



Investment Idea

Softbank ADRs (SFTBY)

Current Price - \$25.82

Target Price - \$35.00

December 2015



Seven Corners Capital

Investment Idea

Softbank ADRs (SFTBY)

Symbol	Name	PPS	Shs O/S	Proxy	Rev'd	2014 Net Inc	2014 EPS	G E 15	Mkt Cap	SRK Valuation	IV / Sh	Return	CoC?	FCF %	14 E Yld	15 E Yld	Div %
SFTBY	Softbank Corp	25.82	2,373,357,230	Proxy	2-Dec	10,204,000,000	2.15	2.12	61,280,083,679	83,067,503,050	35.00	36%	Y	5.7%	8.3%	8.2%	0.63%

Valuation = Sum of the Parts (see below) → 35 / share

Entity	Percent Owned	Market Cap (MM)	Currency	Valuation USD (MM)	Memo
Yahoo! Japan	0.43	24,080	Yen	10,354	Market Valuation
Alibaba	0.322	213,100	USD	68,618	Market Valuation
Sprint	0.83	14,010	USD	11,628	Market Valuation
Gungho Online	0.284	3,272	Yen	929	Market Valuation
Mobile Japan	1	39,424	Yen	39,424	7X 2014 Operating Income [VZ = 6.96X]
Fixed Line Telco	1	3,240	Yen	3,240	4X 2014 Operating Income
TOTAL				134,194	
Less LT DEBT				51,403	Excludes Sprint, as separate equity valuation is above
Total Equity Value				82,791	
Softbank Shares O/S				1,186,678,615	
ADRs O/S				2,373,357,230	2 ADRs = 1 ordinary share
Valuation / ADR				34.88	
Current PPS (ADRs)				25.82	
Upside				1.35	All amounts as of 12/7/2015

Base Case: Assuming (x) 10% per annum underlying growth in the value of the overall business (including equity investments) going forward and (y) half of the conglomerate discount disappears in the next 3 years → CAGR would be ~14.6% for the 3-year period.

[Note that Berkshire Hathaway trades at a 32% premium to book value; Softbank ADRs would trade at \$46 / share at a similar premium.]



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Softbank ADRs (SFTBY)



SoftBank Group Corp.
(a pure holding company)

Major Subsidiaries



SoftBank Corp.
Voting rights: **99.99%**



Wireless City Planning Inc.
Voting rights: **33.3%**



Sprint Corporation
Voting rights: **79.5%**



Yahoo Japan Corporation
Voting rights: **43.0%**



Brightstar Global Group Inc.
Voting rights: **100%**



Supercell Oy
Voting rights: **77.8%**

SB Group US, Inc.

SoftBank Group US, Inc.
Voting rights: **100%**

Major Equity Method Associates



Alibaba Group Holding
Limited
Voting rights: **31.9%**



GungHo Online
Entertainment, Inc.
Voting rights: **28.4%**

Transformation into “SoftBank 2.0”

Thirty-four years have now passed since the foundation of SoftBank, and so far, our position has been one of SoftBank holding assets in overseas companies as a company in Japan. Now, however, we are going to the second stage of SoftBank—“SoftBank 2.0”—in which we will transform SoftBank into a truly global company that can ensure sustained business growth over the long term. We are now in a major transition period.

As the founder, I have set out to create a business model that can deliver **continued business growth for centuries**. However, many technology companies face the common challenge of a 30-year life cycle where growth is followed by decline. This decline stems from factors such as the increasing obsolescence of technologies and business models, and an over-reliance on founders.

What is the solution? Not only do we need to transform our existing businesses, we also need to have a comprehensive structure in place for supporting disruptive entrepreneurs and facilitating continued development with them. Together with our new representative director and president & COO, Nikesh Arora, we are going to accelerate this transformation.



July 2015
Masayoshi Son
Chairman & CEO





Investment Idea

Softbank ADRs (SFTBY)

In terms of our consolidated results for fiscal 2014, net sales increased 30.1% year on year to 8,670.2 billion yen, EBITDA was up 19.9% to 2,132.9 billion yen, operating income decreased 8.8% to 982.7 billion yen, and net income attributable to owners of the parent increased 28.5% to 668.4 billion yen. The decline in our operating income mainly reflects temporary gains recorded in the previous fiscal year in association with the consolidation of GungHo and WILLCOM. If we exclude the effects of those temporary gains, we can see that all of our key performance indicators are growing steadily, with operating income growing 19.4% year on year.

Currently, we have two main business domains: one is telecommunications and the other is the Internet.

First, the domestic telecommunications domain. Nine years have passed since the acquisition of Vodafone K.K. (currently SoftBank Corp.). When we first announced the acquisition, many criticized us because they thought mobile phones had already penetrated the market, and some thought it did not make sense for us to acquire a mobile phone business at that point. In Japan's mobile phone market at the time, conventional phones for voice calls were the mainstream. It was just the dawn of the mobile Internet. I was certain at the time that the mobile Internet would become the driving presence in the market. I explained that my intention was to be head of a mobile Internet company, not a mature telecom company. Most people at the time did not understand what I was trying to do.

But now profit from our Mobile Communications segment has grown to nine times that of Vodafone K.K. before we acquired it.

With regard to our network, we have been making aggressive capital expenditures ever since we acquired the license to use the platinum band (900 MHz) in 2012, which is the optimal band to use for mobile communications services. As a result, our network quality has improved significantly. Capital expenditure peaked out in fiscal 2014, and the domestic telecommunications business is now at a stage where it produces a steady free cash flow—that is, a stage where it is fully able to continue stable operations. And since April 2015, Ken Miyauchi, my right arm since shortly after our foundation, has been leading SoftBank Corp., the operating company responsible for the domestic telecommunications business, as president & CEO.

Meanwhile, at Sprint in the U.S., in August 2014 we appointed Marcelo Claure as the new president and CEO to spearhead initiatives to revitalize the business. He is the founder of our subsidiary Brightstar Corp. (Brightstar), which he built into the world's largest specialized wireless distributor. Under Marcelo's outstanding leadership, postpaid net subscriber losses on the Sprint platform have been reversed, and this trend is continuing. The Sprint platform postpaid churn rate improved dramatically in the January to March 2015 period, and with network quality improvements on the way, we expect to see it improve even further.

Next is the Internet domain. I believe this will become even more important to us going forward. In fiscal 2014, Alibaba listed on the New York Stock Exchange, and we were able to validate the results of our investment in the company, which has become the largest e-commerce company in the world. With regard to new investments, the operating companies for Snapdeal, one of India's leading online marketplaces, and Ola and GrabTaxi, two of the leading taxi-booking platforms in India and Southeast Asia, have shown strong growth, especially in key performance indicators such as GMV and booking numbers.

We intend to accelerate these kinds of Internet-related investments and transform into an "Internet-focused SoftBank" and a "global SoftBank."

However, the reality is that most Internet companies in Japan find it very challenging to develop their businesses overseas. I believe this is because they try to apply business models developed in Japan without adapting them for local markets overseas, where cultures are completely different. Our goal in developing a "global SoftBank" is to realize a unique business model that cannot be imitated by working together with entrepreneurs who have deep insights into their own markets around the world.



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Softbank ADRs (SFTBY)

Principal Shareholders

Name	Number of Shares Held (Thousands)	Percentage of Total Shares Issued (%)
Masayoshi Son	231,205	19.26
JP MORGAN CHASE BANK 380055	84,662	7.05
The Master Trust Bank of Japan, Ltd. (Trust Account)	61,389	5.11
Japan Trustee Services Bank, Ltd. (Trust Account)	44,578	3.71
STATE STREET BANK AND TRUST COMPANY	25,144	2.09
THE BANK OF NEW YORK MELLON SA/NV 10	13,861	1.15
STATE STREET BANK WEST CLIENT – TREATY 505234	12,658	1.05
SoftBank Corp.*	11,463	0.95
CHASE MANHATTAN BANK GTS CLIENTS ACCOUNT ESCROW	11,445	0.95
CBNY-GOVERNMENT OF NORWAY	11,226	0.93
Top 10 shareholders	507,631	42.28

(Note) All numbers of shares held by The Master Trust Bank of Japan and Japan Trustee Services Bank are held as part of trust operations.

* On July 1, 2015, SoftBank Corp. changed its name to SoftBank Group Corp.

Stock Price and Trading Volume



Corporate Data

As of March 31, 2015

Corporate name

Founded

Corporate headquarters

Telephone number

Representative

Common stock

Subsidiaries

Associates

Number of employees

Main business

Independent auditor

Founder / CEO retains equity stake worth USD ~12 billion

SoftBank Corp.*

September 3, 1981

1-9-1 Higashi-shimbashi, Minato-ku, Tokyo 105-7303

+81-3-6889-2000

Masayoshi Son, Chairman & CEO

¥238.8 billion

769 (of which 621 are overseas)

120 (of which 70 are overseas)

202 (consolidated basis: 66,154)

Pure holding company

Deloitte Touche Tohmatsu LLC

Stock up 259% over past 15 years (or 8.9% / year) and 116% over past 5 years (or 16.7% / year)



Investment Idea

Softbank ADRs (SFTBY)

SoftBank CEO In Waiting Nikesh Arora Buys \$483M Of Stock In 'Personal Bet'

Posted Aug 19, 2015 by [Jon Russell \(@jonrussell\)](#)

1,284
SHARES



SoftBank's Nikesh Arora — the man who Chairman and CEO Masayoshi Son is backing as his replacement at the Japanese company — is doubling down on his employer after he agreed to buy 60 billion JPY (\$483 million) in company shares from his own pocket.

Arora, a former Google executive, made the investment voluntarily and in a personal capacity, according to [a regulatory filing from SoftBank](#).

Arora, who used his own savings and borrowed money to finance the deal, said the move underlines his commitment to the cause:

My past year with the SoftBank Group has been very rewarding. As a measure of my commitment, I have decided to take a personal bet on the SoftBank Group and ensure an alignment of vision, with our founder and Chairman & CEO Masayoshi Son. This is a large transaction for me, and involves taking an enormous risk in my life once again. However, I am extremely confident about the future of the SoftBank Group and the long-term objectives that we have set out. I intend to work closely with Mr. Son to make the vision a reality.

Arora joined as vice chairman of SoftBank Corp. and CEO of SoftBank Internet and Media (now called SB Group US) in September 2014. He has since blossomed into its rising star and heir-in-waiting. [Arora became SoftBank COO and President in May](#), going on to [replace Son as Chairman of Yahoo Japan's board](#) in a symbolic appointment made later that month.



















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Potential additional upside scenario: (1) Masayoshi Son / Nikesh Arora find another BABA or Yahoo! Japan

Main Investments in Fiscal 2014

Date of Announcement	Investee	Location	Business Overview	Investment Overview*
October 3, 2014	 LEGENDARY	 U.S.	Ownership, production, and distribution of content in the fields of film, television and digital media, and comics	Total investment of US\$250 million
October 14, 2014	 DRAMAFEVER	 U.S.	Operation of an online video distribution site	Acquisition
October 22, 2014	 tokopedia	 Indonesia	Operation of a leading online marketplace in Indonesia	Total investment of US\$100 million, primarily from the Company, as well as Sequoia Capital and existing shareholders such as SB Pan Asia Fund
October 28, 2014	 OLA	 India	Operation of a leading taxi-booking platform in India	Total investment of US\$210 million, led by the Company along with existing shareholders
October 28, 2014	 snapdeal.com	 India	Operation of a leading online marketplace in India	Total investment of US\$627 million
December 4, 2014	 GRABTAXI	 Singapore	Operation of a leading taxi-booking platform in Southeast Asia	Total investment of US\$250 million
December 16, 2014	 HOUSING	 India	Operation of a house-hunting platform in India	Total investment of US\$90 million, led by the Company along with existing shareholders such as Falcon Edge
January 15, 2015	 快的打车	 China	Operation of a leading taxi-booking platform in China	Total investment of US\$600 million, led by the Company along with existing shareholders such as Alibaba and Tiger Global



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Potential additional upside scenario: (1) Masayoshi Son / Nikesh Arora find another BABA or Yahoo! Japan

Internet Companies Investment Record

As of March 31, 2015

Company Name	Accumulated Investment (Billions of yen)	Market Value / Accumulated Return (Billions of yen)	Investment Period (Years)	Date of Initial Investment	Date of Valuation	IRR	Return (Times)
Alibaba Group Holding Limited	10.5	7,993.4	15	Feb. 2000	Mar. 2015	76%	761
Yahoo Japan Corporation	7.7	1,358.9	19	Jan. 1996	Mar. 2015	78%	176
Yahoo! Inc.	54.7	350.9	7	Sept. 1995	Nov. 2002	30%	6
GungHo Online Entertainment, Inc.	29.6	217.7	16	Oct. 1999	Mar. 2015	41%	7
Trend Micro Incorporated	8.5	136.9	3	Dec. 1996	Mar. 2000	153%	16
SBI Holdings, Inc.	6.0	136.2	7	July 1999	Aug. 2006	56%	23
SoftBank Technology Corp.	3.3	87.8	18	Apr. 1997	Mar. 2015	665%	27
UTStarcom Holdings Corp.	1.0	59.6	18	Oct. 1995	Jan. 2014	25%	60
Yahoo! group companies in Europe and South Korea	2.3	58.8	8	Oct. 1997	Nov. 2005	50%	26
Betfair Group plc	51.3	43.1	6	Apr. 2006	Mar. 2012	-3%	0.8
Renren Inc.	41.9	39.1	7	Apr. 2008	Mar. 2015	-1%	0.9
Cisco Systems K.K.	1.8	35.3	6	Oct. 1994	Jan. 2001	65%	20
SKY Perfect Communications Inc.	14.6	27.9	5	Dec. 1996	Mar. 2002	19%	2
PPLive Corporation	20.7	27.8	3	Jan. 2011	Dec. 2013	10%	1
cyber communications inc.	0.5	23.0	8	Apr. 1999	June 2007	61%	46
Broadmedia Corporation	4.5	14.0	19	Sept. 1996	Mar. 2015	24%	3
Key3Media Group, Inc.	22.8	13.0	2	Aug. 2000	Dec. 2002	-24%	0.6
Zynga Inc.	13.2	8.8	3	Apr. 2010	Aug. 2013	-12%	0.7
Scigineer Inc.	2.3	6.8	0.5	Oct. 2014	Mar. 2015	19,131%	3
CNET Networks, Inc.	51.4	5.0	2	Oct. 2000	May 2002	-69%	0.1
ITmedia Inc.	1.7	4.8	15	Dec. 1999	Mar. 2015	9%	3
Vector Inc.	1.2	4.6	16	Mar. 1999	Mar. 2015	10%	4
Asia Global Crossing Ltd.	36.5	0	2	Oct. 2000	Nov. 2002	-100%	0
Total	387.8	10,653.5	Average 9 years			45%	27



Investment Idea

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Potential additional upside scenario: (2) Sprint actually becomes profitable

VZ Financial Metrics

Valuation Measures	
Market Cap (intraday) ⁵ :	183.18B
Enterprise Value (Dec 4, 2015) ³ :	289.21B
Trailing P/E (ttm, intraday):	18.06
Forward P/E (fye Dec 31, 2016) ¹ :	11.28
PEG Ratio (5 yr expected) ¹ :	1.49
Price/Sales (ttm):	1.39
Price/Book (mrq):	13.80
Enterprise Value/Revenue (ttm) ³ :	2.22
Enterprise Value/EBITDA (ttm) ⁶ :	7.77
Financial Highlights	
Fiscal Year	
Fiscal Year Ends:	Dec 31
Most Recent Quarter (mrq):	Sep 30, 2015
Profitability	
Profit Margin (ttm):	7.86%
Operating Margin (ttm):	16.22%
Management Effectiveness	
Return on Assets (ttm):	5.65%
Return on Equity (ttm):	65.91%
Income Statement	
Revenue (ttm):	130.56B
Revenue Per Share (ttm):	31.79
Qtrly Revenue Growth (yoy):	5.00%
Gross Profit (ttm):	77.15B
EBITDA (ttm) ⁶ :	37.23B

VZ has vastly superior operating metrics than Sprint; ample room for Sprint to catch up

Trading Information	
Stock Price History	
Beta:	0.69
52-Week Change ³ :	-8.33%
S&P500 52-Week Change ³ :	-1.24%
52-Week High (May 4, 2015) ³ :	50.86
52-Week Low (Aug 24, 2015) ³ :	38.06
50-Day Moving Average ³ :	45.49
200-Day Moving Average ³ :	46.27
Share Statistics	
Avg Vol (3 month) ³ :	13,573,500
Avg Vol (10 day) ³ :	11,636,100
Shares Outstanding ⁵ :	4.07B
Float:	4.07B

Sprint Financial Metrics

Valuation Measures	
Market Cap (intraday) ⁵ :	13.97B
Enterprise Value (Dec 4, 2015) ³ :	45.90B
Trailing P/E (ttm, intraday):	N/A
Forward P/E (fye Mar 31, 2017) ¹ :	N/A
PEG Ratio (5 yr expected) ¹ :	N/A
Price/Sales (ttm):	0.42
Price/Book (mrq):	0.66
Enterprise Value/Revenue (ttm) ³ :	1.38
Enterprise Value/EBITDA (ttm) ⁶ :	6.69
Financial Highlights	
Fiscal Year	
Fiscal Year Ends:	Mar 31
Most Recent Quarter (mrq):	Sep 30, 2015
Profitability	
Profit Margin (ttm):	-9.65%
Operating Margin (ttm):	2.27%
Management Effectiveness	
Return on Assets (ttm):	0.57%
Return on Equity (ttm):	-14.00%
Income Statement	
Revenue (ttm):	33.26B
Revenue Per Share (ttm):	8.39
Qtrly Revenue Growth (yoy):	-6.00%
Gross Profit (ttm):	15.56B
EBITDA (ttm) ⁶ :	6.86B

Sprint's P/S only 30% of VZ's
Sprint's EV/Revs only 62% of VZ's

Trading Information	
Stock Price History	
Beta:	0.15
52-Week Change ³ :	-27.22%
S&P500 52-Week Change ³ :	-1.24%
52-Week High (Mar 5, 2015) ³ :	5.45
52-Week Low (Jul 27, 2015) ³ :	3.10
50-Day Moving Average ³ :	4.25
200-Day Moving Average ³ :	4.33
Share Statistics	
Avg Vol (3 month) ³ :	21,504,100
Avg Vol (10 day) ³ :	13,496,000
Shares Outstanding ⁵ :	3.97B
Float:	650.11M
% Held by Insiders ¹ :	84.90%



Investment Idea

Softbank ADRs (SFTBY)

Potential additional upside scenario: (3) Alibaba continues exceptional growth

Summary Financial Results:

	Three months ended September 30,			YoY % Change
	2014	2015		
	RMB	RMB	US\$ ⁽¹⁾	
(in millions, except percentages and per share amounts)				
Revenue	16,829	22,171	3,488	32%
Mobile revenue from China commerce retail	3,719	10,520	1,655	183%
Mobile revenue as a percentage of China commerce retail revenue	29%	61%		
Income from operations	4,345	6,395	1,006	47%
Non-GAAP EBITDA ⁽²⁾	8,493	11,146	1,754	31%
Non-GAAP EBITDA margin ⁽²⁾	50%	50%		
Net income	3,030	22,703	3,572	649% ⁽³⁾
Non-GAAP net income ⁽²⁾	6,808	9,252	1,456	36%
Diluted earnings per share/ADS (EPS)	1.24	8.87	1.40	615% ⁽³⁾
Non-GAAP diluted EPS ⁽²⁾	2.79	3.63	0.57	30%



Investment Idea

Softbank ADRs (SFTBY)

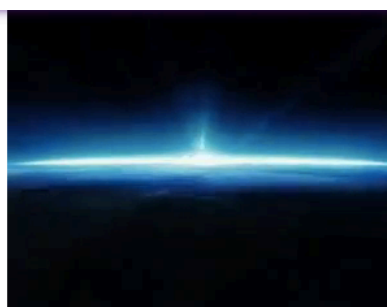
Potential additional upside scenario: (3) Alibaba continues exceptional growth

Valuation Measures	
Market Cap (intraday) ⁵ :	207.05B
Enterprise Value (Dec 4, 2015) ³ :	194.83B
Trailing P/E (ttm, intraday):	22.23
Forward P/E (fye Mar 31, 2017) ¹ :	3.76
PEG Ratio (5 yr expected) ¹ :	1.28
Price/Sales (ttm):	15.10
Price/Book (mrq):	6.80
Enterprise Value/Revenue (ttm) ³ :	14.47
Enterprise Value/EBITDA (ttm) ⁶ :	43.54

Financial Highlights	
Fiscal Year	
Fiscal Year Ends:	Mar 31
Most Recent Quarter (mrq):	Sep 30, 2015
Profitability	
Profit Margin (ttm):	72.57%
Operating Margin (ttm):	27.53%

Management Effectiveness	
Return on Assets (ttm):	5.28%
Return on Equity (ttm):	35.34%

Income Statement	
Revenue (ttm):	13.46B
Revenue Per Share (ttm):	5.47
Qtrly Revenue Growth (yoy):	31.70%
Gross Profit (ttm):	8.45B
EBITDA (ttm) ⁶ :	4.48B



Trading Information	
Stock Price History	
Beta:	N/A
52-Week Change ³ :	-23.46%
S&P500 52-Week Change ³ :	-1.24%
52-Week High (Dec 18, 2014) ³ :	111.20
52-Week Low (Sep 29, 2015) ³ :	57.20
50-Day Moving Average ³ :	79.45
200-Day Moving Average ³ :	77.32
Share Statistics	
Avg Vol (3 month) ³ :	21,307,400
Avg Vol (10 day) ³ :	32,563,800
Shares Outstanding ⁵ :	2.46B
Float:	1.03B

YEARLY EARNINGS FORECASTS

Fiscal Year End	Consensus EPS* Forecast	High EPS* Forecast	Low EPS* Forecast	Number of Estimates
Mar 2016	1.73	3.16	1.25	29
Mar 2017	2.39	3.98	1.33	29
Mar 2018	3.24	5.78	0.9	25
Mar 2019	4.35	5.99	2.89	13

QUARTERLY EARNINGS FORECASTS

Fiscal Quarter End	Consensus EPS* Forecast	High EPS* Forecast	Low EPS* Forecast	Number of Estimates
Dec 2015	0.64	0.85	0.39	28
Mar 2016	0.34	0.73	0.24	28
Jun 2016	0.48	0.8	0.32	21
Sep 2016	0.51	0.86	0.42	18
Dec 2016	0.89	1.18	0.64	17



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Potential additional upside scenario: (3) Alibaba continues exceptional growth

Name	Ordinary shares beneficially owned	Percent
Directors and Executive Officers:		
Jack Yun MA ⁽¹⁾	192,879,813	7.8%
Joseph C. TSAI ⁽²⁾	79,231,608	3.2%
Jonathan Zhaoxi LU	*	*
Daniel Yong ZHANG	*	*
Masayoshi SON	—	—
Chee Hwa TUNG	—	—
Walter Teh Ming KWAUK	*	*
J. Michael EVANS	*	*
Jerry YANG	*	*
Börje E. EKHOLM	—	—
Wan Ling MARTELLO	—	—
Lucy Lei PENG	*	*
Maggie Wei WU	*	*
Zhenfei LIU	*	*
Trudy Shan DAI	*	*
Timothy A. STEINERT	*	*
Jianhang JIN	*	*
Jian WANG	*	*
Jeff Jianfeng ZHANG	*	*
Yongfu YU	*	*
Simon Xiaoming HU	*	*
Sophie Minzhi WU	*	*
Peng JIANG	*	*
All directors and executive officers as a group	332,812,882	13.4%
Greater than 5% Beneficial Owners:		
SoftBank ⁽³⁾	797,742,980	32.2%
Yahoo ⁽⁴⁾	383,565,416	15.5%
Jack Yun MA ⁽¹⁾	192,879,813	7.8%

Jack Ma has substantial “skin in the game” (\$15.9B), as does Joseph Tsai (CEO) (\$6.5B)

Yahoo divestment status unclear at the moment



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Potential additional upside scenario: (4) Yen appreciates against the dollar

JPY per 1 USD

7 Dec 2005 00:00 UTC - 4 Dec 2015 16:46 UTC

USD/JPY close:123.09464 low:75.75707 high:125.63331



Since Softbank ADRs are priced in USD, if Yen appreciates against the dollar, ADRs will also appreciate; CONTRA: foreign earnings worth less

10-year historical average range ~95 to ~100



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Follow Up Items:

1. Need to review Softbank and BABA annual reports, etc.

Downside Risks:

1. Sprint requires many additional billions in capital to complete turnaround; confirm that all S debt is nonrecourse
2. Alibaba's growth slows dramatically