# Softbank Group Corp. : FY22Q2 Investor Call Q&A

**November 11, 2022**

**Presenters:**
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**Kazuko Kimiwada, Corporate Officer, Senior Vice President, Head of Accounting Unit**
**Navneet Govil, Managing Partner and CFO, SB Investment Advisers**
**Ian Thornton, VP Investor Relations, Arm Limited**

**Speaker 1**
**Q1:**
Given Mr. Son (Representative Director, Corporate Officer, Chairman & CEO, SoftBank Group Corp.)'s announcement today that he wants to focus on Arm, could you detail what he is not going to do. Is he involved in any of the investment decisions of the Vision Funds at all? Is he going to be making decisions about any of the investments? What role is he doing at Arm, given that is where he is going to focus his time? Thank you.

**A1:**
***Yoshimitsu Goto***
Thank you for your question. There is mainly no change to Mr. Son's role at all. He remains as the CEO of the group and he is going to be involved in all of the important decisions of the group. Having said that, he would rather like to delegate some things, including the earnings results. He is delegating me and my team to address the announcements. As for Vision Fund, he is going to stay involved in the decision-making in Vision Fund as well, so he is going to be playing a continuously important role for such, but any decisions which are not high level will go to the managing partners and executive committees of the Vision Fund.

**Speaker 1**
Okay. Just to clarify, he will be involved with meeting founders and so forth for new investment pitches then?

***Yoshimitsu Goto***
It depends on the size of the investees. I believe for some of them, he is going to be involved, and for some of them, senior members are going to be involved. That is probably going to be the breakdown, depending on the size of the investees.

**Q2:**
Okay, thank you. One follow-up on the buyback. You were extremely active in the month of October in obviously two plans. Could you elaborate a little bit about why the amount was so big in the month itself? Was there some trigger that caused that? Because the price obviously has gone up. Why was the amount so large in the period?

**A2:**
***Yoshimitsu Goto***
The biggest reason was that for the past couple of weeks, transaction volume extremely increased. That was the biggest reason why. When it comes to the buyback scheme, once we disclose the earnings, we will have an open window for buyback decisions. We will be able to decide and make an order to the fund which is the trust bank for the coming three months of how we would like to purchase our shares. Once we set the order and we make the order to

the trust bank, we will not be able to change such an order until the next open window. So, depending on the transaction volume in the market, once it increases or decreases, our amount in the buyback is also going to move around along with that. So, once we see quite a large transaction volume, it accelerates the speed of the buyback. In the past couple of weeks, technically speaking, that was the main reason why we had an increase in the volume of the buyback.

**Speaker 1**
Okay. Thank you very much.

***Yoshimitsu Goto***
Thank you.

**Speaker 2**
**Q1:**
I have a question for Navneet regarding the Vision Fund. For this quarter, the fair value of the private equities had quite a large markdown. The size of the markdown itself was quite large. In other words, I could say that you made quite a tough look on that, so the concern for further markdowns in the future was reduced, but when you have share prices of pairs of public securities that are not reducing in value that much. I think you see more on the performance compared to comparable public companies. Impact-wise, what was the biggest reason why you had to markdown?

**A1:**
***Navneet Govil***
If you look at the performance, let us look at our write-downs and compare them with a couple of benchmarks. The Vision Funds and LatAm, if you look at it over nine months, January to September of 2022, we had a reduction of 37%. The NASDAQ reduction was 32% and the Refinitiv Venture Capital Index is 58%. So, I think ours is slightly more than NASDAQ because this is a higher beta portfolio compared to the NASDAQ, but if you compare to the Refinitiv Venture Capital Index, it is less. That is because a lot of our portfolio companies are very well-capitalized, they have a proven business model, and they either have positive unit economics or they are on a path to profitability. So, for those reasons, the impact compared to the general venture capital index is less. But we felt that the write-down is prudent, given where the performance of the companies are.

One of the comments you made was compared to public companies and multiples, so let me comment on that as well. Obviously, the public company multiples have come down over the last year, and those are reflected in our valuations. The other thing that is reflected in our valuations is, given the softer overall macroeconomic environment, we have also reduced the forecasts of our portfolio companies for the next year, three years, and five years, and that has an impact on the value of those companies. If you look at a lot of public companies, even though the multiples have come down and you listen to their earnings guidance, they have not reduced their earnings guidance. So, we believe we have prudently marked down our private portfolio compared to a lot of public companies.

**Speaker 2**
In the only three months from July to September, the NASDAQ was reduced only by 6% from my understanding. I believe what you said is that the fair value being reduced was more prudent. Is that something that you had been more prudent compared to NASDAQ in the three-month period of July to September?

***Navneet Govil***
That is a fair statement.

**Speaker 2**
Thank you.

**Speaker 3**
**Q1:**
Hi. Thank you for taking my question. This is really a question for Ian. I am hoping that we could maybe get some context on Arm's quarterly results relative to what we are seeing in the semiconductor sector overall. Also, if you could talk about the trends in licensing revenue and how you think that is going to shake out moving forward.

**A1:**
***Ian Thornton***
When I look at Arm's business, I think we can divide our revenues into two. We have our royalty revenue and our licensing revenue. In the first half of 2022, we recorded record royalty revenues with our revenues up in all of our major segments, so in mobile, infrastructure, automotive, and IoT.

If you read some of the headlines around the semiconductor industry, this may seem a stark contrast to some companies, but the industry is not homogenous. There are different sub-segments within the industry. If you are selling graphics cards to cryptominers or if you are selling chips into PCs, then you probably have seen your revenues under a bit of pressure. But if you are selling chips into smartphones or chips into enterprise networking equipment or chips into automotive, then most of those companies have reported very strong results so far this year. Companies like STMicroelectronics, companies like Qualcomm have reported nearly 30% year-on-year revenue growth, and TI and XP around 20%. So, unsurprisingly then, Arm's royalty revenues are up about 22% year-on-year because many of those companies are using Arm processors in their chips.

So, the combination of the industry growing very strongly combined with some market share gains over time, and combined with many of those chips going into things like smartphones and into cars becoming smarter and needing more Arm technology, and therefore the royalty rate tends to go up. The royalty percentage that we get tends to go up with more Arm content benefiting from multiple different drivers there.

On the licensing side of things, our license revenue is down year-on-year, but that is primarily due to some very hard comps from the first half of last year. As anyone familiar with Arm's business will remember, license revenue is quite lumpy. There was a large lump of revenue that went into actually Q2 2021 that came from contracts that were signed in 2020. It just so happened that the shape of the deals resulted in license revenue landing last year, and so that just made it a little bit hard on a comparative basis. H1 this year is still our second-biggest period for licensing. The underlying demand for Arm technology remains extremely strong, and this is entirely being built off the accelerated R&D that Arm has been able to undertake since being acquired by SoftBank.

I am sure we all remember the first two or three years of Arm's profitability declining from about 50% margin down to 20%, then being 10%, and now climbing back up to 50% again as the new technologies from those investments are now beginning to come through and be deployed and be licensed. That is helping to give us very strong license revenue, albeit down on a year-on-year basis because of the record quarter one year ago.

When I look at Arm in the context of the overall industry, I mean clearly if there is an overall industry decline or even just in the sub-segments which we have been enjoying a lot of growth such as in mobile, automotive, and IoT, then that is a bullet we cannot dodge, but things like these chips getting smarter and the share gains, those will still be a tailwind and will hopefully mitigate at least part of any decline in industry revenue growth.

**Q2:**
If I can just have one follow-up, if you could give any comments or if there is anything you can say about relations with Qualcomm, and disagreements on your licenses and how they are using them.

**A2:**
***Ian Thornton***
I think you are referring there to the complaint that Arm has filed in the District Court of Delaware against Qualcomm. This is entirely related to some misappropriation of some of our IP which violates agreements between Arm and Qualcomm and a company they acquired called Nuvia. My recommendation is to have a read through the complaints. It is extremely clearly written and sets everything out in far more detail than we could go through on this call. I am sure that Qualcomm will have some disagreements with some of those statements there. We are basically just asking a judge to adjudicate about who is right and who is wrong in this case, but we are confident that the judge will agree with us.

**Speaker 3**
Great. Thank you very much.

**Speaker 4**
**Q1:**
Thanks so much for taking my question. In the presentation, you noted continued monetization as one of your go-forward pillars. I was wondering if you could give any color or elaborate, given the state of IPO markets at this point, of what categories and maybe what segments we may see this continued monetization be focused on, whether it is across private holdings being sold among the Vision Funds or if we should expect to see continued – either public in VF or public in general – holdings sold down.

**A1:**
***Yoshimitsu Goto***
When you look at the IPO market, we believe the portfolio of Vision Fund may not be able to go public one after another at this moment. Probably, Navneet will be able to add some comments after me. In principle, we are going to use some of SoftBank Group's assets like public securities – for example, Alibaba or T-Mobile that we hold – for monetizing or financing. Also, there is the possibility that we may use those for asset-backed financing, depending on the market situation. Also, corporate bond issuance is something that we can consider as an option for financing, depending on the environment.

How about you, Navneet? Do you have any comments on the portfolio of Vision Fund?

***Navneet Govil***
Thank you, Goto-san. A couple of things to keep in mind. We have had 47 public listings across the Vision Funds and LatAm since inception. In addition to that, we currently have 10 companies across Vision Fund 1 and 2 that have either publicly or confidentially filed. More importantly, if you look at our portfolio of over 470 companies, there are 26 companies on a fair value basis that represent about 29 billion dollars of fair value. These are late-stage companies – Series E or later – the majority of which are IPO ready. Some of the big names here are obviously Arm, ByteDance, Fanatics, GoBrands, and Yanolja. In addition to that, if you look at our public portfolio, our public portfolio is worth about 25 billion dollars at the end of

September. So, given the IPO pipeline that we have, the companies that have publicly filed, and our public portfolio, that is a pretty large portfolio of companies that we can monetize at the right time and at the right valuations.

**Speaker 4**
Thanks. Just a follow-up, maybe more thematically speaking. Is there any additional color you could give on the progress of – and this may seem a bit obscure, but in the context of speaking about T-Mobile and Arm and SBKK, any progress on the AI-on-5G Lab and any potential synergies that could come from that or incremental revenue opportunities that are arising?

***Yoshimitsu Goto***
You picked up specific names like T-Mobile and SoftBank Corp. I do not believe that they have any specific initiatives for synergy generation between those, but each of them respectively are pursuing AI, and they have a good combination with AI and also new technologies, so I believe they are taking advantage of their own strengths so that they have a good possibility of having good and new business opportunities. There, I believe the Vision Fund portfolios and also entrepreneurs' ideas can be combined.

SoftBank Corp. is very important for SoftBank Group because they can be a good kind of sales agent for those portfolio companies. They can encourage and be a gateway for those portfolio companies coming into the Japanese market. With that, I believe that they can play a very good role, and hopefully that can provide a good performance out of it.

**Speaker 4**
Thank you very much.

**Speaker 5**
**Q1:**
Following up, in this quarter, the Vision Fund exit is becoming smaller. Is it because of the IPO market or because you have already sold quite largely, so you are slowing down the exit? If we look at the second half, depending on the recovery of the IPO market, are you going to see more exits or are you still continuously slowing down the exit? That is my first question.

**A1:**
***Navneet Govil***
We should note that since inception of the Vision Funds, we have already returned more than 52 billion dollars to our limited partners. We have a very disciplined monetization strategy. You are correct that in the September quarter, our monetization was low, but part of it was driven by lower prices of our public equities. We will not go into specific asset positions and our target levels, but we have certain target levels and we do this in a very disciplined manner. It is difficult for me to tell you what it will be next quarter. Clearly, the IPO market is currently – it does not appear to be that favorable. Of course, there was the mobile IPO that took place and it did well, but as I mentioned to you, we have 26 companies that are late-stage that are ready to go public when the capital markets are willing to receive them at attractive valuations. But our monetization strategy is very disciplined. We monitor where our public positions are trading at and our thresholds for monetizing, and we will do that accordingly.

**Q2:**
I have another question, a follow-up to the previous question to Mr. Goto. You mentioned earlier that asset-backed financing is also one of your options. This time, Alibaba's margin loan has been repaid. What is the background for that? Also, because you also use Arm, what others are an option for your asset-backed financing?

**A2:**
***Yoshimitsu Goto***
One easy target for asset-backed financing is the Alibaba shares which are easy for us to address. We have headroom to partially utilize also the T-Mobile shares, which have been already used for a certain program. Some of them still have some room to be used. From a cash management point of view of a range of one to two years, Arm IOP can be quite a big event, and also Arm's shares after IPO can be good and easy-to-address in terms of being used for asset-backed financing.

**Q3:**
The margin loan of Alibaba shares has been repaid. What is the reason behind that?

**A3:**
***Yoshimitsu Goto***
Rather than financing as a margin loan, we believe it is better off to set it forward and continuously do the finance. A derivative transaction would be better for us, which can be useful and good for us to address. That is why we kind of replaced or refinanced it from a margin loan.

**Speaker 5**
Thank you. Understood.

**Speaker 6**
Hello. Thank you. I have a question for Ian on Arm. It is good to have you back. Could you talk us through how the profitability of Arm has trended over the last year or so – this quarter, it seems a bit weaker – and what kind of impacts there might be on the profit side at the moment?

**A1:**
***Ian Thornton***
Thanks. Our profitability over the period of being acquired by SoftBank – pre-acquisition, we were around about 50% profitability, then we went through a period of accelerated R&D. We hired lots more engineers in order to go and build stuff, and so our profitability declined in 2017, 2018, and 2019, but because it takes two to three years to build anything, we had nothing extra to sell until we started getting into 2018 and 2019. That is when the profitability started to return. Then, as more products came on the scene and we introduced some new flexible business models, then there were more new customers to get access to more new Arm stuff. Then, profitability started to come back to around the number 50% again.

Regarding H1 2022 versus H1 2021, as I mentioned earlier, we saw record license revenues a year ago. That basically added about 200 million to our revenues a year ago. Signing a license is to be 100% profit, so that drops straight down to the bottom line. So, that boosted our profitability a year ago versus today, but licensing is still very strong in H1 2022.

Going forward, over the medium term, there will be some weakness in the industry if consumers buy fewer phones and TVs over the next couple of quarters, but in the medium term, we expect that more products – be them cars or phones or TVs or home cameras – will require more digital electronics. They will all require chips that go into them, and many of those will be Arm-based. So, the opportunity for Arm only grows and grows from here on out, and because the Arm technology is very reusable, we hopefully can grow our revenues faster than our costs, and therefore that will help knowledge and expansion to continue to grow.

**Speaker 6**
Thank you.

**Speaker 7**
**Q1:**
Thank you for the opportunity. I have one question, but actually it is divided into two. Performance-wise, Vision Fund 1 is relatively in a decline. How are the LPs reacting? Do they make any demands or requests to Vision Fund 1?

**A1:**
***Navneet Govil***
On Vision Fund 1 performance, as of September 30, we have invested 87.7 billion dollars, and the fair value is 103.1 billion dollars. So, the fair value is above the acquisition cost, and the multiple on invested cost is more than one times. As far as the limited partners are concerned, we have returned 43.2 billion dollars, so approximately 50% of what has been invested in Vision Fund 1 has been returned to the limited partners.

**Q2:**
The Arm IPO is going to be an important milestone not only for you, but also for Vision Fund 1. I heard that Mr. Son is going to be very much dedicated to Arm, so I thought that there was something that relates to Vision Fund 1. If there is anything that you can comment about, I would like to know.

I want to understand Mr. Son's role in Arm. He called himself the Chief Net Officer for Sprint when you acquired Sprint, so you had a clear objective. But for Arm, once it goes public, I understand that he can kind of rest a while and come back to the group's business. Is he going to have a clear role even after the IPO? How is he going to be involved in the Arm business?

**A2:**
***Yoshimitsu Goto***
I should answer because this is about Mr. Son. Mr. Son would like to use most of his time for the enterprise value enhancement of Arm. That is what he explained today. Together with the management of Arm, I believe he would like to take advantage of the great innovation and technology of Arm and use them for the next development of technology and services. He would like to allocate his time for that.

The IPO is one kind of milestone of the process toward the further growth of the company, so it does not necessarily mean that he finished his job once the IPO event occurs or anything like that. Actually, I think he would rather see Arm for a longer period of time and contribute to enhancing and maximizing the enterprise value of Arm. So, in the meantime, we want you to be patient so that he can make some presentation in which he can talk about what he can achieve or what he has done. Of course, he is going to be there for the AGM to update you and summarize the performance and our business achievements every year.

**Speaker 7**
Thank you very much.

**Speaker 8**
**Q1:**
This question is for Navneet. This is about Earnings results presentation slide page 32 and 33. These are Vision Fund 1 and Vision Fund 2 numbers.

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For Vision Fund 1, it is 89.4 billion dollars total and 102.9 billion dollars now of cumulative investment return. It is simple to see exit, but when we look at public companies that are currently held, the original investment is 32.3 billion dollars and now the value is 21.3 billion dollars, so it is down about 33%. However, when we look at the value given under private companies, the original investment is 35.3 billion dollars and the current valuation, as it is being shown of fair value plus sale price, is 39.3 billion dollars. It is higher. So, how do we gain confidence?

We are outside. We do not know the inside details of how you are arriving at the fair value. What we read and understand, listen to, and see externally, it looks like the private companies are far more overvalued than the public companies are. So, how do we gain confidence in this number that you use in the fair value and then you use in NAV? That is what determines the stock price, true discount, or other measures. How do we gain confidence in this?

#33

Also, in Vision Fund 2 numbers, the private is down only about 30% from 40.1 billion dollars to 29.2 billion dollars. Public-listed companies, within the same portfolio, are down from 8.2 billion dollars to 3.5 billion dollars. That is almost more than a 60% decline in the value. How do we gain confidence in these numbers? Can you help us, please?

***Navneet Govil***

The important thing is to not look at it as one pool. These are idiosyncratic investments. We have to look at each of these because you cannot make generalizations.

Let us start with Vision Fund 1. The reason the private portfolio in Vision Fund 1 has done quite well is that in particular, there are two very strong investments there – ByteDance and Fanatics. Very significant gains on those two private investments. If you look at the public portfolio of Vision Fund 1, there is one investment in particular that has been significantly impaired. That is DD. As you may recall, we made a very large investment in DD and we have marked it down substantially, given that it is publicly traded currently in the OTC market.

So, you really have to look at some of these individual names in the public and private for both Vision Fund 1 and Vision Fund 2. I do not think you can look at a general percentage change and say whether that is reasonable or not. It really depends on the individual companies that make up the pool of public and private assets.

**Speaker 8**

Thank you, Navneet. I guess we just have to take your word for it.

***Navneet Govil***

No, you do not need to take my word for it. We have disclosed a couple of things. In Vision Fund 1, where we have our substantial limited partners, we have independent valuers, so it is not just our valuation. There are independent valuers that are appointed by our limited partners. In addition to that, there are auditors for the fund and then auditors at the SoftBank Group level.

As I have mentioned many times before, our valuation process is triangulated. We look at the performance of the company, the discounted cash flows, we look at public company comparables, and we look at recent funding transactions. That is the basis of it. We have been very transparent. So, it is not about taking our word for it. We have a very disciplined, rigorous process that is in line with IFRS.

**Speaker 8**

Thank you.

**Speaker 9**
**Q1:**
My first question is for Goto-san. You have been aggressive on the buybacks last quarter and in October and November of this year. I guess my question is, since the last buyback program is over, what are the opportunities for additional buybacks going forward, and how is SoftBank Group thinking about repurchases going forward?

**A1:**
***Yoshimitsu Goto***
The return to shareholders is one of the most important agendas for the company, so that is something that we always keep in our minds. Also, as a method for the return to shareholders, a buyback is one of the most effective methods for that. That is why we are continuously looking into that, but we just finished our existing program. For the future program, we would like to discuss at the Board of Directors meeting and decide how we are going to do it.

**Q2:**
My second question is for Navneet. Obviously, this is a difficult market environment and you are being more disciplined with new investments, but my question is, what are the sectors or what are some of the areas where you are finding new investments and you are optimistic about some of the prospects that you are looking at or have already made an investment over the last quarter or two?

**A2:**
***Navneet Govil***
Thank you. Our view is that the AI revolution is impacting several sectors. You will see in my presentation for the investor briefing, we highlight a number of them where we have strong portfolio companies. Digital commerce, supply chain transformation, financial inclusion, talent management solutions, and data analytics and security are just some of the examples.

**Speaker 9**
Great. Thank you.

**Speaker 10**
**Q1:**
Thanks so much. Just one from me then. Is there any way to quantify or any color you could give around the broader portfolio's exposure to crypto or crypto-exposed holdings?

**A1:**
***Navneet Govil***
Yes. If you look at our overall portfolio of all the funds combined – Vision Fund 1, Vision Fund 2, and the LatAm Funds – that is about 145 billion dollars of fair value. Our total crypto exposure there is about 1.3%.

**Speaker 10**
Thanks so much.

**Speaker 11**
**Q1:**
I have a question to Navneet. Looking at the financial report, by the end September, Vision Fund 1 and Vision Fund 2 have been using asset-backed financing and have quite large

borrowings there. Why have you raised or borrowed so much money through asset-backed financing? The amount is quite large, so I would like to know the background for that.

**A1:**
***Navneet Govil***
This is something that we have been doing which is essentially – you can think of these as margin loans on some of our primarily publicly-traded assets. The total amount is about 10 billion dollars which, if you look at it in terms of loan-to-value, is about 13.6%. So, we think it is a pretty prudent amount which allows us to return capital to our limited partners. It also helps in terms of the performance of the funds in terms of IRR. But at the same time, as you know, in Vision Fund 1, we have a fund-level facility, and this was not drawn down. At the end of September, the balance on that was zero.

**Speaker 11**
Thank you very much.

**Speaker 12**
**Q1:**
Thanks. I am not sure who can answer this, but on the Arm IPO which looks to be pushed out a little bit, is that a capital markets issue? Is it that you want the business to be growing faster or more developed in its preparation? I am just wondering what is driving the delay in IPO. Is it capital markets or other factors that are actually causing that delay?

**A1:**
***Ian Thornton***
Arm is well-prepared for the IPO in terms of getting the business ready, and you saw the appointment of some more board members and a new CFO who has IPO experience. We are well-advanced in getting the documentation done so that we are ready for the regulatory filing. It is the combination I think of the global economy and the uncertainty there, and also the financial markets. So, it is the combination of those that on the balance of probability, we probably are not going to end up doing an IPO this fiscal year. But our plan is, if at all possible, to do one at some point in calendar 2023.

**Q2:**
Thank you. I am just wondering particularly if the fall in prices of things like NVIDIA are impacting the thoughts on the IPO as well, or do you think it is independent from that?

**A2:**
***Ian Thornton***
It is not impacting our thoughts. Maybe Goto-san or Navneet have a different thought, but we are very keen to IPO as soon as we can.

**Speaker 12**
Okay, thank you.

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