FABERNOVEL

SoftBank Vision Fund

FABERNOVEL

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Why do we release this kind of work for free?

Our job is to help large organizations think and act like startups. We believe this can only be achieved by encouraging people to innovate and explore new business models. We aim to inspire you by giving you the keys to understanding new markets.

Foreword

-

Jean-Christophe Liaubet
Partner
at Fabernovel

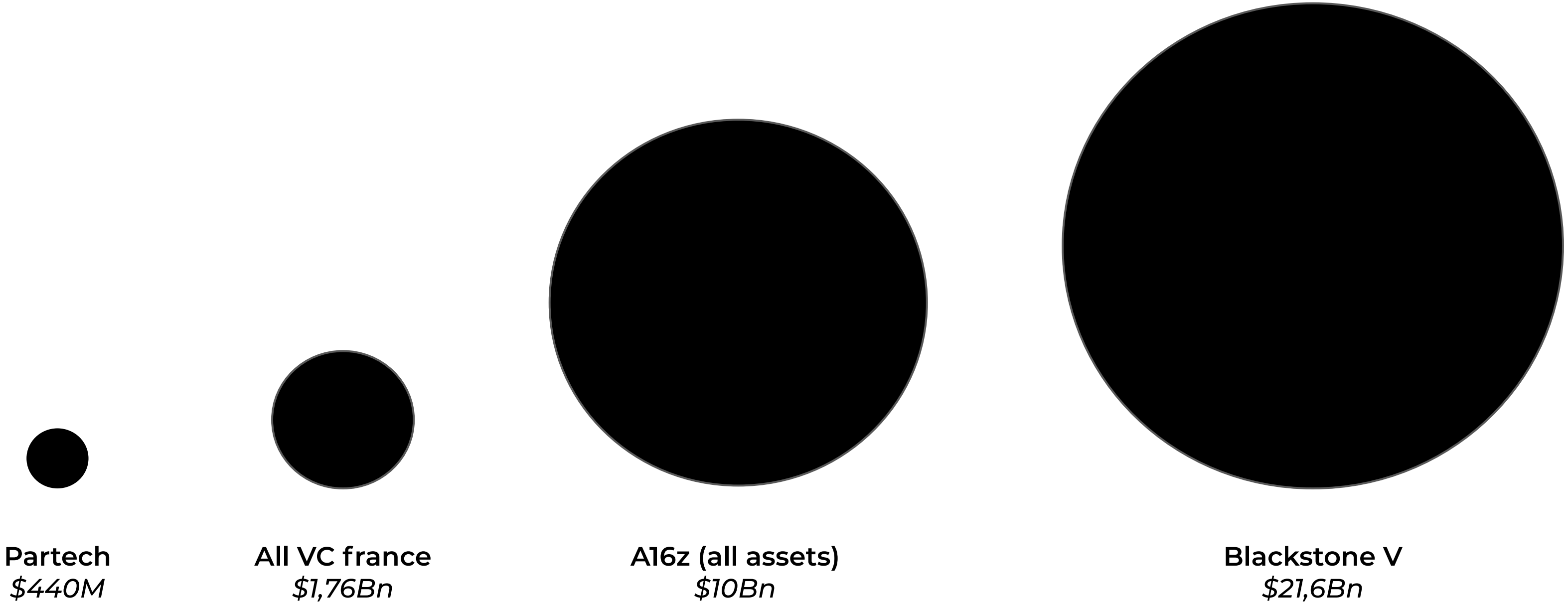
Keireitsu of modern times, SoftBank has pioneered with its Vision Fund an Innovation at scale strategy powered by an aggressive venture investments. It has thus opened an alternative way to GAFAM's model that relied primarily on an organic technology model amplified by some bolt-on M&A.

SoftBank's transformation case is particularly interesting at a time when European innovation ecosystems need to catch-up with their US and Asian peers and at a time where many corporates are entering in « coopetition » with Investment funds, launching or reinventing their ventures set-up in order to innovate at scale.

For sure, like all disruptors Softbank has been somewhat extreme in its approach (especially in terms of risk aversion, fundraising, inflationary valuation) and not always exemplary in its practices (CSR, governance, financial disclosure…). Nevertheless we are witnessing some interesting read-across for European players, especially as vision, risk taking and entrepreneurial approaches are in our view critical success factors in the new economy.

Thus one of our wishes for 2020 is that some European Softbank may emerge and create a new way for innovation at scale.

Who's who ?


Partech
$440M
All VC france
$1,76Bn
A16z (all assets)
$10Bn
Blackstone V
$21,6Bn

SoftBank took Venture Capital to another level

SoftBank Vision Fund I

$100Bn

Both press & investors are loving the SoftBank hype.

Long Reads

How SoftBank ate the world

Led by the charismatic Masayoshi Son, Japanese conglomerate SoftBank's Vision Fund is taking over tech, one company at a time. This is the story of what happens if the disruptors are disrupted

Donald J. Trump
@realDonaldTrump

Masa (SoftBank) of Japan has agreed to invest $50 billion in the U.S. toward businesses and 50,000 new jobs....

LATEST OBSESSIONS FEATURED QUARTZ EMAILS

LOSING ELEVATION

WeWork's IPO delay is bursting SoftBank's bubble

By Alison Griswold • September 18, 2019

Vox recode

SoftBank, the most powerful — and controversial — tech investor in Silicon Valley, explained

Why Uber's biggest shareholder, SoftBank, is so important to understanding Silicon Valley today.

By Theodore Schleifer | @teddyschleifer | May 10, 2019, 3:10pm EDT

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Like it or not, SoftBank is worth the deep dive.

1

A bold vision for the world.

How SoftBank became the largest fund ever.

2

The Softbank recipe.

What is SoftBank’secret sauce(s)?

3

SoftBank broke the VC playbook.

Here’s how.

4

What’s next for SoftBank?

Should we expect a SoftBank effect?
A shift in the Tech Market?

1

A bold vision for the world.

How Softbank became the largest fund ever.

It all started with a fervent advocate for the information revolution.

Masayoshi Son

> I believe the **continually advancing Information Revolution will lend us the wisdom and strength to address humanity's previously unsolvable problems** and help us make a positive impact on all of society.
>
> ***Masayoshi Son***.

Looking for opportunities to accelerate the world’s transition towards Singularity.

Name **Masayoshi Son**

Nationality **Japanese of Korean descent**

Birth date **1957**

Studies **UC Berkeley - Computer science**

Professional experience

1972 Starts translation company - sold patent $1M to Sharp.

1981 Starts **SoftBank Corporation.**

2000 Becomes the richest man on Earth for one day...
then loses $70Bn during the dotcom bubble crash.

2006s Threatens to set himself on fire if he doesn’t get telco licence.

2016 Switches his focus from running SoftBank operations to Vision Fund.

Successfully cruising through 4 Information revolutions.

From software distribution to artificial intelligence.

PC & Software | Internet | Mobile | AI&IoT

1981
Creation of **SoftBank**, a software distribution company

1993
Establishment of SoftBank holding in the U.S. to invest in Internet companies

2000
Strategic $20M investment in **Alibaba**

2001
Launch of Yahoo!BB broadband service with ADSL lines

2006
Acquisition of **Vodafone** K.K & strategic distribution of **iPhone**

2013
Acquisition of U.S carrier Sprint Telecom

2016
Acquisition of ARM

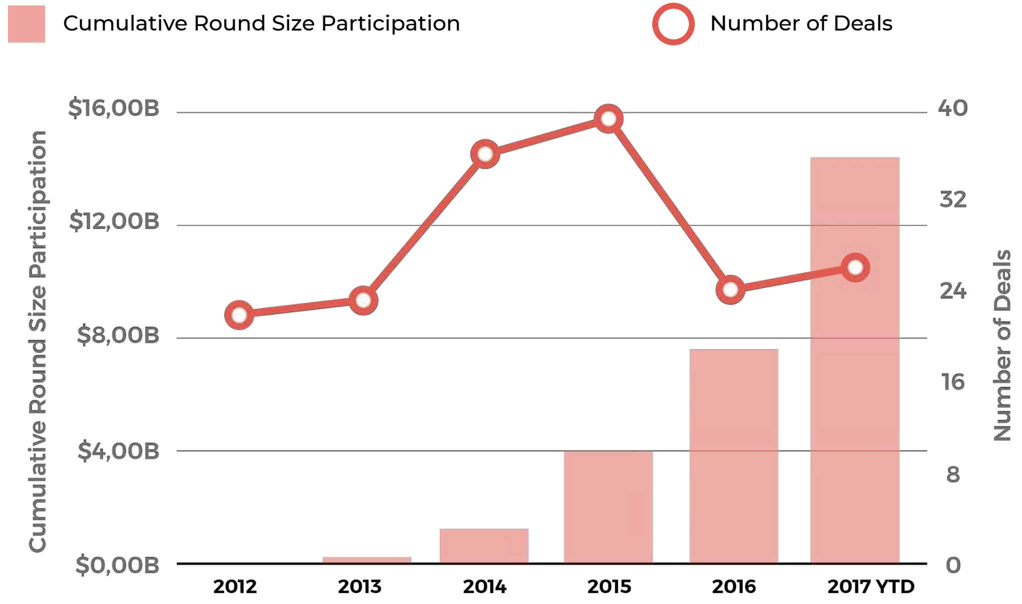
2017
Launch of the Vision Fund I (VF)

Sources: SoftBank annual report 2018

From an active telco investor...

Outsourcing innovation through M&A.

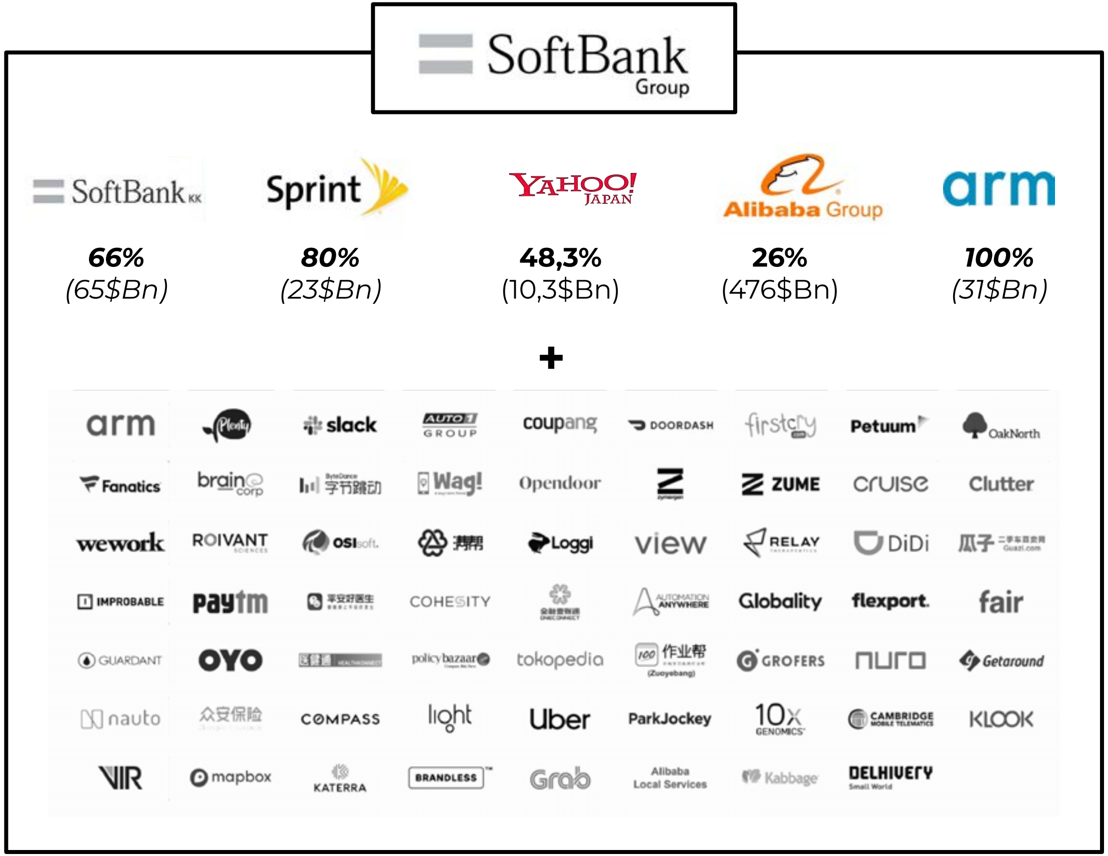
Although SoftBank is primarily a telecom company, it has **always been an active technology investor,** and the company's growth and transformations have always heavily relied on **mergers and acquisitions.**



Cumulative VC & PE Round Size Participation by Softbank.
Based on Known Round Sizes from Crunchbase Data, Actual figures are higher.

Source: Softbank Annual report

…to a modern form of *Kereitsu*?



Keiretsu.
系列 - *Japanese term.*

A set of companies with interlocking business relations and shareholdings.

In 2018, SoftBank officially transited to a **Strategic Holding company,** taking SoftBank (Telco) public. Like large japanese *Keiretsu* (Mitsubishi, Nissan…) it orchestrates a **conglomerate of partner companies,** in an effort to push synergies between them.

A bold vision for the world.

SoftBank,
a giant by numbers.

83$Bn
Market capitalization as of 16/12/19.

98,6$Bn
Size of SoftBank Vision Fund 1, the largest in the world.

13,9$Bn
Profit in 2018.

74 952
Employees across the world.

70+
Portfolio companies of the Vision Fund.

A new mission for the achievement of its 300-year vision.

SoftBank is a **mission-driven company**. Its mission roots in its founders fascination for technology, and its ability to transform humanity for the better.

Industrial revolution

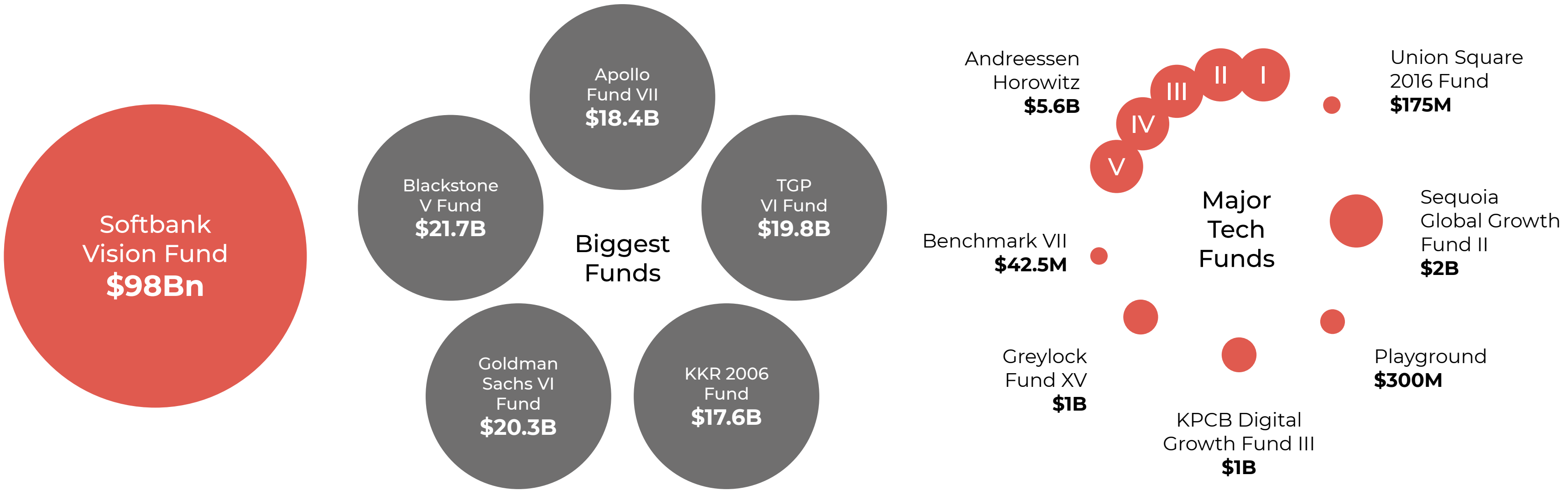
Edison, Ford and Rockefeller were the conductors of economic growth by supporting innovation and technology.

Information revolution

SoftBank wants to become the conductor of the Information revolution by investing in the world's best technology companies.

> We want to be **the conductor of the AI Revolution**, a maestro of the orchestra comprising the best AI entrepreneurs.
>
> ***Masayoshi Son***

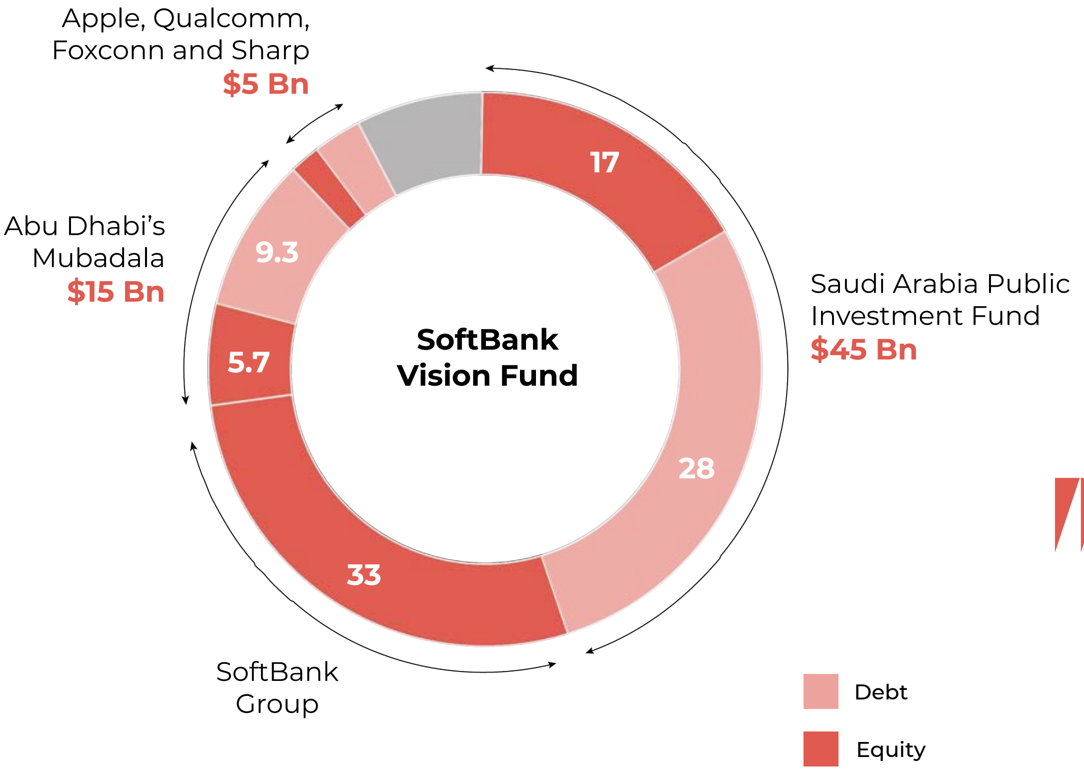
The Vision Fund is SoftBank's chosen spaceship for the mission.



Circles sized by the amount each fund has raised.

Source: National Retail Association (NRA)

A giant in size, small by the number of LPs.



To raise the biggest venture capital fund ever, SoftBank relied on a limited number of partners, as more than 90% of the funds come from either **Saudi Arabia Public Investment Fund**, **Mubadala** or **SoftBank** itself.

> 45 minutes, 45 billion dollars.
> 1 billion dollar per minute.

Masayoshi Son.

Thanks to a unique ability to raise funds.

Track record

Masayoshi Sans benefits from his reputation and past performance of the company's investment.

Alibaba stake and Son's vision enabled him to raise **$45Bn in 45 minutes** from Saudi Arabia.

Being an LP in SVF is a bet on the booming technology sector.

+

Reduced risk structure

Combined with a complex structure designed to reduce risk for investors and raise more money.

/ **Preferred stock** (7% coupon) brings reduced risk for equity investors

/ High SoftBank stake serves as reassurance for other LP.

+

Debt leverage

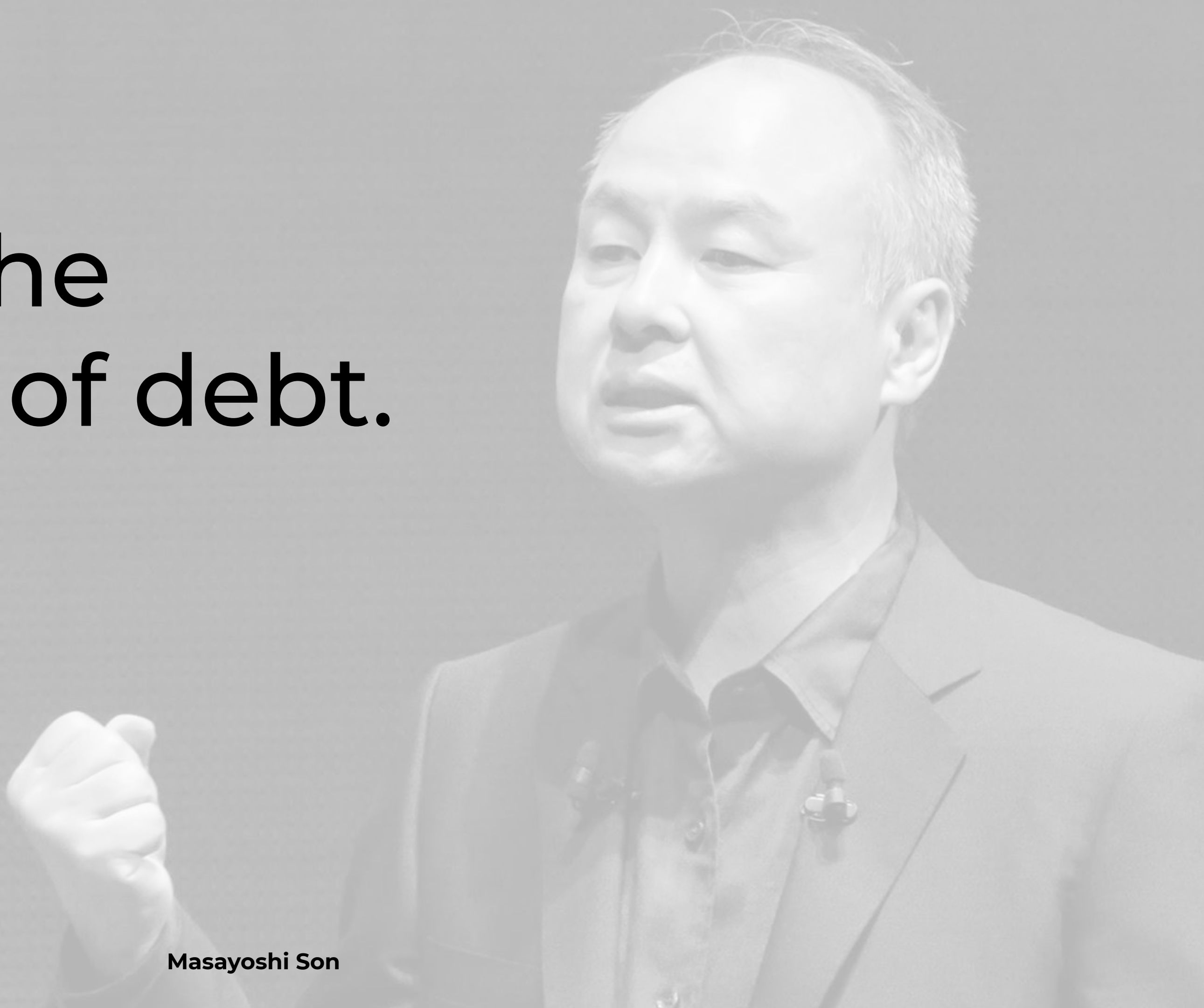
High leverage (40% of debt) enabled Softbank to double fund size. SoftBank relied on:

/ Its **stable cashflow** as a telco operator.

/ **Alibaba stake** serving as a liquidity guarantee.

/ **20M in employee loans.**

" I’m the king of debt.



Masayoshi Son

2 ●

The SoftBank recipe

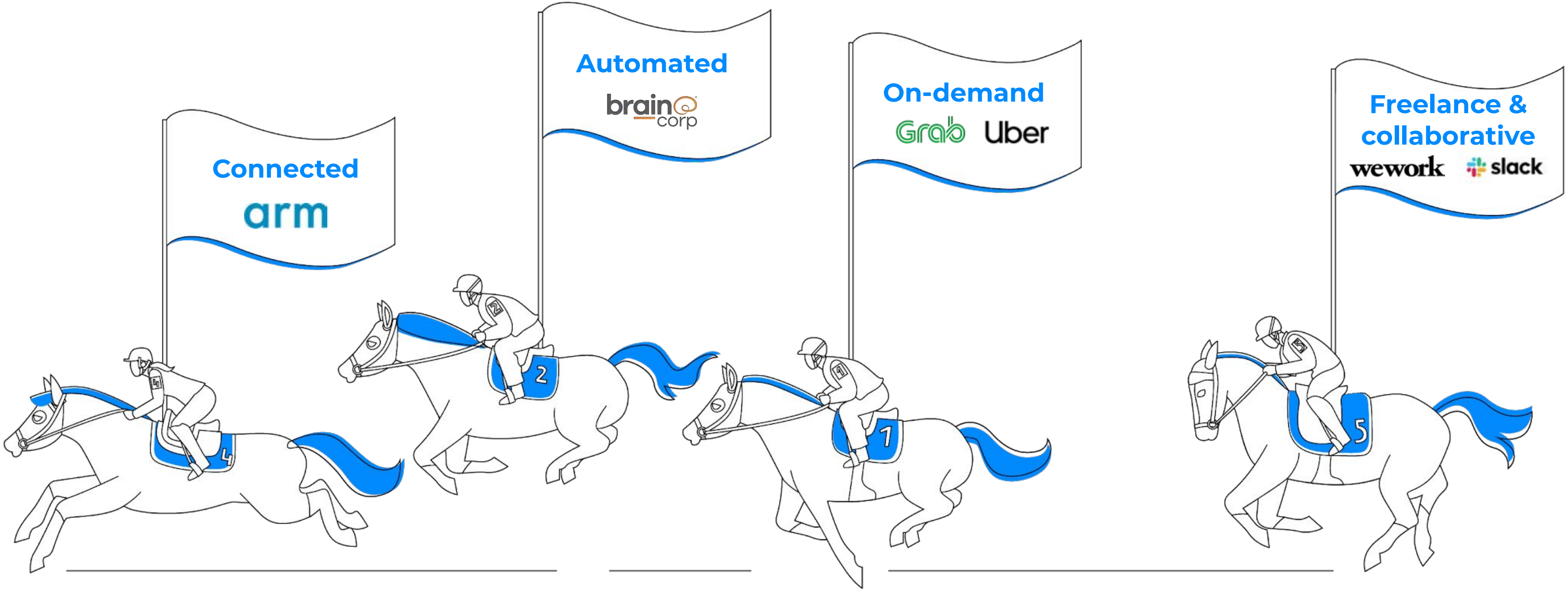
What is SoftBank's secret sauce(s)?

A cluster of N°1 strategies.

> We only live once,
> so I want to think big.
> I have no intention
> of making small bets.

SoftBank’s investments reveal its long term view of the future.

Masa’s bets have always been made with one main rule in mind: **invest in long term trends that will define the future of the world.** According to SoftBank, in 2030, the world will be more:



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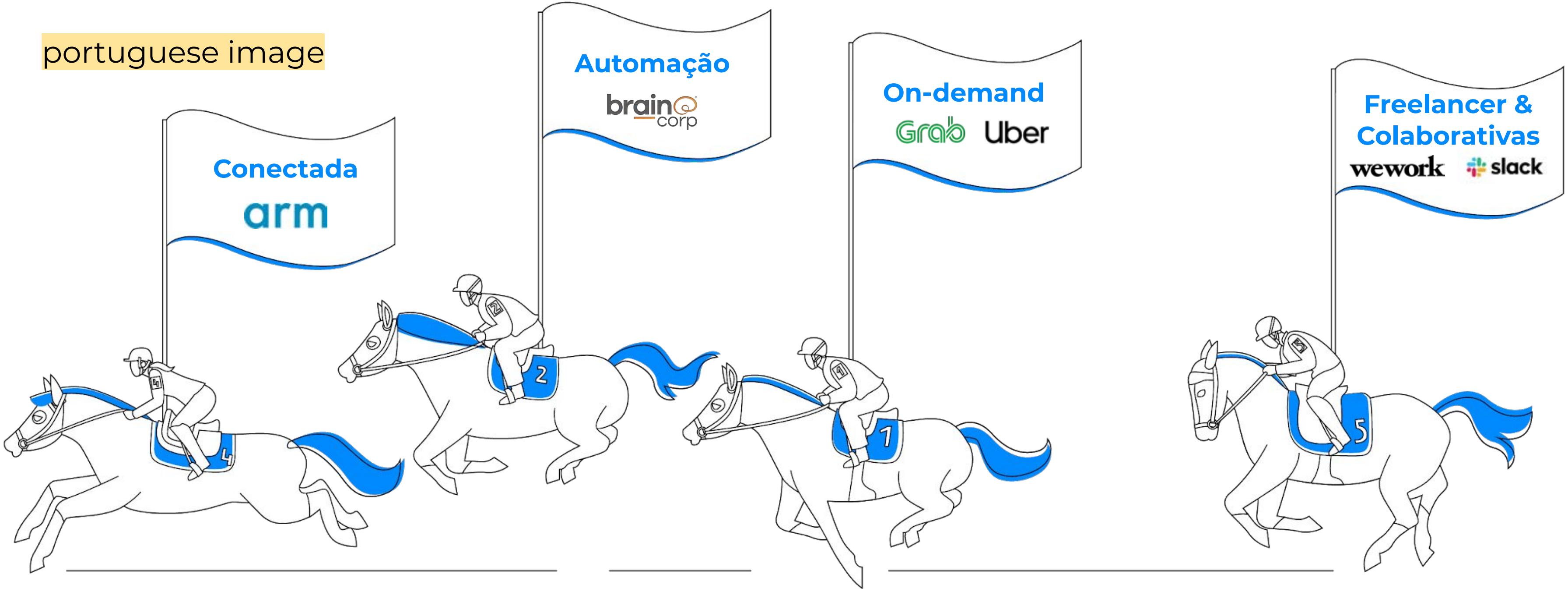
portuguese image



Identifying category leaders.

SoftBank Vision Fund’s investment strategy is to **fund only potential category leaders.** As a result, **66% of their investments were made on unicorns** (post-money valuation).

A deep fast growing market

SoftBank primarily targets fast growing markets with a strong focus on technology sector or as technology as an enabler for efficiency.

An ability to outperform the market

The Vision Fund especially targets unicorns
or soon-to-be unicorns, that already have raised hundreds of millions of dollars.

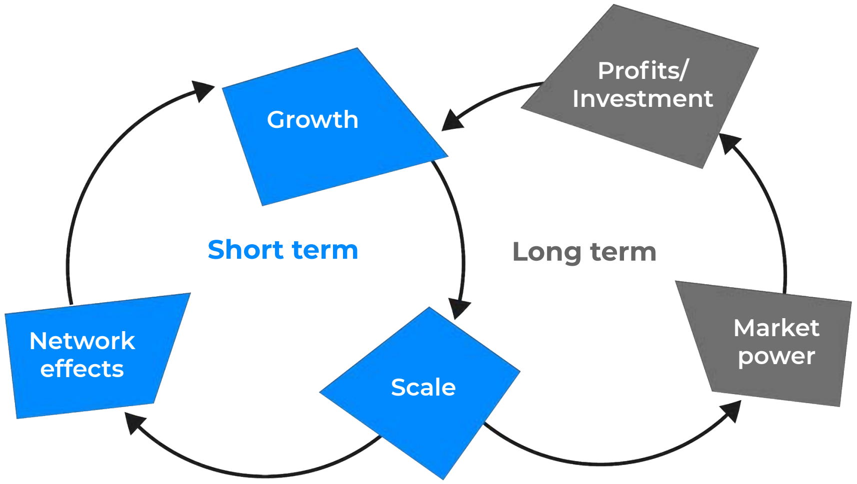
+50% market share potential

The Vision Fund looks for companies with a market share potential of 50-80%, especially focusing on markets which have network effects or winner takes all dynamics.

Source: Fabernovel portfolio analysis

One rule = long term growth over profits.

Because it believes in the ability of its portfolio companies to become long-term champions, the Vision Fund invests in companies with **strong growth profiles regardless of their current profitability.**



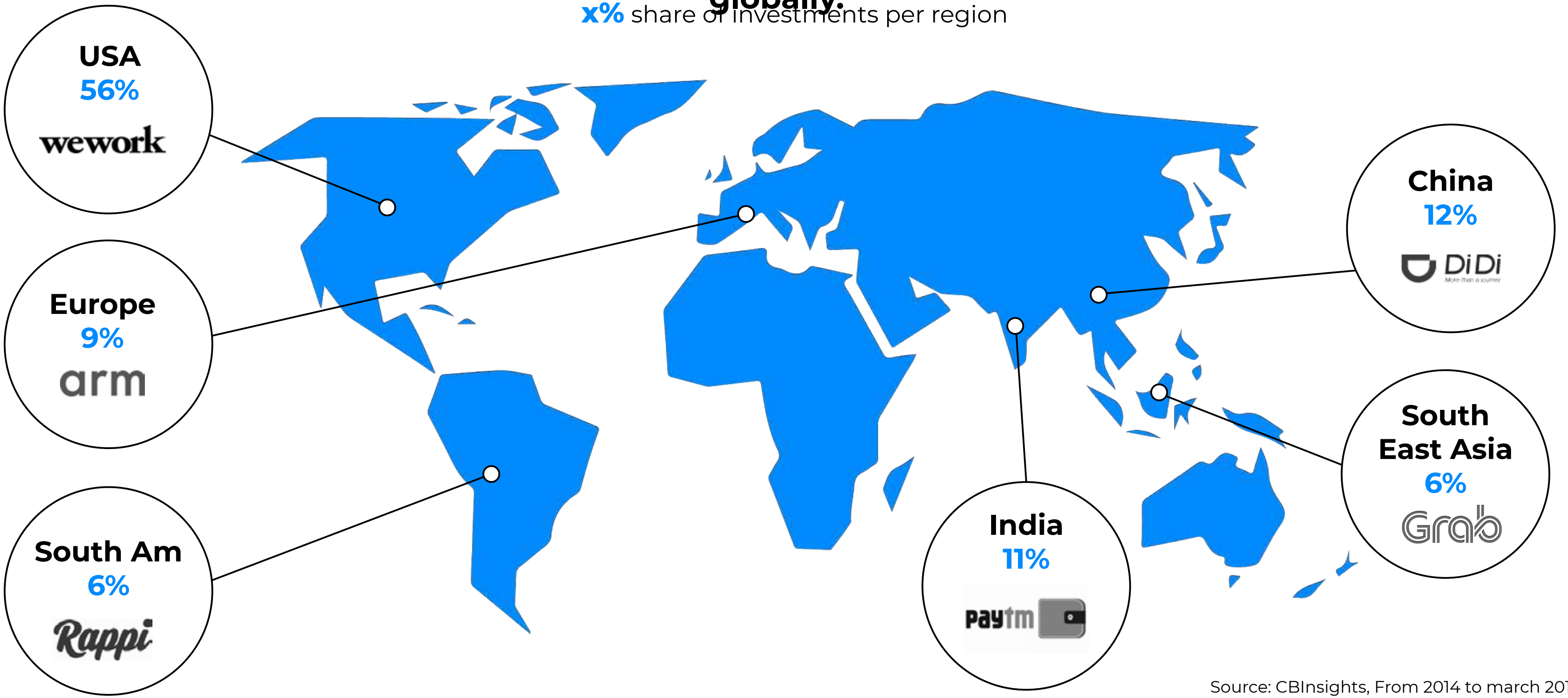
I've got an owner that says, **invest, you know, invest like crazy to make sure you capture these waves of growth** in the future.

Simon Segars, *ARM CEO.*

A vision that knows no frontiers.

The same way the information revolution has no border, **SoftBank's investments are spread globally.**

x% share of investments per region



Source: CBInsights, From 2014 to march 2019

From picking winners to making them.

> If money was not a constraint, what would you do differently in the next five to 10 years?

Removing the constraint of capital.

20+

Deals above the 1Bn mark since inception.

$100M+

Minimum ticket for SoftBank Vision Fund investment.

$910M

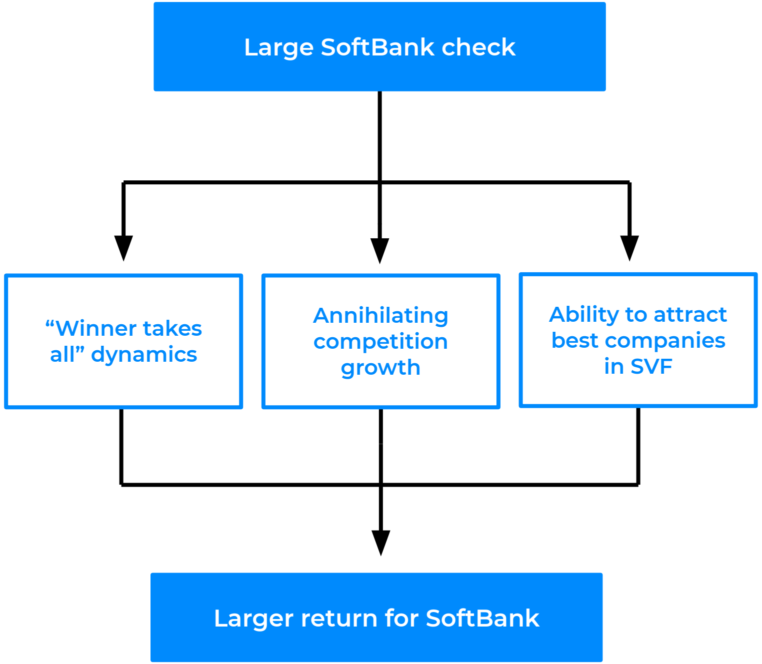
Average investment per portfolio company (all rounds combined).

> We're looking for companies that are **growing very quickly** and can **deploy a lot of capital** in a **differentiated way.** Before we invest, **we completely reshape the business plan to invest more capital** than they initially asked for.
>
> Jeff Housenbold, MD

From *picking winners* to *making winners.*

Capital as a competitive advantage.

Both critics and admirers agree on this point: SoftBank's strategy relies on access to **capital as a competitive advantage**. Because it has deeper pockets than competition SoftBank seeks not only to invest in winners but to ***make winners***.



In the network economy, capital is the mother of all growth.

SoftBank's bets are an all-out play on scale.

1 Because most growth technology markets are characterized by network effects & winner-takes-all, access to capital in itself becomes a competitive advantage.

2 Companies are left with a tough choice: to accept SoftBank's money or let its competitor get it (Masa Son publicly states that he will do so), and likely lose the battle.

SoftBank claims to target winner-takes-all markets.

SoftBank believes and targets technology markets characterized by a **power law distribution of value, and thus targets winner-takes-all markets & business models, with following characteristics:**

Unlimited reach

Digital technologies enable an infinite reach and distribution across markets, with little geographical barriers to entry.

Network effects

Same side network effects (more customers bring more customers) or **cross-side network effects** (more suppliers bring more customers) tend to bring marginal acquisition costs close to zero.

Customer lock-in

Customers find an interest in staying with the same providers because they bring convenience, better experience or better price, as well as important switching costs. **Without lock-in, network effects are worthless.**

+

Winner-takes-all markets are **reinforced by traditional economies of scales**, brand effects and other moats that favor leaders in one specific industry.

Indeed, it goes all-in on winner-takes-all companies.

SoftBank believes in and targets technology markets characterized by a **power law distribution of value, and thus targets winner takes all markets & business models, with following characteristics:**

60%

Winner takes most market with network effects represent **40% of SVF's portfolio, but 60% of value invested.**

+232%

On average, SVF invested **232% more in winner-takes-all companies** than in other companies.

$1,41Bn

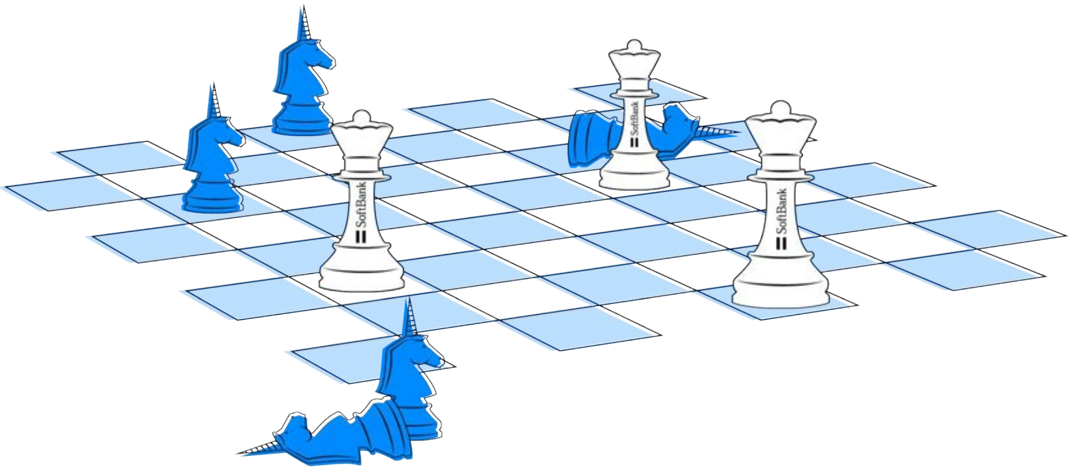
On average SVF invested 1,41Bn in each company that fits the winner-takes-all definition, across 33 companies, compared to 610M for others.

Source: FABERNOVEL portfolio analysis

Push > Pull

Chasing the right champions

SoftBank obviously has a lot of inbound calls. Yet most of its investments are **push investments from SVF after industry and company screening.**



This is explained by several reasons:

1 Like any investor, SVF wants to have the luxury to **hunt the best founders to maximize value**, and not only choose among its dealflow.

2 **SVF is preceded by its reputation,** it knows it will have the attention of founders considering the amounts it can invest.

3 There are much fewers companies that have the size and potential fitting SVF criteria, thus making it **easier to hunt.**

A synergetic ecosystem.

> We don’t randomly invest in companies. We are focusing on Internet companies with a view to generating synergies with the investment portfolios.

Helping portfolio companies with strategic advantages using services as a deal sweetener.

Like all serious venture capitalist fund, Softbank's investments comes with **benefits.** SFV is building a 70-people-strong **operating structure** dedicated to **helping portfolio companies**, thus **increasing their value** for SoftBank.

1 Synergies with the **SoftBank ecosystem, including SoftBank, Sprint networks.**

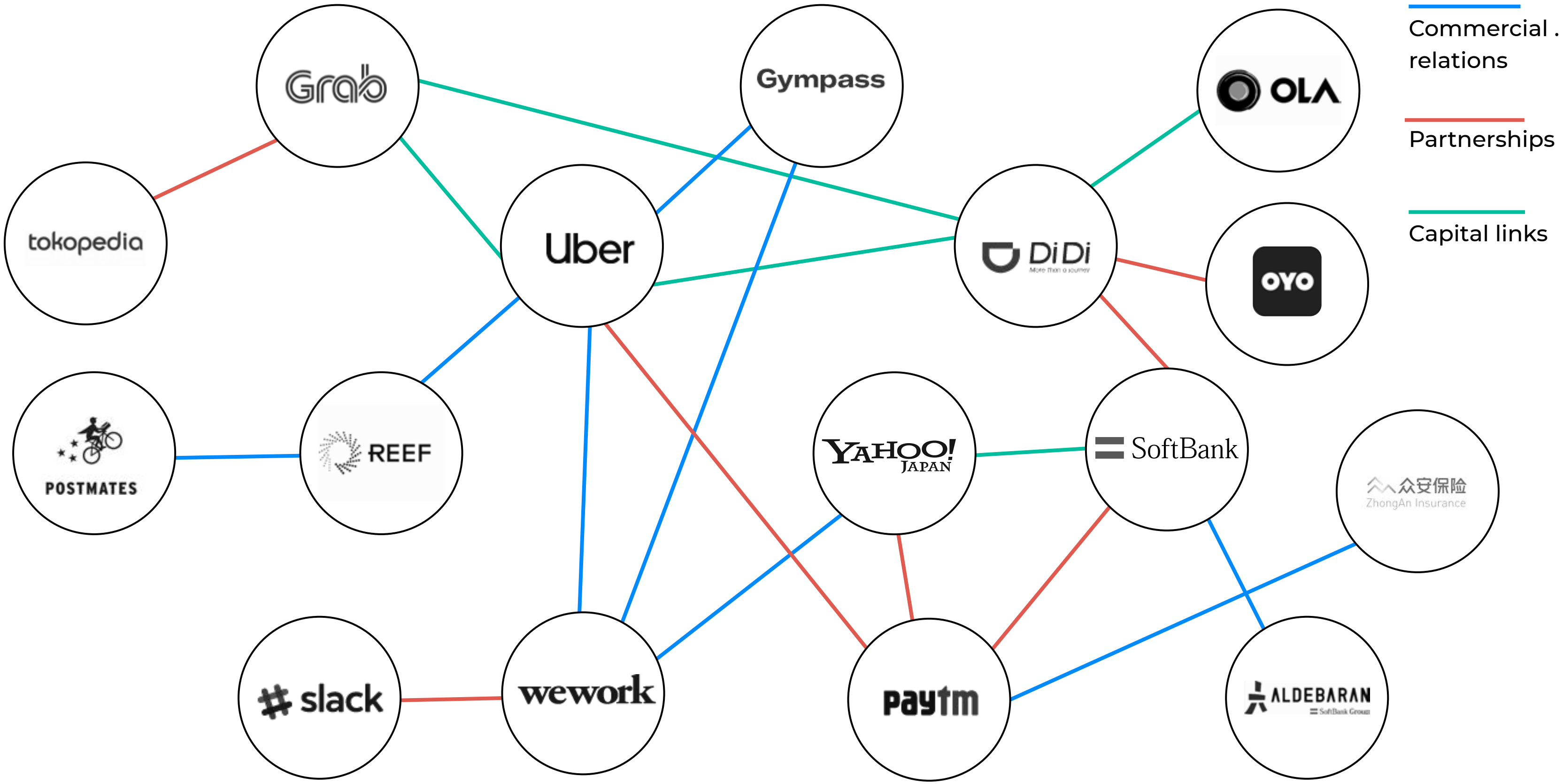
2 International expansion (especially Japan).

3 *IPO-readiness* to help portfolio companies prepare for IPO.

4 Consulting services & **strategic advisory.**

5 Financial help on structuring deals and debt financing, leveraging SoftBank's financial expertise.

The SoftBank mafia.



Synergies within the SoftBank ecosystem.

The SoftBank network

SoftBank has one of the largest sales network in Japan (3,500 retail stores).

SoftBank has strong relationships with Japanese banks, Alibaba, large corporates like Foxconn.

SVF portfolio companies are also encouraged to connect.

ALDEBARAN x Boston Dynamics

Customer relations

SoftBank pushes its companies to work and contract with each other.

Potential customer synergies are taken into account in the due diligence processes.

wework x YAHOO! JAPAN

Partnerships

SoftBank pushes its companies to create partnerships together, share technology and insights.

Potential partnership synergies are taken into account in the due diligence processes.

Paytm x YAHOO! JAPAN

The SoftBank Keiretsu as a differentiator

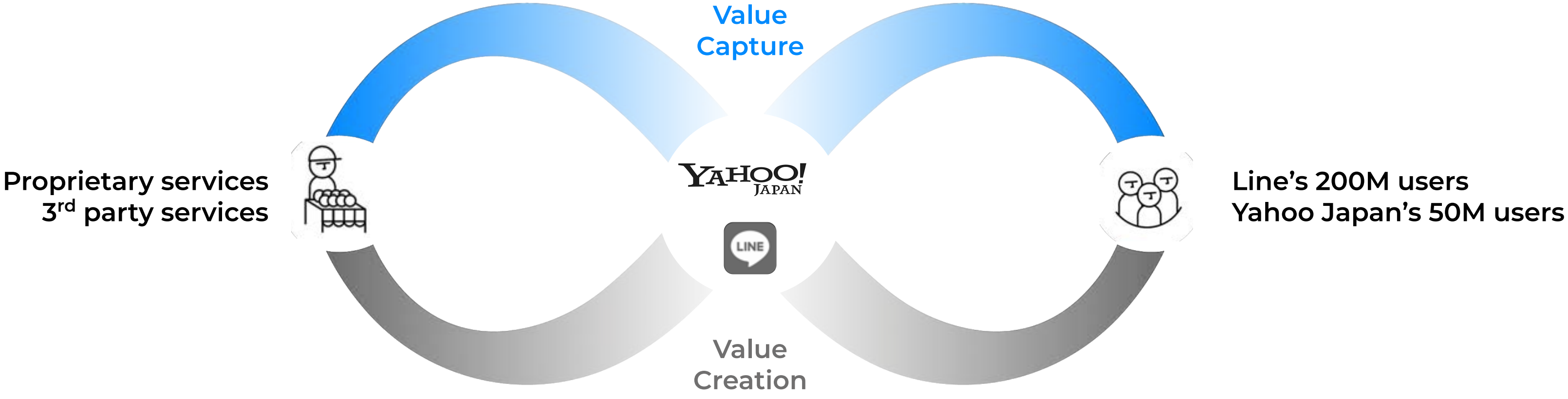
One of SoftBank's main strengths resides in its **portfolio of companies that are smartly linked into a homeostatic ecosystem,** while remaining independent in their strategies. SoftBank's strong M&A expertise has not been transformed into SVF, but rather inspired SVF, as SoftBank continues to invest off its balance sheet.

1 **Synergies**
Synergies that create value for both SoftBank ecosystem and the NewCo.

2 **Resilience**
Greater resilience for the whole ecosystem thanks to shared resources and flexibility.

3 **Differentiator**
The SoftBank keiretsu is differentiator to attract the best companies for SoftBank as an Investor.

Merging Line and Yahoo Japan to build their own superapp.



Product synergies

E-commerce (Yahoo), messaging (Line) and payment (both) synergies will give their combined entity the **one-stop-shop potential of a superapp.**

Userbase synergies

geographical & demographic synergies will give combined entity the **scale of a superapp.**

Revenue and cost synergies

Revenue and costs synergies will enable the combined entity to invest in AI and have the **financial strength of a regional superapp.**

Pushing synergy further to create winners.

The ride hailing case.

The SoftBank Vision Fund invested in most leading regional ride-hailing companies in the world. SoftBank has no interest in competitors
waging a price war, using their dollars to subsidize rides to the benefit of consumers. Thus, SoftBank pressures them to:

Build partnerships with other portfolio companies.

Ex: Cambridge Telematics or Light can work with all of SoftBank's ride hailing portfolio companies on autonomous driving.

Merge or cross-investment

Uber x Grab deal in 2018 where Grab bought Uber Asia for an undisclosed sum and Uber took a 27,5% in Grab. The biggest winner in this deal? You guessed it: SoftBank!

+20$Bn

Invested in ride hailing.

+90+%

Of the ridesharing rides in the world are in SVF portfolio companies.

SoftBank's ride hailing giants: Uber Grab Careem DiDi

3

SoftBank broke the VC playbook.

Its strengths happen to also be its achilles heel.

SoftBank broke the VC playbook.

SoftBank's cluster of n°1 and all out play on scale come with **downside risks and breaks key safeguards of investment**, teaching us precious lessons:

1. **Don't put all your eggs in the same basket.**
2. **Beware of decreasing return of capital.**
3. **Bring other investors onboard.**
4. **Founder friendly doesn't mean disregarding governance.**
5. **Don't bite off more than you can chew.**

Is SoftBank Vision fund over-exposed to a few bets?

Very large bets

SoftBank is very much exposed to a few very large bets. Among the SVF, Didi, WeWork and Uber are where they put the largest amounts, and they are underwater for at least the two American companies (november 2019).

$20+Bn

Of invested funds were in ride hailing businesses (Didi, Uber, Grab, Ola).

90%

Of ridesharing rides in the world are made by SoftBank owned companies.

On a very short timeframe

SoftBank invested its money on a 2-year cycle, which is very short, considering the amounts it is investing, weighting a risk on its portfolio diversification.

SoftBank's biggest bets: Uber DiDi wework

Beware of decreasing return of capital.

When your ability to **deploy several billion $** into a **startup company becomes the priority** (SoftBank has to invest over $30Bn a year) **returns are likely to decrease.**

1 Growth is not proportional to capital
Unlimited access to capital doesn't automatically translate into growth, as growth has its own limits (talent recruitment, office space, technology creation...)

2 IPO is the only way out.
There is not enough demand for this type of company exit in the IPO market in a short amount of time.

3 Beware of raising spoiled kids.
When you pour too much capital into a company, it tends to have higher SG&A costs and sometimes burn too much cash. Wework's salaries were said to be much higher than its competition.

5/10

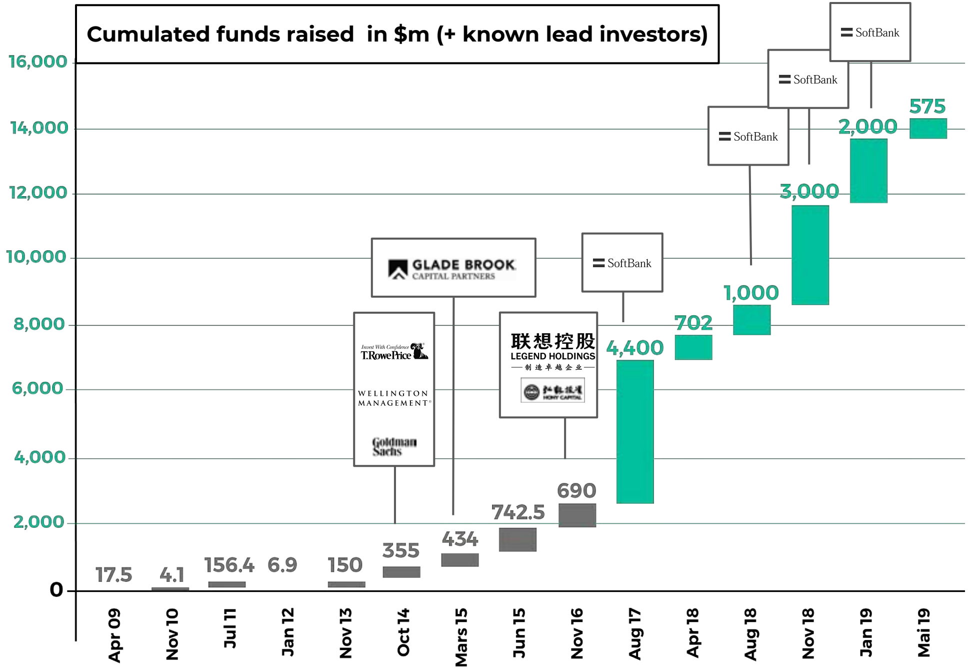
of largest funding rounds globally were led by SoftBank in 2018.

140%

SVF's portfolio of private companies is worth **$367Bn, 140% of the global tech IPO market.**

Source: crunchbase, Fabernovel analysis

Bring others investors on board.



Sources: Crunchbase

SoftBank often **invests alone in subsequent funding rounds.** It has done so particularly in the Wework and OYO case.

Most cautious investors let third party investors chip in on their portfolio companies at subsequent rounds to:

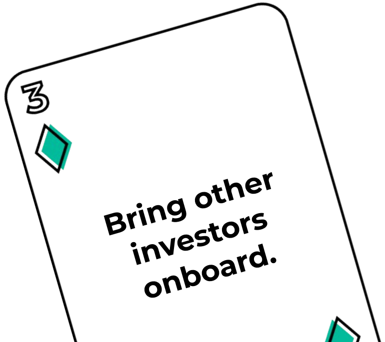
1 provide an **external valuation** of the firm thus strengthening the credibility of the valuation.

2 show signs of **healthier governance** to the market.

3 bring new expertises on the board.

5 times

Number of SoftBank's consecutive investments in Wework, both in equity and debt. Most of the time as sole investor.



Being founder friendly doesn't mean disregarding governance.

Softbank Vision Fund has demonstrated **poor governance standards at portfolio companies**, hence the WeWork Fiasco. **SoftBank's former governance mistakes:**

1 Poor valuation estimate risking the entire company.

2 Letting dual class shares mechanisms with 20/1 ratio voting share for founder.

3 No external shareholder besides SoftBank.

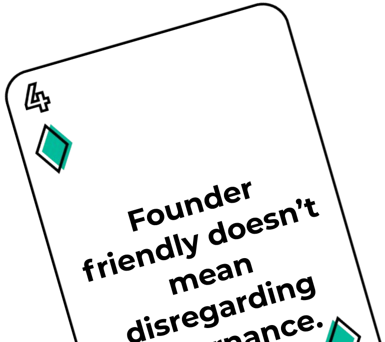
4 Blind trust in visionary founders.

5 Conflict of interest between governance companies.

Has SoftBank learnt its lesson?

In November 2019 (Q2 earnings report), SoftBank claimed that it would be more careful in terms of governance and freedom given to founders.

Basically, it is just bringing its governance level up to market standards.



Scaling the largest fund in the world comes with its own growth crisis.

Governance

Does Masa have infinite power?

Masayoshi San is renowned for **turning 200M checks into 500M.** According to SVF Silicon Valley MD, Masa cannot overlook due diligence process but oversees every large deal with a go/no go decision.

Conflict of interest with portfolio companies?

With the growing size of companies, SVF invests in competing tech players, raising concerns about its role as an investor.

Operations

Softbank faced the **organizational issues of a fund deploying $100Bn in 2.5 years.**

/ Opening offices in **5 locations.**
/ Recruiting around **300 employees.**

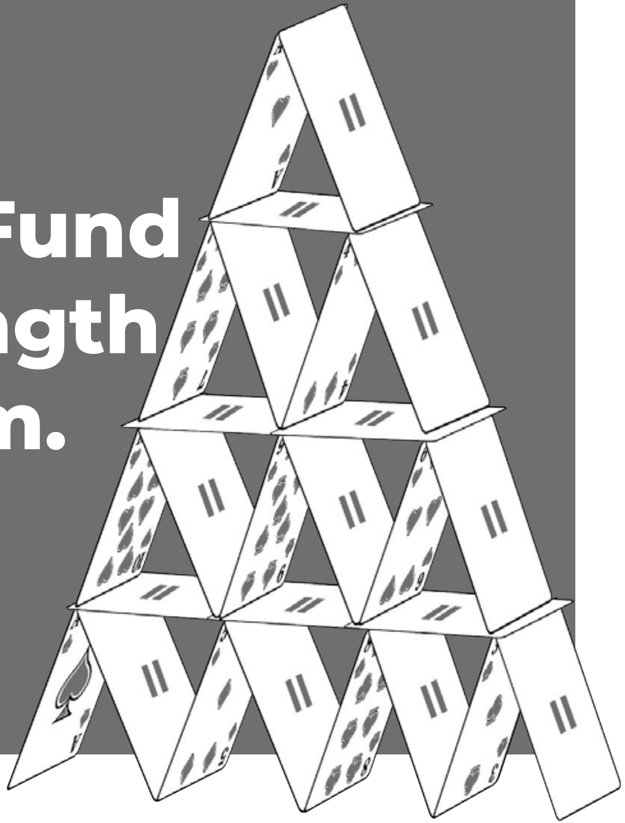
This reportedly led to poor efficiency in terms of operations and organization.

330M

funds ratio
per SVF employee.
7 times more than
Andreessen Horowitz.

4

The future of Vision Fund depends on the strength of the tech ecosystem.



4.1● Is there a “SoftBank effect?”

Just like a16z in its time, is SoftBank a disruptor?

ANDREESSEN HOROWITZ

Andreessen Horowitz circa 2010

A16z secret sauce:

/ **Value-added investment**
more people working on helping companies rather than investing.

/ **Content as marketing**
to appeal to the best founders.

/ **Efficient network**
powered by events and CRM tool.

/ **Founder friendly**
Fund for entrepreneurs by entrepreneurs.

SoftBank

SoftBank Vision Fund circa 2017

SVF secret sauce:

/ **Capital as a weapon**
more people working on helping companies rather than investing;

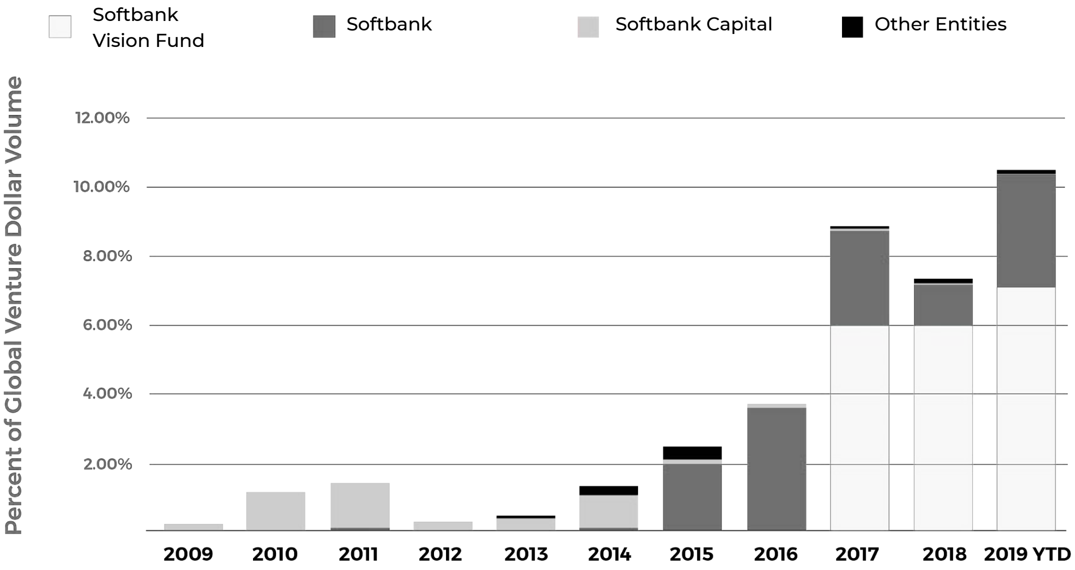
/ **New stage of investment**
to appeal to the best founders.

/ **Ecosystem driven**
Fund for entrepreneurs by entrepreneurs.

SoftBank shook the VC market.

With over 10% of invested VC funds in 2019, and a fund 20 times bigger than its counterparts Softbank is likely to have had an impact on the private tech ecosystem.

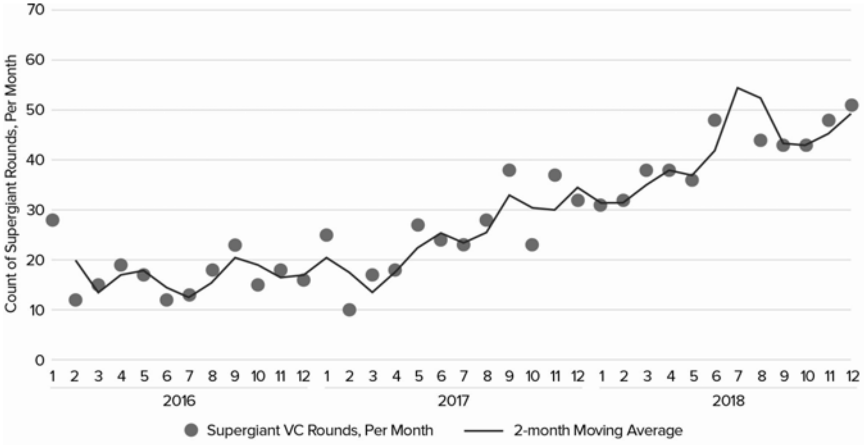
1 Increase in size and share of mega deals.
2 Increase in company valuations.
3 A new exit door for venture capital?



Source: crunchbase

Is SoftBank impacting the size of deals & funds?

The growth of supergiant deals



Requiring superiant funds?

To compete with SoftBank and cope with the increase of valuations, **especially late stage**, several VCs are raising larger funds.

SEQUOIA › **$8Bn**

BESSEMER VENTURE PARTNERS › **$1.85Bn**

ANDREESSEN HOROWITZ › **$2.75Bn**

45%

of known venture dollar volume transacted in 2019 comes from "supergiant" VC rounds ($100M+)

66%

of total funds raised come from giant funds (500M+), compared to **31% in 2011.**

Source: crunchbase

Is there a SoftBank effect?

Is SoftBank fueling its own valuation bubble?

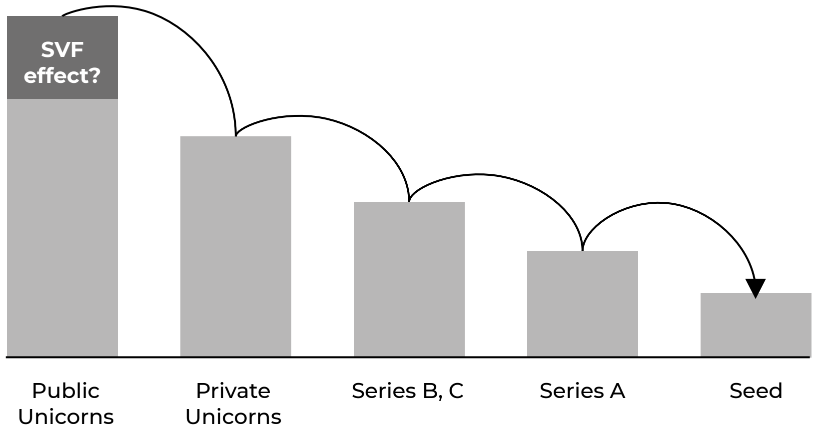
Key reasons contributing to the valuation spike:

/ If you think **capital is a weapon**,
then mechanically you tend to overvalue companies.

/ SoftBank**,** as the top take price setter, **sets references for other companies valuations.**

/ The fact that SoftBank is **enabling companies to stay private longer** inevitably inflates private tech valuation.

/ But is it just SVF offsetting public markets return potential by keeping companies private longer at high valuation?



A ripple effect on valuations?

> **A Masa Public Offering is our IPO**,it's important for us to remain **private** for at least **two to three more years.**

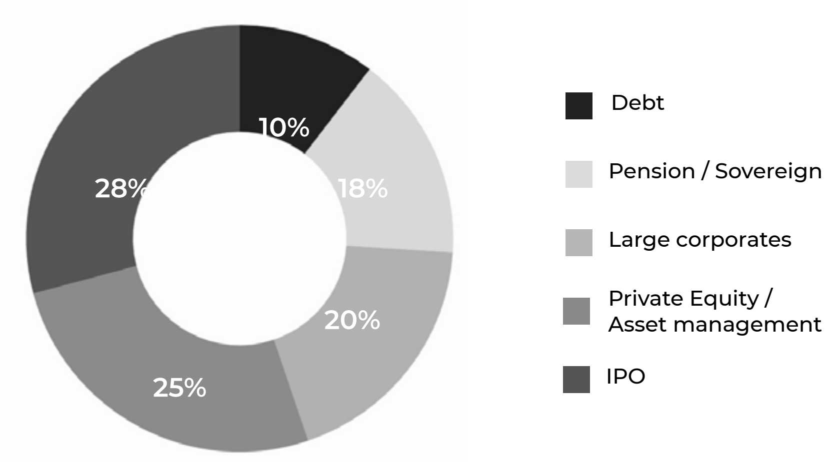
Vijay Shekhar Sharma, *Paytm founder*

> We are extremely symbiotic with the VC community.

Creating a new stage of investments.

As some tech companies wish to **stay private longer,** SoftBank provides a new stage of funding before IPO. Thanks to its large tickets, SVF is investing between series E and IPO, **sometimes replacing IPO,** offering new exit opportunity for late stage VC.

Who's investing after SoftBank Vision Fund?



> We **provide liquidity for a lot of VCs to exit,** whether it was in WeWork, whether it's in Katerra, or Compass.

Rajeev Misra

Fueling unsustainable growth models?

When SoftBank pours money into supposedly winner-takes-all markets, using capital as a weapon into businesses that hemorrhage cash, it can have unwanted implications, as **platforms are easier to scale than to sustain.**

1 **Competition distortion**
Capital difference becomes so important that small and old players fail to compete with new champions.

2 **Price wars**
The capital raised to fuel the network effects leads to price wars for customer acquisitions, making companies focus on price over value creation and innovation.

3 **Unsustainable growth models**
Theses companies that change the competitive landscape are often unsustainable because they don’t have customer lock-in and network effects often fall as fast as they scale. Anyway, do we want monopolies ?

4.2 A shift in the tech market.

Can SoftBank cope with it?

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> A lot of these **highly valued companies have run into the buzz saw of Wall Street**, where they're questioning or reminding us that profitability matters.

Patricia Nakache, partner Trinity Ventures

The failed IPO of the "most hyped startup in the world".*

Aug. 14th

WeWork releases S-1.

Aug. 15th

Morgan Stanley withdraws from **WeWork**'s IPO.

Sept. 5th

WeWork is ready to cut its valuation by 2.

Sept. 9th

SoftBank, **WeWork**'s largest shareholder, requests the suspension of the IPO.

Sept. 13rd

WeWork's board members announce major governance changes.

Sept. 16th

IPO is officially postponed.
As a result, **WeWork**'s bonds fall at record pace (7cts per $).

Sept. 24th

Adam Neumann steps down as CEO of **WeWork**. He is named non-executive chairman.

Oct. 23rd

SoftBank injects $5bn in **WeWork** at a valuation of $7.5-8bn & takes the control.
Adam Neumann exits the Board.

*How WeWork became the most hyped startup in the world, Wired (June 2018)

Source: Business Insider, CNBC

Recent Tech IPOs faced a very difficult Q3 2019.

	IPO Valuation (before market opening)	Opening price vs IPO price	Share price performance between IPO and end Q2	Share price performance during Q3
Uber	$82.4Bn	-6%	+1%	-26%
lyft	$24.3Bn	+8%	-22%	-29%
	$16.0Bn	+48%	-13%	-34%
	$12.7Bn	+26%	+19%	-28%
zoom	$9.2Bn	+83%	+54%	-26%
JUMIA	$9.2Bn	+83%	-33%	-61%
	$6.6Bn	+87%	+54%	-45%
fiverr	$600M	+24%	-36%	-13%

Despite very promising starts and some satisfying earnings, **the latest Tech IPOs were mostly avoided by investors.**

83%

Last year, a record of **US tech companies** went **public without making a profit.**

Source: Factset, as of 31 October 2019

From the growth to the margin story?

Unicorns starting to shift their strategy.

Uber

Wework shifts to profits as part of SoftBank's rescue plan. The company will stop new openings and focus on occupation ratio.

Lyft

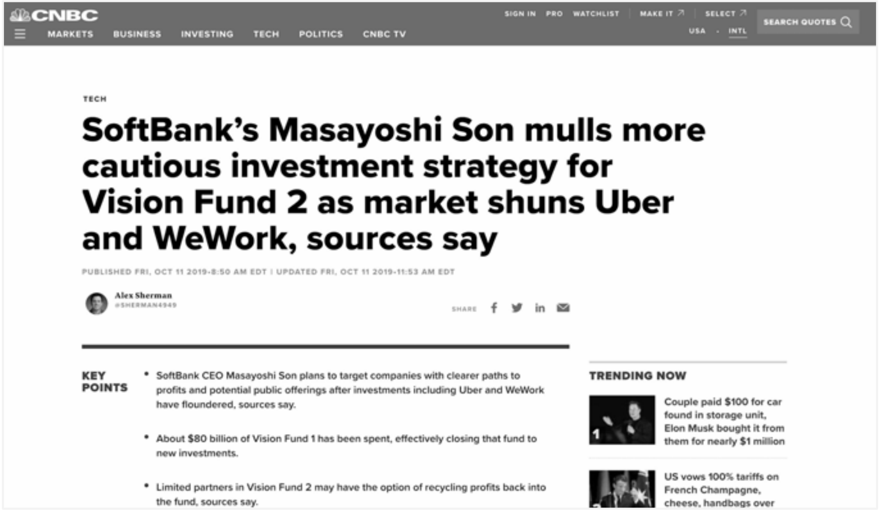
Lyft plans to reach profitability in 2021, claiming that the market has become increasingly "rational".

Postmates

Postmates delays its IPO, judging public markets too cold with "growth companies".

And SoftBank seems to have learnt its lesson.

According to people close to SoftBank, Masa has decided to shift focus of Vision Fund II to companies that can achieve profitability more quickly.



CNBC

MARKETS BUSINESS INVESTING TECH POLITICS CNBC TV

TECH

SoftBank's Masayoshi Son mulls more cautious investment strategy for Vision Fund 2 as market shuns Uber and WeWork, sources say

PUBLISHED FRI, OCT 11 2019-8:50 AM EDT | UPDATED FRI, OCT 11 2019-11:53 AM EDT

Alex Sherman

KEY POINTS

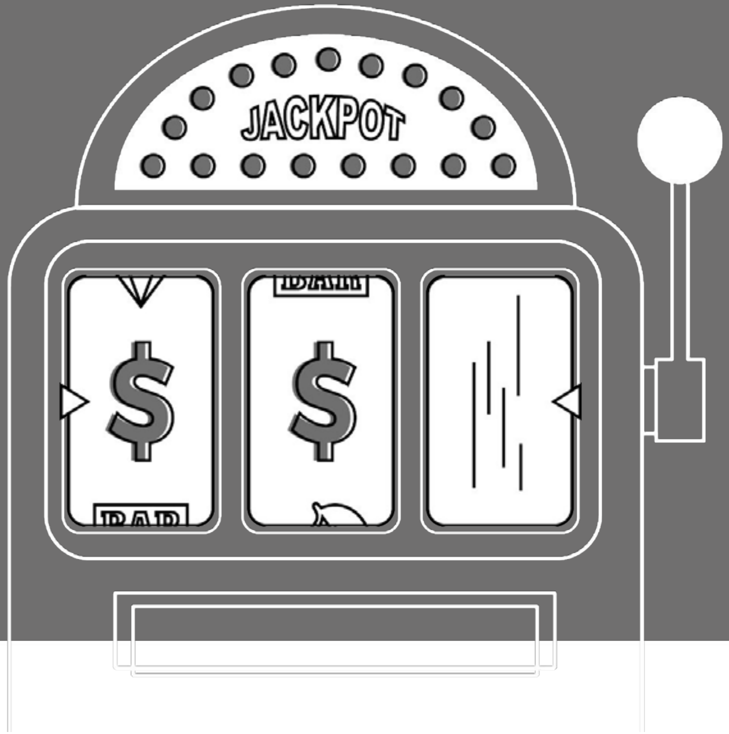
- SoftBank CEO Masayoshi Son plans to target companies with clearer paths to profits and potential public offerings after investments including Uber and WeWork have floundered, sources say.
- About $80 billion of Vision Fund 1 has been spent, effectively closing that fund to new investments.
- Limited partners in Vision Fund 2 may have the option of recycling profits back into the fund, sources say.

TRENDING NOW

Couple paid $100 for car found in storage unit, Elon Musk bought it from them for nearly $1 million

US vows 100% tariffs on French Champagne, cheese, handbags over

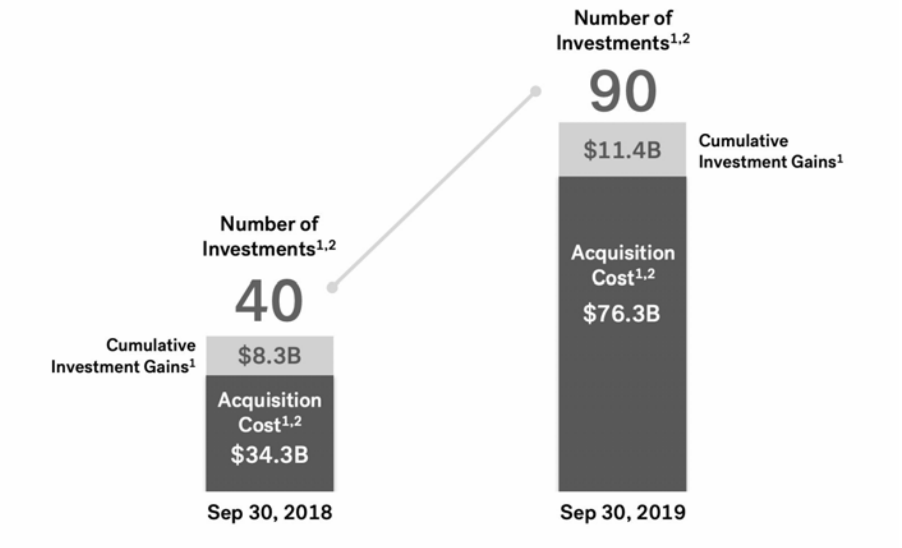
4.3 What’s next for SoftBank?



SoftBank is still on tracks, but performance is shrinking

7 public listings since inception

VIR · GUARDANT · 10x GENOMICS · 众安保险 ZhongAn Insurance · slack · Uber · 平安好医生 PINGAN GOOD DOCTOR



"There are 5,000 VC globally and average IRR is **13%**.
Our return is about twice as big"

$11.4Bn cumulative Investment gains

...But it's **mostly paper gains** since SoftBank often sets the valuations on a successive basis, and investment gains include unrealized gains..

Financial markets don’t yet reward SoftBank’s synergy strategy.

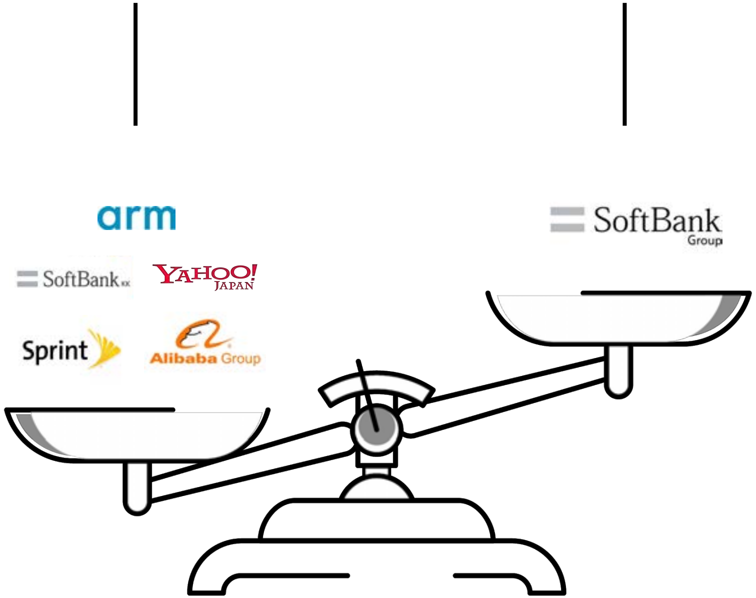
As a conglomerate, SoftBank faces a traditional discount between the total value of its holdings and its market capitalization. Yet, in SoftBank’s case, the discount has been on average much bigger than market standards, as investors tend to be very careful with the japanese giant.

50%

SoftBank is valued at a 30 to 50% discount compared to the **sum of its parts**.

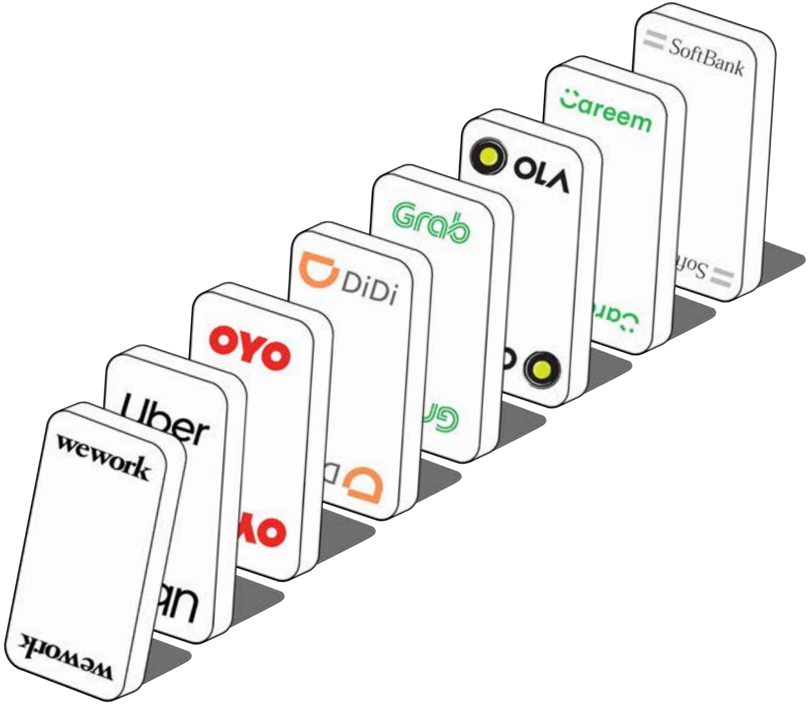
¥21tn
Value of SoftBank’s net equity holdings

¥10.5tn
SoftBank group market cap



How do synergetic companies perform in a bear market?

A domino downfall of the SoftBank kereitsu?



Though SoftBank is not a *keirestu per se* it's relentless focus on creating synergies with portfolio companies, can turn out to be risky in the case of a bad economic context.

SoftBank's biggest risk comes from the ride hailing industry, where its portfolio companies (Didi, Uber, Grab, Careem) have strong equity and partnership links.

Could SoftBank survive an on-demand transportation collapse?

Can SoftBank afford another Wework?

we — Business model

Amount of losses
Increasing marketing costs
Decreasing ARPU
Lease commitments
...

Can WeWork Make Money? Marketing Costs Are One Obstacle

we — Valuation

Tech-like multiples
Lack of comparables
No outside investor
...

PROPERTY REPORT
WeWork Is Valued 10 Times Greater Than This Profitable, Public Rival

we — Governance

CEO's firepower
Trademark compensation
Lack of diversity at the Board
....

Gadgets · Innovation · Big tech · Start-ups · Politics of tech · Gaming
Technology Intelligence
WeWork reshapes board and limits role of its founder's family to ease listing plans

OYO — Business model

Increasing losses
high CAC (minimum revenue guarantee)

But

huge growth 15x annually
scale economies

OYO — Valuation

Tech-like multiples
No outside investor
Lack of comparables

THE WALL STREET JOURNAL.
MARKETS
WeWork Isn't the Only Stumble for SoftBank's Vision Fund
Other companies the huge tech investment fund has backed have struggled lately

OYO — Governance

CEO's equity $2bn loan
Collusion probe with marketplace
Almost SoftBank owned

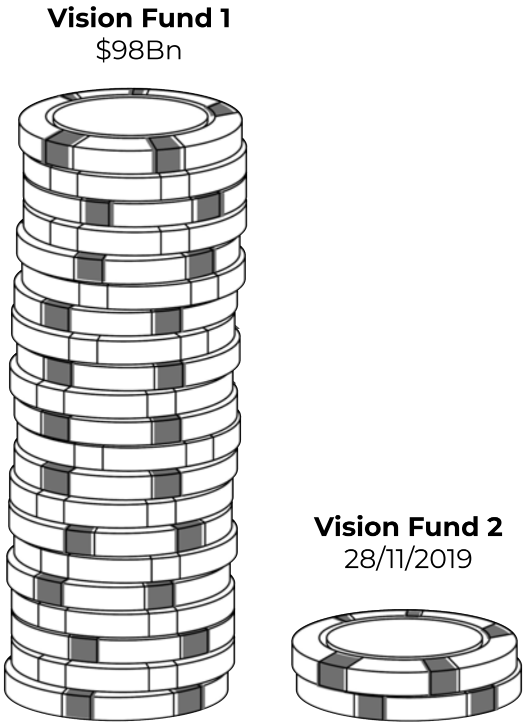
OYO Rooms + Add to myFT
Softbank-backed Oyo faces competition probe in India
Fast growing hotel chain denies collusion with booking platform

Will SVF be able to raise Vision Fund II?

1 LPs are waiting for results before chipping in with more cash.
Saudi Arabia PIF & Mubadala may be reluctant to rebid a large amount of money before they see the performance of the fund at least for the next 6 months.

2 Questioning the strategy and investment thesis.
SVF seems to be shifting towards a more diversified strategy and smaller tickets. Questioning SVF governance are being tackled by SoftBank in its latests earnings.

3 Stuck in a vicious media storm.
The Wework fiasco has put SoftBank at the core of a media storm that doesn’t seem close to stopping. Will it alter its strong relationship with LPs?



Success or failure, one question remains:

Do we really want this to be the future of Venture Capital?

Dirty funding

SoftBank's checks are largely financed with **petro dollars coming from dictatorship regimes.**

Should entrepreneurs take this into account?

60% of SVF funds coming from **PIF & Mubadala.**

Poor Governance

SVF's governance can be questioned in several ways:

/ creating synergies between portfolio companies at their benefit

/ **pushing employee** debt to invest in SVF.

/ **Poor gender diversity** in the organization.

0/12 of SVF partners are **women.**

Technological messianism

SVF's investments follow a pure financial logic, with poor consideration of second order consequences (job creation, environmental impact).

Moreover, most of SVF's investment are driven by a **techno-centric vision of the future** that seems to put economic efficiency before any other value.

FABERNOVEL

Research

Joachim Renaudin
Agathe Martin
Guillaume Gombert

Art direction

Mathilde Benoît
Elodie Da Silva Costa

Communication

Joachim Martin
Marina Dislich

Thank you

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