receiving earnout? This part of the agreement following the merger on your screen?

A36:

Yotaro Agari, Managing Director, Global Head of Investor Relations and Head of Sustainability Department, CSuSO

It's more of a technical question, but for this earnout shares of T-Mobile, if the value of the stock price for 45 days stays above \$150 U.S. dollars, you get rewarded around \$7.5 billion worth of T-Mobile shares.

Closing remark

Masayoshi Son, Representative Director, Corporate Officer, Chairman & CEO

I'm in defense mode.