SoftBank

SoftBank Corp.
Q&A at Earnings Investor Briefing for Q3 FY2019

Date: Friday, February 7, 2020 6:00 p.m. - 7:00 p.m.

Speakers: Kazuhiko Fujihara (Board Director, Executive Vice President & CFO)
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Q1 Currently your payout ratio guidance is approximately 85% of net income attributable to owners of SoftBank Corp. (the “Company”, “SoftBank” or “we”) on a consolidated basis. Going forward, is there any change in the dividend policy as the Company is expected to have a major change in net income due to the impact from the business integration between Z Holdings Corporation (“ZHD”) and LINE Corporation (“LINE”), and other investments related to equity method affiliates?

A1 We will announce the dividend forecast in May every year based on the payout ratio at approximately 85% of forecasted net income, and deliver the forecasted dividends regardless of actual results. During the period, there may be various factors including temporary factors, whether involving cash payments or not, but nonetheless, we will follow the policy of paying stable dividends per share.

Q2 Please tell us about your capital expenditure plans for 5G from the next fiscal year onward. What is the impact if the spectrum allocated to 4G can be converted to 5G?

A2 The Company is accelerating rollout of 5G by 50% compared with the plan submitted to the Ministry of Internal Affairs and Communications (MIC). We will launch 5G services at the end of March 2020, but the network deployment will be limited in 2020. 2021 will be an important year for 5G, and we will make full preparations including the conversion of 4G spectrum to 5G.

Q3 What is your view on any negative impact to net income from the business integration with ZHD and LINE that may arise if the synergy with LINE cannot be achieved in the short term?

A3 We would like to announce our plan in May. LINE is not profitable in the previous fiscal year, i.e. 2019, and some analysts have tough views of its performance for this fiscal year, i.e.2020. Also, LINE does not announce its earnings forecasts. We would like to show our plan with consideration of the plan from ZHD, who will directly own LINE and LINE businesses. In any case, we are committed to continuous profit growth and stable dividends.

Q4 Among the equity method affiliates, PayPay Corporation ("PayPay") has a significant impact. Please tell us about the contribution of other joint ventures and new businesses, such as WeWork Japan G.K. ("WeWork") and OYO Hotels Japan G.K.("OYO") in the Q3 of this fiscal year and in the future.

A4 PayPay has an impact of tens of billions of yen, and others are in the range of billions of yen, many of which are in the lower range. The impact to profit/losses of equity method affiliates from the new businesses other than PayPay is limited. On the other hand, the important task is when we can make each business profitable.

In terms of WeWork, the timing of breakeven depends on the scale of the business we want to deploy. The occupancy rate for each property is good, and as we intend to expand it to a certain extent, the breakeven is delayed slightly. OYO is still in its early stage, and we have made progress in updating the contracts and business models. The impact to the consolidated results is not at a surprising level.

Q5 How much will the joint ventures and new businesses other than PayPay boost profit before income taxes in the next fiscal year?

A5 The impact will still be negative in the next fiscal year. If the businesses progress well, the impact will be flat or slightly positive. We will announce the overall income forecasts in May.

Q6 Please tell us about the trend of each key performance indicator (KPI) for the next fiscal year. With regard to telecommunications revenues, is it fine to expect ARPU before discount to decrease, discount on ARPU to decrease, and expenses to decrease?

A6 We will announce our guidance for the next fiscal year in May. We continue to aim to achieve both growth and shareholder returns in the next fiscal year. We are committed to growth, which is increase in profits. In the Consumer segment, while the number of subscribers is growing steadily, the downward pressure on ARPU will become stronger in the next fiscal year. The acquisition costs are expected to have favorable impact due to IFRS 15, which requires the amortization of costs, and therefore we expect profit increase for the Consumer segment. For the Enterprise segment, for which we aim to double profits, we expect profit contribution excluding any temporary factors. In addition, we would like to expect the growth of the Yahoo segment as we are having various preparations (initiatives to drive growth) for the business.

Q7 What is the position of corporate bonds in debt financing? What are your thoughts on how to interact with the corporate bond market?

A7 We would like to increase the amount of corporate bonds as much as possible in the future, given that we have the opportunity to issue corporate bonds and can expect good terms.

Since the Company has a large amount of debt, we intend to maintain stable communications with the corporate bond market over the long term, including the secondary market, and thereby maintain our outstanding balance. Long-term debt is an attractive, complementary, and important source of financing, while our current debts are mainly indirect financing and many of them are short-term financing.

Q8 What are the KPIs for financing?

A8 The net leverage ratio (net interest-bearing debt divided by adjusted EBITDA) is currently at an appropriate level of around 2.5 times, but we will strive to improve it. In addition, it is important to generate free cash flow, and we aim for a level of over a hundred billion yen remaining after dividend payments. Though the company made investments in making ZHD a subsidiary and in the business integration of ZHD and LINE, our basic policy is to improve our financial position.

Q9 Please tell us about the collaboration between SoftBank and ZHD, particularly in the Media Business, in Q3 of this fiscal year, and the outlook for the future.

A9 It is a different relationship before and after the consolidation of ZHD. Before the consolidation, when we were “sister companies”, there were issues such as how to divide profits and costs. But since we are now parent company and subsidiary, the point is to grow together. SoftBank is also investing its sales resources to ZHD and intends to bring out more of ZHD's strength by this effort. In the Q3 of this fiscal year, ZHD increased its profit mainly due to cost reductions. As the parent company, we expect that ZHD will continue to increase its profits in the future.

Q10 SoftBank and ZHD each made additional investments in PayPay, bringing the ownership ratio up to 51%. However, as PayPay actively promotes its products, it is expected that it will continue to need funds in the future.

A10 We made a small capital increase to PayPay in December 2019, because since PayPay operates a financial business, it needed to maintain its equity and took the short-term step. On the other hand, as campaigns are expanding, there are various discussions undergoing on financing.

Q11 Regarding mobile device sales related expenses, please tell us about the decrease in mobile device sales margin and the cash benefits related to the deferred expenses.

A11 Subsidies for mobile device sales decreased, therefore cash out decreased by tens of billions of yen. Because the expenses are amortized, the effects to accounting have a time lag, and the related favorable impact will show up in the future. In the meantime, while offering unbundled plans, we lowered mobile device prices in September 2019. This unfavorable impact could be offset by the reduction in subsidies from mobile device sales.

Q12 What is the impact from the introduction of unbundled plans on net additions, acquisitions, churn rate, etc.?

A12 During October and November 2019, new acquisitions declined due to a rush of demand ahead of the consumption tax hike in September. Meanwhile, churn rate improved significantly, and net additions increased steadily. One of the Company's strengths is that we have Y!mobile brand that can acquire users flowing out from MNOs. Users that leave the SoftBank brand are also protected by the Y!mobile brand, so the total number of subscribers has been increasing. Moreover, the SoftBank brand has been able to acquire users by taking advantage of the features such as the “Smartphone Debut Plan”, family discounts, and large data capacity plans. As a result, the number of smartphone subscribers has been growing in all three brands including LINE MOBILE.

Q13 Even though mobile device sales incentives are limited, which used to be SoftBank's strength, should I think that there is no negative impact, and you remain to be competitive?

A13 As a whole, there are no negative effects.

Going forward, the shift from feature phones to smartphones is expected to continue, backed by the Point Reward Project for Consumers using Cashless Payment, initiated by the Ministry of Economy, Trade and Industry (METI) and other initiatives. We will further make effort on enhancing the structure to support smartphone user migration, such as strengthening the assignment of "smartphone advisors" for user consultations.

Q14 Recently, there have been unexpected cash outflows due to business integration and reorganization. With a level of over one hundred billion yen in free cash flow after deduction of dividends, it is expected that it will take about 4 years to recover the level of liability before the business integration and reorganization. As for the net leverage ratio, if the growth of adjusted EBITDA exceeds expectations, the ratio could be lowered ahead of schedule. When do you expect these financial targets to be achieved?

A14 Since the net leverage ratio is around 2.5 times, we do not believe there is a need for immediate action. On the other hand, it is necessary to construct a system in which a stable debt repayment can be made each year. We must always consider carefully the trade-off between financial improvement and growth opportunities.

Currently, the Company's shareholders equity has been weakened slightly, while its ROE is at a high level of nearly 50%. We need to consider financial strategy based on the balance sheet. As the management team, we want to maintain a state in which we can constantly have choices.

Q15 Since the level of net interest-bearing debt is too high compared to EBITDA, I think there is strong pressure in terms of valuation. In the future, as projects such as consolidation of ZOZO, Inc. are entering the harvest phase, is it correct to assume that you intend to reduce net interest-bearing debt and improve financial conditions?

A15 That is the direction.