MARKETS

SoftBank's WeWork Bailout Draws Investor Concern

Investors and credit-rating firms are growing concerned about rising risks at SoftBank after the conglomerate's nearly $10 billion bailout of WeWork.

By Phred Dvorak in Tokyo and Justin Baer in New York

Investors and credit-rating firms are growing concerned about rising risks and weak controls at SoftBank Group Corp. after the Japanese conglomerate's nearly $10 billion bailout of WeWork.

SoftBank announced late Tuesday it would spend $4.5 billion in share purchases and around $5 billion on debt financing to rescue the floundering office-share firm. SoftBank and its $100 billion Vision Fund, which is backed mainly by the company and two Middle East sovereign-wealth funds, had already poured more than $9 billion into WeWork.

The burden of the WeWork rescue will fall solidly on SoftBank. The funds for the buyback will come from SoftBank's cash on hand—the group said it had around $27 billion at the end of June—and the shares will be on SoftBank's balance sheet rather than the Vision Fund's.SoftBank shares fell 6.6% to ¥4,017 ($36.97) in the past week on the Tokyo Stock Exchange, while credit-rating firms have signaled concern. The shares of SoftBank are trading where they were at the start of 2017, not long after it announced the Vision Fund.

Benjamin Segal, a portfolio manager at Neuberger Berman, said he is concerned that SoftBank's efforts to support the Vision Fund and protect the interests of some of its big investors could come at the expense of SoftBank shareholders.

"There could be some shift in value away from SoftBank shareholders to more powerful constituencies," said Mr. Segal, who sold his SoftBank shares in 2017. "Poor governance magnifies poor investment decisions."

One person familiar with SoftBank's strategy said WeWork was an unusual case that warranted the bailout.

Masayoshi Son, SoftBank's chief executive officer, has been trying to lower the risk and improve governance at the fund and the companies it has invested in, while pushing those startups to focus on profits. At a Vision Fund meeting in September that brought together its investors and portfolio companies, Mr. Son repeatedly told attendees that the fund now views the ability to make money as important as increasing revenue or market share, according to a person who was present.

Another big SoftBank investment that struggled was Sprint, which ultimately paid off when the U.S. phone carrier agreed to merge with T-Mobile US Inc. Marcelo Claure, the SoftBank executive who has been designated as WeWork's executive chairman, is Sprint's former CEO.

WeWork isn't the only company weighing on SoftBank. Investors are souring on other big, fast-growing young companies as well. "SoftBank is stuffed with all that," said Mitsushige Akino, senior executive officer of Tokyo-based Ichiyoshi Asset Management, which sold its SoftBank shares last year when it decided that the tech boom would likely peter out soon.

Instead of creating concern among investors, the Vision Fund was supposed to bring an added layer of professionalism to the often quirky and gut-driven investment style of Mr. Son, whose biggest success was the early investment in Alibaba Group Holding Ltd., the Chinese e-commerce company. The Vision Fund hired more than a hundred staffers to vet prospects and manage investments, and it touted a valuation process that called for a review by auditors hired by the fund's outside investors.

S&P Global Ratings said Thursday that despite the big WeWork outlay, SoftBank still had a lot of assets including significant holdings in Alibaba and SoftBank's Japanese mobile-phone unit, adding that the aid wouldn't further depress SoftBank's already junk-level BB+ credit rating. SoftBank has more than $160 billion in debt.

But if SoftBank bails out other portfolio companies or increases its support for WeWork, ratings companies might have to reconsider how they view the conglomerate, said Hiroyuki Nishikawa, an analyst at S&P. "We didn't expect such support [for Vision Fund companies], especially not from SoftBank itself," Mr. Nishikawa said.

SoftBank had told investors and credit-rating companies that it planned to make big investments principally from the Vision Fund, not its own balance sheet. It said that except for the capital that the group had contributed, it wouldn't be on the hook for any losses in the fund.

The WeWork bailout throws that fundamental premise into question and makes it harder to calculate SoftBank's liabilities and obligations, said a person who watches the credit markets closely. SoftBank and the Vision Fund are closely linked, with the fund consolidated into the group. SoftBank supplied a third of the fund's total investments, and Mr. Son helps lead the fund. SoftBank accounted for about $6 billion of the earlier $9 billion investment in WeWork, with the fund accounting for the rest, according to the person familiar with the conglomerate's strategy.While Mr. Son has said that the Vision Fund would take minority stakes in companies and not seek to control them, SoftBank is expected to own up to 80% of WeWork's shares, with Mr. Claure, the conglomerate's chief operating officer, heading the board. SoftBank has said that it won't have the majority of voting rights or control over the company and that WeWork won't be a full subsidiary.

The move lets SoftBank keep WeWork's mountain of liabilities off its books, said David Gibson, chief investment adviser at Astris Advisory. SoftBank "wants to avoid consolidation of WeWork given its debt position could potentially damage SoftBank's credit position," he said.

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