SoftBank Group Corp.: FY23Q3 Investor Briefing Q&A

February 8, 2024

Presenters:

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Q&A

Speaker 1

Q1:

I have a question for Navneet. In the third quarter, there was a significant unrealized gain from private investments at SVF. Is this mainly because of the rise in stock prices of listed companies in the same industry, or is it largely due to an up round, as you explained, where the transaction price has increased? I am interested in understanding the reasons behind the increase in fair value of these private investments.

A1:

(Govil) The biggest driver on the private assets was ByteDance. On ByteDance, there are a couple of things that I would like to highlight. Its revenue was $110 billion in 2023 and grew by 30%. This is a big accomplishment for ByteDance because if you look at the two closest peers which are Meta and Tencent, Meta had revenues of $133 billion in 2023 and Tencent had $86 billion of revenue in 2023. However, ByteDance's revenues grew by 30%, Meta's revenues grew by 14%, and Tencent revenues grew by 10% year-over-year, respectively. The other interesting thing is that if you look at the revenue multiple, for Meta it is 6.5 times, for Tencent it is 4.2 times, and for ByteDance we have marked at 2.8 times. Even though we took a substantial uplift on ByteDance, the multiples are still less compared to Meta and Tencent. So ByteDance was the biggest driver of performance on the private assets. We reported about $4 billion in total, and of the $4 billion the public assets went up by $1.8 billion and the private assets were up by $2.2 billion.

Q2:

My second question is to Ian. During Arm's conference call in the morning Japan time, management mentioned being surprised by the strong sales in China. Could you please share your thoughts on the underlying reasons for China's strong sales and their sustainability?

A2:

(Thornton) In our previous quarter, the sales from China were just over 20% of total revenues. For this quarter, it has increased to 25% of total revenue, up a bit. Generally speaking, we are seeing the same drivers from China as we are seeing from the rest of the world, that is recovery in the semiconductor industry and also, most particularly, recovery in the Android smartphone space. China is such a large market for Android smartphones and also developing more of their own chips in China, so it is probably not surprising that we have seen somewhat of an increase in revenues from China. Last year, China was about 25% of our revenues then as well, so generally speaking we are seeing China reverting back to average rather than this being anything unsustainable. So we see no reason why certainly in the near term the sort of level of revenues from China should not be sustained. When we look out in the multi years in the future, we do expect that the rest of world will probably grow faster than China and so maybe in five years China is under 20%, that say, into high teens of the total revenue again. However, certainly in the near term, we think China being around about 20% and 25% of our revenues.

Speaker 2

Q1:

It is mentioned that there is a focus on investments related to AI, but I believe that AI also has different categories. There are development companies, related device manufacturers, as well as companies that utilize services or AI to expand their performance, among others. What are the investment opportunities, returns, and hurdles for each of these categories? Looking at the trend of investment amounts in the earnings presentation, it seems that significant investments were not executed in the third quarter. I would appreciate it if you could explain the investment approach from the perspective of categories of AI-related companies.

A1:

(Govil) There are a couple of reasons why our investing activity was low. First, what are the areas in AI or generative AI that we look at? When we make these investments, we look at four factors. The first is the quality of the AI Tech stack, the second is the product market fit and scalability, the third is unit economics, and the fourth is execution excellence. We looked at 300 opportunities in 2023, but our bar for investing is very high. We pay a lot of attention to customer validation and product market fit. We want to protect against certain types of risks, so we want to avoid emergent verticals. For instance, in the early 2000s there were a lot of different search engines and Google came much later. What happens is it's harder to identify successful Investments when the market is consolidating. Another example is that in the food delivery industry, there were many companies before DoorDash was successful. And also, just because something is a good technology does not mean it will become a good product. For example, Google Glasses is great technology but not a great product. When we looked at these 300 opportunities in 2023, we passed on a lot of them because we are not strategic investors but financial investors. If you look at what happened with companies like Anthropic, Cohere, etc., there were a lot of strategic investors, but there were not financial investors. So that explains some of the reasons why we did not do that many investments. Just to give you a quick example, Anthropic's valuation increased by ten times in two years to $5.5 billion in May 2023 and it rose by another four times to $25 billion in October 2023. So we are paying very careful attention to valuations.

In terms of what areas of generative AI we are looking at, the way we think about this is broadly in three categories. The first is the hardware layer. Here you have foundational models and compute infrastructure. The best example of our investment here is Arm and you can already see where the prospects of Arm and AI runs on Arm so that's a good example of the hardware layer. The second area is the infrastructure layer. This is data infrastructure, model hosting and fine-tuning, and developer tools. Generative AI has proven its potential and next it is solving efficient scalability and showing compelling product market fit to end users. It is empowering the developer community to train fine-tune and develop models in a low friction manner. The third area is the applications layer. Here you have existing applications actively embedding generative AI elements into the core value proposition. The example here is Microsoft Copilot, Adobe Firefly, and many of our SVF portfolio companies. And then there is also emerging generative AI native applications that are fostering new digital behaviors and disrupting traditional industries. So, at a high level, we are looking at AI in terms of the hardware layer, the infrastructure layer, and the applications layer.

Speaker 3

Q1:

As a message from the CFO, I interpreted it as prioritizing investment in growth over share buybacks for the time being, under the belief that increasing NAV (Net Asset Value) will ultimately increase market capitalization. Given the significant attention on share buybacks, I would like to once again hear your thoughts on how you plan to approach this going forward.

A1:

(Goto) I believe that our capital allocation strategy is a matter of strong interest for all stakeholders. Our team is always thinking about how we should express ourselves in terms of shareholder returns. I wanted to share with you a glimpse of what we are thinking about on a day-to-day basis, and that is why I have given you this explanation today. While it is indeed a matter of making an ultimate choice, I would venture to say that the order in which new investment and growth investment is made first, followed by share buybacks as a form of shareholder return, is probably a story that applies to all companies, not just our own. We, as an investment company, are no exception to this. For example, if an automobile manufacturer were to prioritize between the production line and vehicle sales and share buy-backs, it would naturally prioritize the business. For an investment company, share buybacks are also considered as part of the investment and cannot be completely separated, so there are some difficulties. However, it is our ultimate belief that unless we clearly and consciously increase new investment, we will not grow as a company, and I have the feeling that an increasing number of investors understand this part of our dialogue with them. Taking these factors into account, I wanted to take the opportunity of our earnings announcement to explain to you once again the stance that we are taking. It's not that we disregard shareholder returns or consider them secondary. We always seriously consider the three aspects of capital allocation—new investments, shareholder returns, and financial policies. This is the essence of the approach we're presenting to you.

Q2:

Regarding the three layers mentioned earlier - hardware, infrastructure, and applications - I have the impression that there aren't as many companies involved in hardware. As for the investment choices among these three layers, I'm wondering if it's evenly split into thirds, or if there's a tendency to lean towards applications. I'd like to hear more about how you view the opportunities in each layer, including what you're looking forward to the most.

A2:

(Govil) First, let me give you examples of companies in each of those areas. In the hardware layer, there are companies like Arm, Nvidia, CoreWeave, Lambda Labs, OpenAI, Anthropic, and Cohere. In the infrastructure layer, there are companies like MongoDB, Kroma, Redis Labs, DB8, Hugging Face, Weights & Biases, LangChain, and Langsmith. Then the applications layer includes a lot of companies which are already in our portfolio. Picsart, Automation Anywhere, ByteDance, and ContractPod. These are just examples of companies in each of the categories. There are not that many opportunities in the hardware layer. We already have Arm 90% ownership by SBG and we are extremely bullish on Arm. So, we see most of the future investing opportunities for us in the infrastructure layer and the applications layer.

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