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Dueling prices

Fabiano Santin writes:

"The Colossus of Tech" is the headline on the cover of the February issue of *Fast Company* from which Masayoshi Son photographically beams. It's the same SoftBank CEO who featured on page one of Tuesday's *Wall Street Journal* under the less flattering headline "Key Investors Criticize SoftBank Vision Fund."

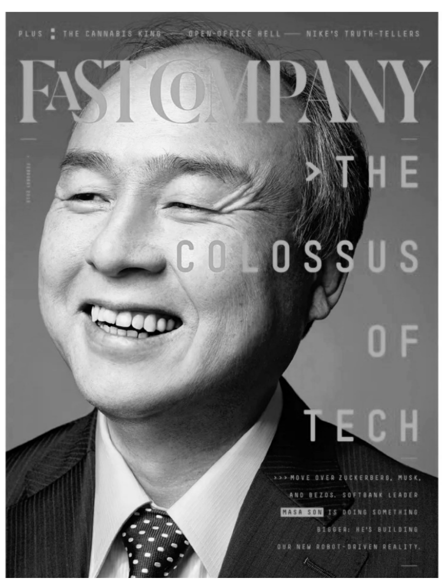
Now in progress is an update on the Nov. 30, 2018 *Grant's* analysis of Son's corporate creation as well as a few comments on the fourth-quarter earnings release of SoftBank Group Corp. (9984 on the Tokyo Stock Exchange and SFTBY in the American pink sheets). In preview, we continue to identify SoftBank as one of the top contenders for the unwanted cyclical crown of Least Likely to Succeed.

After dropping by 23% in December, SoftBank shares started 2019 with a 37% leap, mostly on the strength of the February earnings announcement, but also in sync with the still rising values so generously assigned to its closely held unicorns. The stock is up by 5.4% since we had our critical say just after Thanksgiving.

Nvidia Corp., the California chip maker, starred in SoftBank's year-end reporting. So, too, did management's derivatives strategy, which 1) reduced to \$1.1 billion a fourth-quarter loss in those shares that would have otherwise reached \$4 billion and 2) secured a \$2.8 billion realized gain on the Nvidia position dating from the opening purchase in 2017. We learned something else, too. We learned that a \$1.7 billion margin loan facilitated the initial investment.

Here's another highlight: SoftBank's new stock-repurchase program, in force through Jan. 31, 2020, is the biggest in the company's history; it can range up to ¥600 billion (\$5.4 billion), or 112 million shares, representing 10.3% of the float. The shares rallied by 17.7% on the Feb. 6 announcement, which perhaps indicates that their strong performance has been mostly due to fleeting technical factors rather than fundamentals. The Japanese entrepreneur contends that his company is worth ¥21 trillion (\$191 billion) vs. the market's opinion of ¥11.4 trillion (\$103 billion).

Most of the ¥710 billion (\$6.4 billion), or 62% of the year-over-year rise in operating income for the nine months ended Dec. 31, 2018, came from a ¥693 billion (\$6.3 billion) increase in the valuation of Uber Technologies, Inc., Oravel Stays Private Ltd. (OYO), WeWork Companies, Inc. and other investments that were marked up when transferred to the Vision Fund from SoftBank. Perhaps shareholders would be pleased if put options were available to hedge these stakes, too.



Mr. Popularity

Not reflected on SoftBank's market value is the potential downgrading of the company's 66.5% equity stake in its Japanese telecom subsidiary. The shares debuted in a retail-oriented initial price offering on Dec. 18 with a 14.3% pratfall; they now change hands at 8 times 2019 adjusted earnings before interest, taxes, depreciation and amortization vs. multiples of 6.1 and 5.2 for NTT DoCoMo, Inc. and KDDI Corp., respectively Nos. 1 and 2 in market share in Japan. Fourth player Rakuten, Inc., which owns the largest e-commerce site, internet bank and credit-card company in Japan (a.k.a. the country's Amazon), is aiming for an October launch to disrupt the wireless business.

The Vision Fund is still deploying capital, but Son is already looking at other opportunities. He has designated Marcelo Claure, chairman of Sprint Corp., with the task of running a Latin America fund, which would be in addition to a Vision Fund 2. Of course, plans could change if the merger of T-Mobile and Sprint doesn't go through; the market believes that the Trump Administration will push for a politically motivated approval, but media reports suggest that state attorneys general could put up a fight and block the deal. Plans could also be thwarted if Claure and Rajeev Misra, the head of Vision Fund, continue to clash, as Bloomberg reported on Feb. 8.

Since we first wrote about SoftBank in the issue of *Grant's* dated Dec. 15, 2017, the common has risen by 12% while the 6⁷/₈s subordinated perpetuals have fallen by 16%. A discerning bunch, those investors in subordinated perpetual notes.

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