TECH

SoftBank Founder Calls Judgment 'Bad' After $4.7 Billion WeWork Hit

"I regret it in many ways," Chief Executive Masayoshi Son said of the investment, after SoftBank marked down the total value of WeWork's equity to $7.8 billion.

By Phred Dvorak and Megumi Fujikawa

TOKYO—Masayoshi Son, the billionaire founder of SoftBank Group Corp., said Wednesday his "really bad" judgment championing U.S. office-sharing company WeWork left the Japanese conglomerate and its massive tech-investment fund with the biggest quarterly loss in its 38-year history.

Standing in front of a screen projection of stormy seas and dire Japanese-language headlines, Mr. Son told a news conference in Tokyo that he had made serious errors in judgment that led the group to post earnings "of the deepest red."

SoftBank and the Vision Fund wrote down the value of their WeWork stakes by $4.7 billion and $3.5 billion, respectively. The $100 billion Vision Fund also wrote down the value of its holdings in U.S. ride-hailing company Uber Technologies Inc. and about 20 other investments, leading to an operating loss—the fund's first—of nearly $9 billion for the quarter, and a group-wide net loss of $6.4 billion.“My own investment judgment was really bad. I regret it in many ways,” Mr. Son said.

Mr. Son is fighting to preserve his reputation as one of the world’s savviest and most influential technology investors after the spectacular collapse of one of his most prized portfolio companies and the tumble in value of several others.

WeWork, officially known as the We Co., lost almost $40 billion in value after an attempt to go public backfired a few months ago amid widespread skepticism about the company’s profitability and management.All told, SoftBank and the Vision Fund have plowed nearly $20 billion in debt and equity into WeWork, yet value the company at less than half that, at $7.8 billion.SoftBank had recently stepped in with a $9.5 billion bailout that boosted the group and Vision Fund’s stake in WeWork to 80%.The collapse was particularly embarrassing for Mr. Son because he had pushed for the investment in WeWork—which before the October bailout had totaled more than $10 billion —and championed its founder, Adam Neumann. Mr. Son said he had been too enamored of Mr. Neumann’s positive qualities and turned a blind eye to negatives, including governance problems.

Mr. Son pledged never to mount another rescue of a portfolio company and said SoftBank and the Vision Fund were now using the ability to turn a profit in the future as the premier yardstick for measuring the value of its investments. He said the group is working on guidelines to ensure good governance at its portfolio companies.

Yet Mr. Son also mounted a spirited defense of the Vision Fund’s overall performance and outlook, saying that despite last quarter’s write-downs the fund still had investment gains of $11 billion since its inception in 2017. Mr. Son said the Vision Fund’s return was well north of 13%.Mr. Son also said his plans for a second Vision Fund of about the same size as the first continue to move forward, despite the WeWork mess. Some potential investors have become more cautious but haven’t pulled out, and many of the first fund’s investors are still interested in putting money in its successor, he said. “There’s no need for me to be so overcome with regret that I wither away," Mr. Son said. "The vision remains the same."

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SoftBank and Mr. Son are no strangers to wild turns of fortune. SoftBank's market capitalization skyrocketed with the internet bubble of the early 2000s, making Mr. Son briefly the richest man in the world before the dot-com crash destroyed most of that value.Skeptics said that SoftBank would be crushed by Japan's telecommunications giants when it rolled out supercheap broadband services in the mid-2000s, and that it would fold under the massive debt it took on when it bought the country's third-biggest mobile carrier. Mr. Son prevailed.

This time, despite the sizable investment losses, SoftBank's balance sheet is buoyed by its stake in Chinese e-commerce behemoth Alibaba Group Holding Ltd. The stake's value since SoftBank last announced earnings in August has risen $18 billion to about $123 billion—almost four times the size of its entire commitment to the Vision Fund. The Alibaba cushion means SoftBank's ratio of debt to assets is a relatively healthy 17%—well below the ceiling of 25% Mr. Son has imposed.SoftBank has also been buoyed by recent U.S. government approvals of plans to merge its poorly performing U.S. telecom arm, Sprint Corp., with rival T-Mobile US Inc.SoftBank can't afford more missteps like WeWork if it is to continue to attract investors to its next fund and keep its investment operations humming. Mr. Son said the first Vision Fund hit its spending limit of 85% in September and could no longer make new investments. SoftBank is already starting to invest from Vision Fund 2 using its own money as seed capital, he said.

One focus of investor concern is how solid the valuations of the 88 companies in the first Vision Fund really are. SoftBank has boasted it has a multistep valuation process, featuring checks by independent auditors hired by the big Vision Fund investors. Yet that process didn't prevent the Vision Fund from overpaying for WeWork, although it did veto a sizable follow-on investment that SoftBank ended up doing from its own balance sheet.

SoftBank said the Vision Fund booked paper gains on 25 companies whose value went up during the quarter, particularly Indian budget-hotel chain Oyo Hotels & Homes. The Vision Fund now owns about 48% of Oyo after leading an $800 million funding round in September at a valuation of $10 billion—double its value from a fundraising the previous year.

Yet the Vision Fund itself is responsible for leading most of Oyo's fundraising rounds during the past few years. And Mr. Son personally guaranteed a loan to Oyo's young founder that let him purchase $2 billion worth of shares during the latest funding round, The Wall Street Journal reported.

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