Team Enigma

Indian Institute of Technology, Kharagpur

Agenda

SOFTBANK and Vision Fund

Measure of Innovation and how Vision Fund affects it?

SOFTBANK vs. Other Venture Capitals

Is it the right time?

Fear of being left out
Board Capturing
Disrupting VC environment

Suggestive Measures - Recession Proof Model

SoftBank Timeline

1981
SOFTBANK began as the distributor of packaged software

1996
Established Yahoo Japan Corporation as a joint venture with Yahoo! Inc.

2000
Made a strategic investment in Alibaba

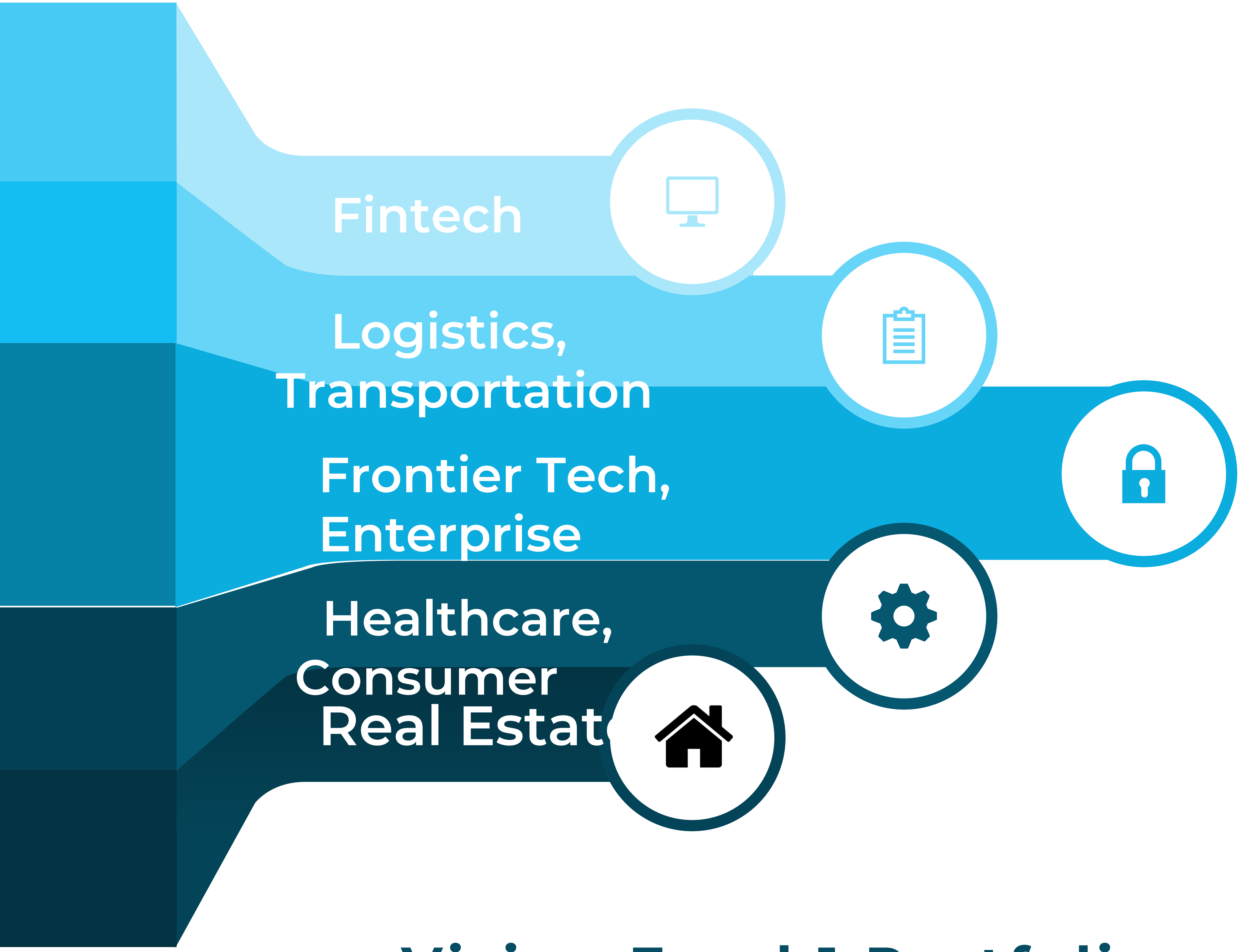
2001
Dot.com Bubble Burst: High – profile failure of SOFTBANK

2016
Launch of Vision Fund 1

2018
Vision Fund 2: Yes or No?

SoftBank Portfolio

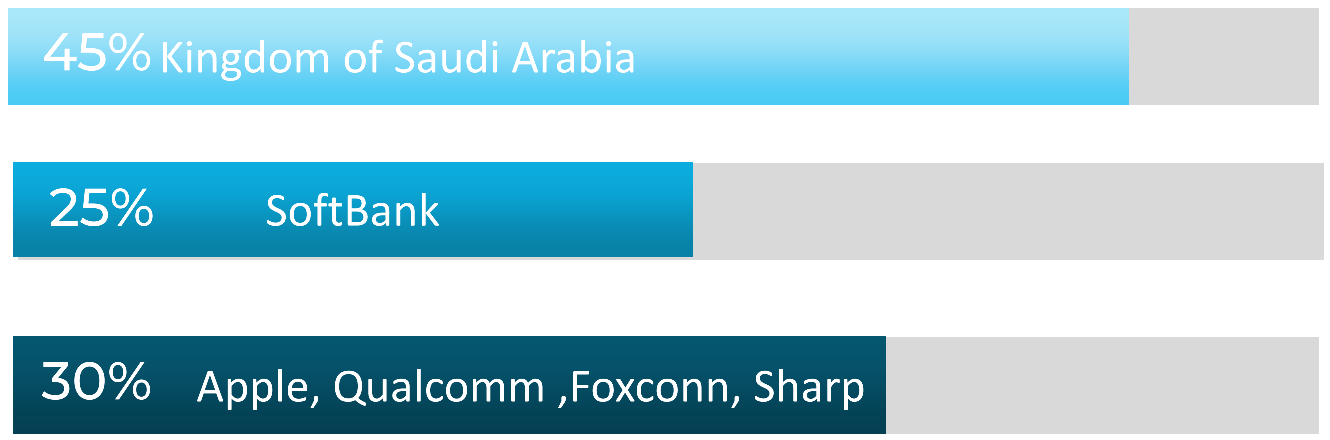
Owns stakes in companies like Ola, InMobi, PayTM, Didi, Uber, WeWork, etc.



Vision Fund 1 Portfolio Sectors

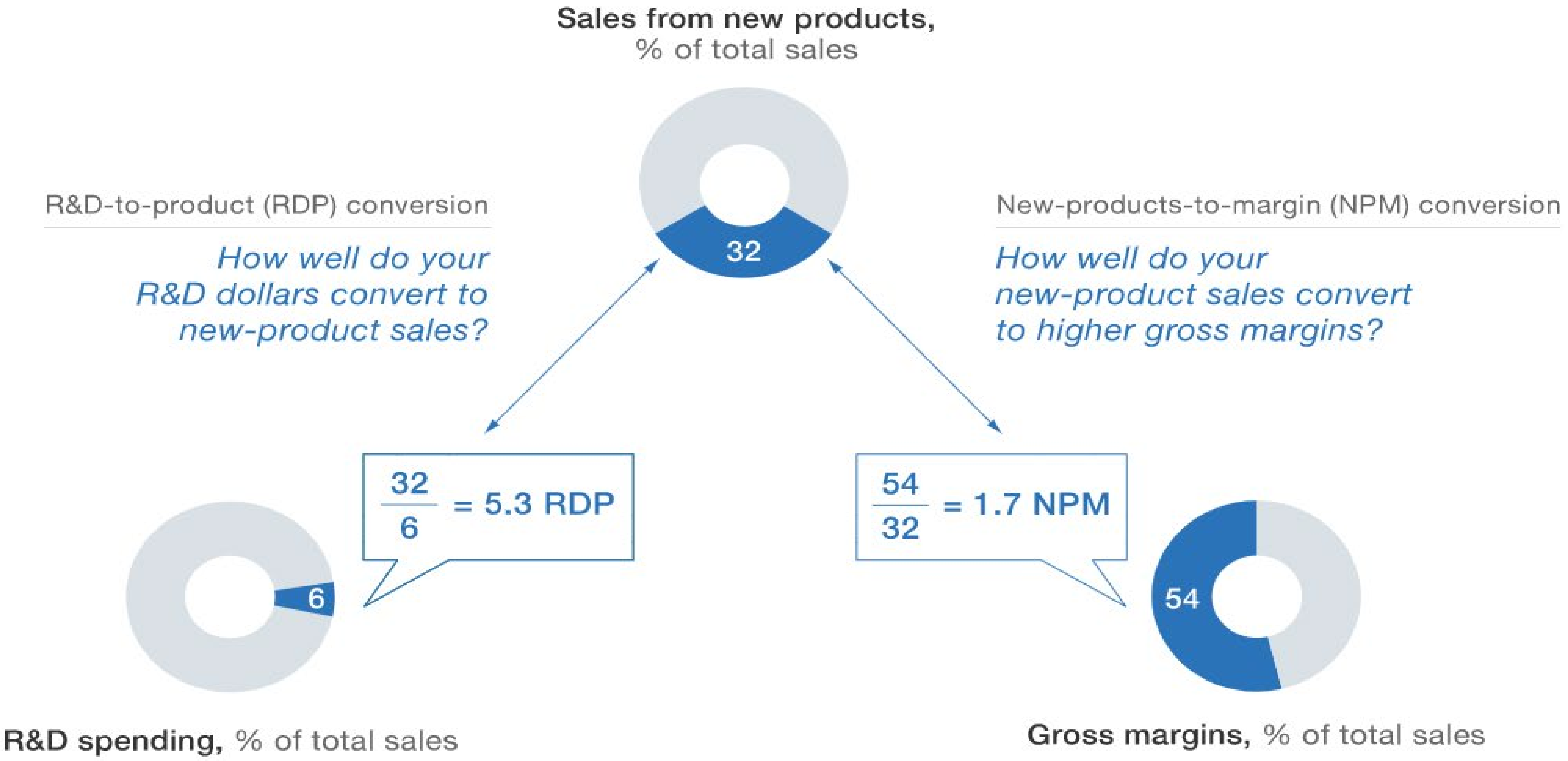
Runs Vision Fund, the world's largest technology – focused venture capital, with over $100 Billion in capital

Vision Fund 1 Stakeholders



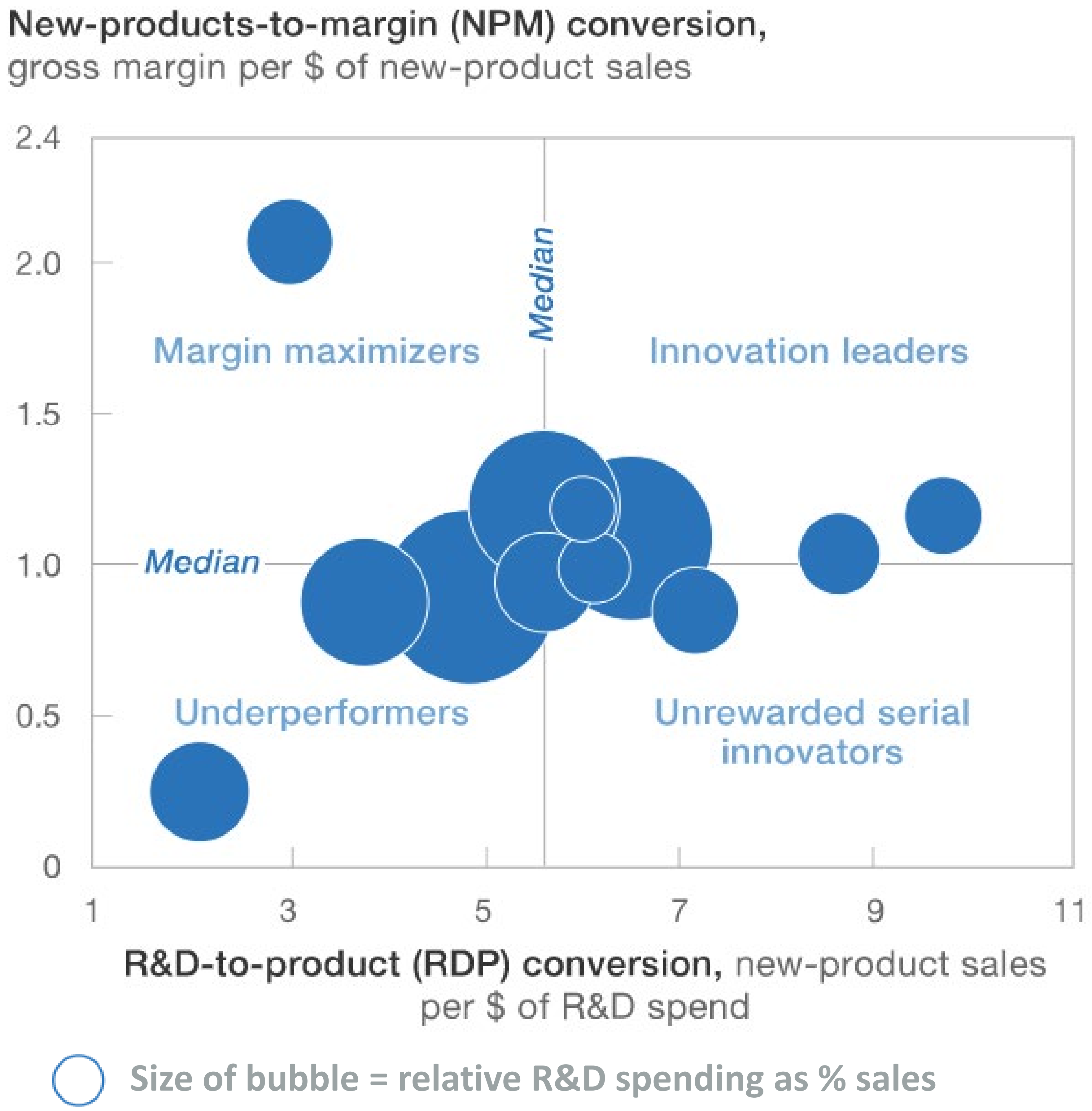
Quantitative & Qualitative Measures of Innovation

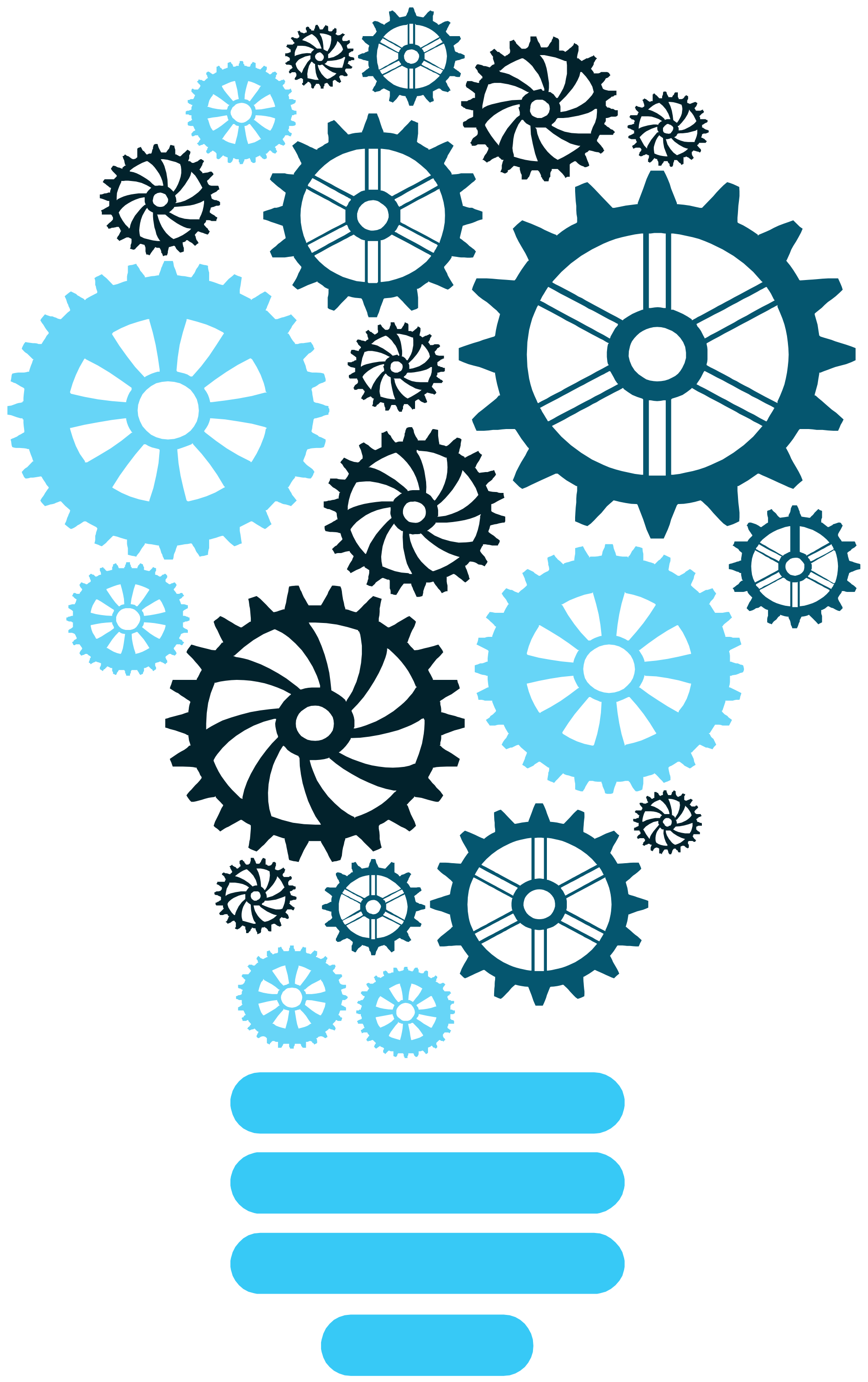
Two metrics combine R&D spending, sales from new products, and gross margin to shed light on relative innovation performance



McKinsey&Company

Taken together, the R&D conversion metrics can help identify favorable and unfavorable innovation performance outliers





McKinsey&Company

DJI (Accel) vs. Light (Soft Bank)

Innovation Metric

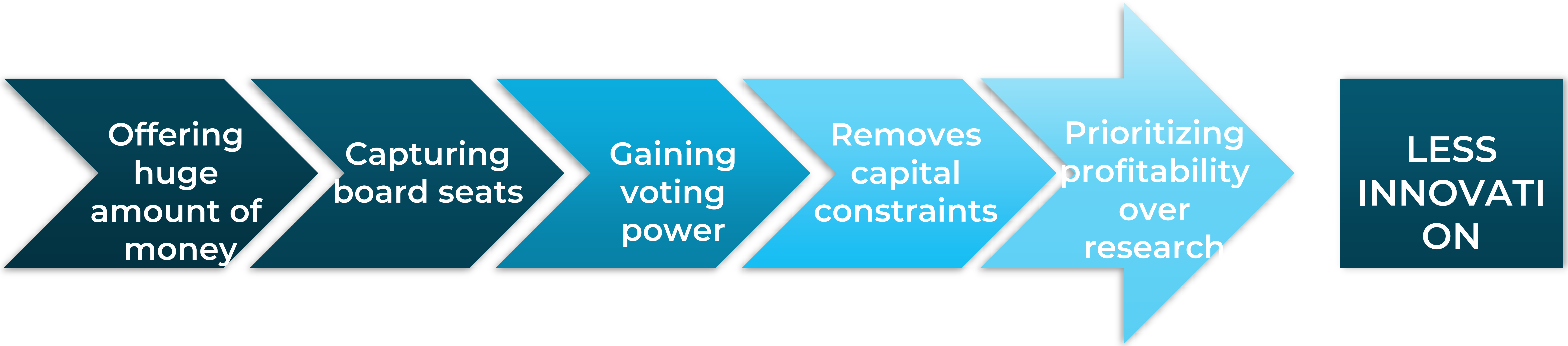
		Gross Margin	R&D	Sales from new products	RDP	NPM
dji	2018	23 %	1.5 %	7.71 %	5.14	2.983
	2017	45 %	2.1 %	5.28 %	2.51	8.522
	2016	22 %	5.8 %	1.2 %	0.21	18.333
light	2018	42 %	4.5 %	2.1 %	0.467	20.00
	2017	60 %	4.6 %	2.2 %	0.478	27.273
	2016	41 %	4.6 %	2.3 %	0.5	17.826

Lyft (Rakuten) vs. Uber (Soft Bank)

Innovation Metric

		Gross Margin	R&D	Sales from new products	RDP	NPM
lyft	2018	42 %	14 %	73 %	5.43	0.57
	2017	38 %	13 %	61 %	4.69	0.62
	2016	19 %	18 %	48 %	2.53	0.4
UBER	2018	50 %	13 %	23 %	1.72	2.17
	2017	48 %	15 %	28 %	1.85	1.71
	2016	40 %	22 %	41 %	1.84	0.98

Board Capturing



By bringing tons of capital to the table, other VCs known for their vision and far-sighted understanding of the technological change are now pressurized to raise big funds in order to compete in the market.

Fear of being left out

Companies accept investment to prevent SoftBank from going to t

Deters competitive entry, creating mo

Reduces healthy competition

Prioritizes profitability over innovation

Disrupting the VC Industry

Large Funds & Less Returns

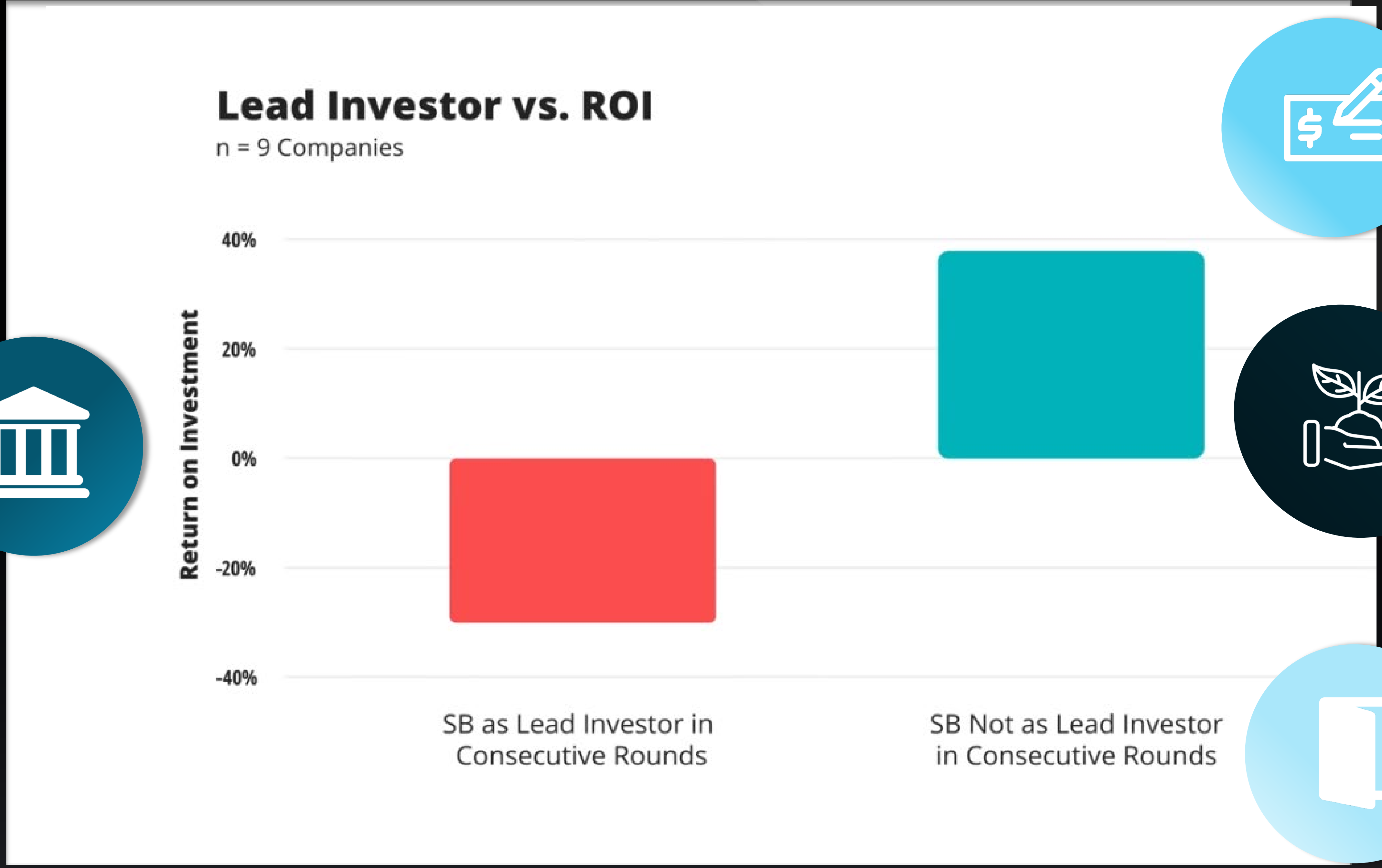
Smaller funds perform more profitably than large scale Vision funds

VCs invest more on smaller funds

Source: https://www.youtube.com/watch?v=k6dSP6eIdc0

Impact on VC Market

Large capital of Vision Fund



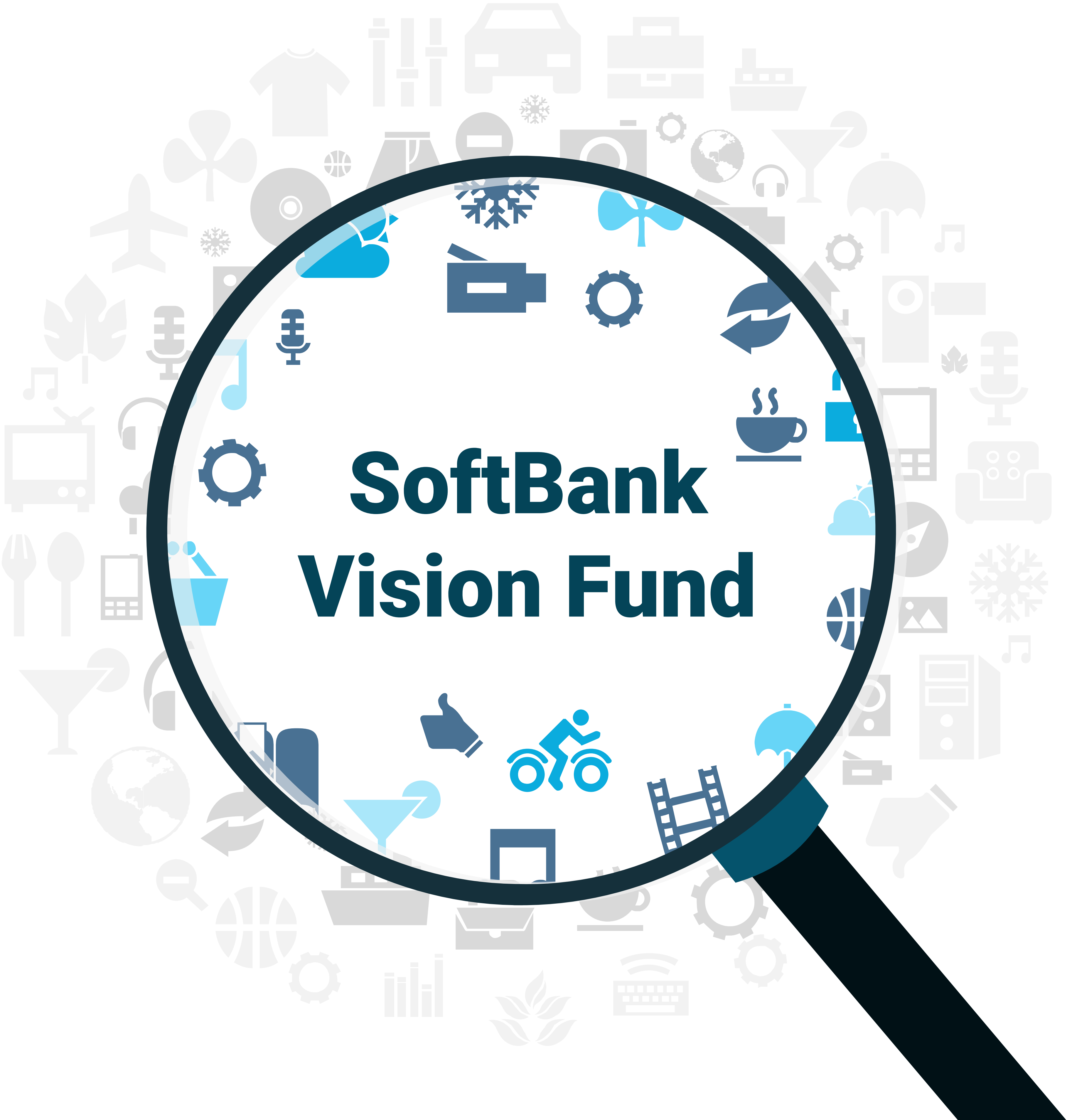
VCs write bigger cheques or drop out

VCs focus more on series A/series B investments

VCs look towards Softbank for potential exit

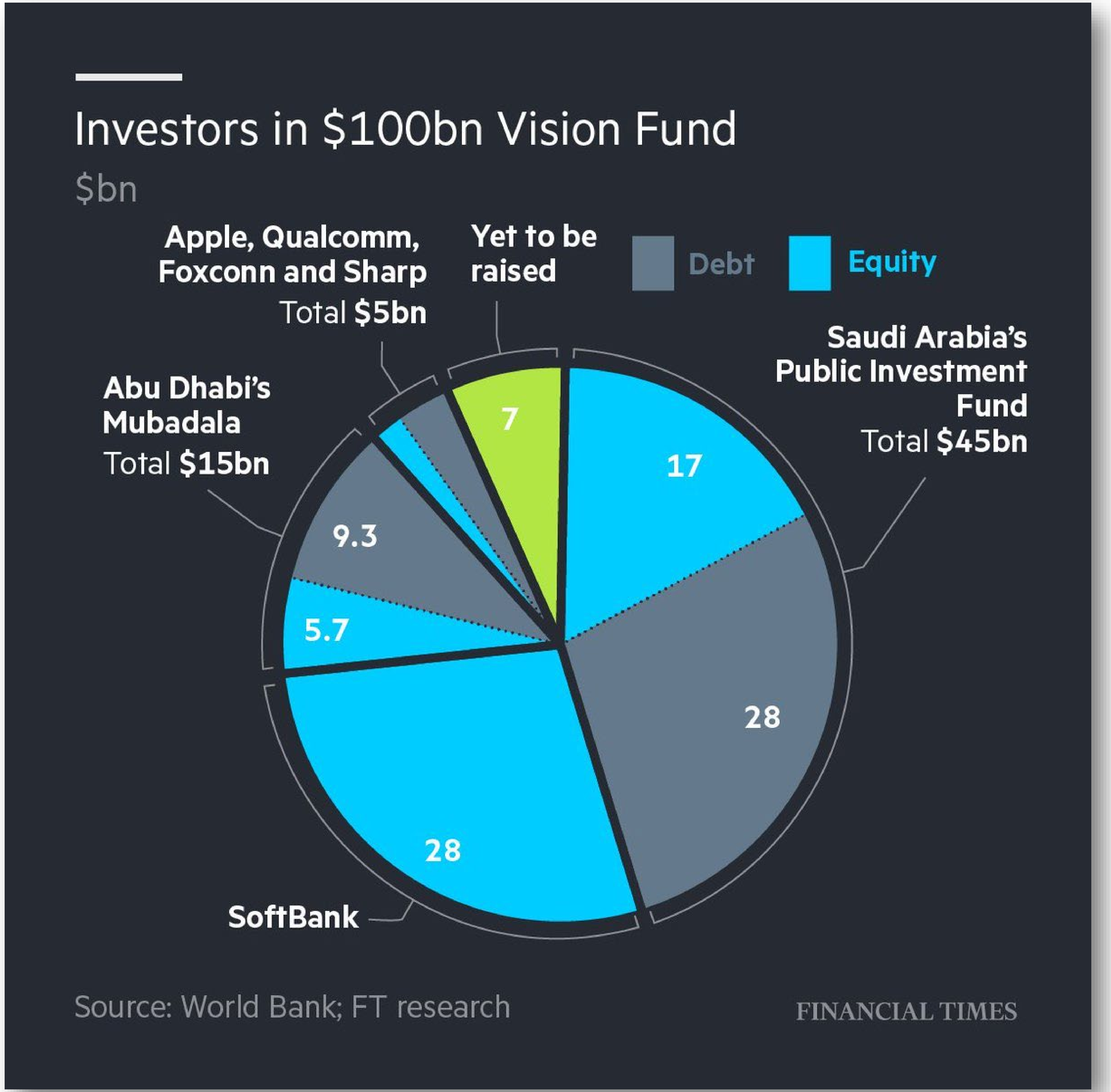
Source: https://www.youtube.com/watch?v=k6dSP6eIdc0

Vision Fund 2:
Right Time?



Projections using past analysis

- 25% Completion of Fund life.
- $45B as Debt and not Equity.
- Poor Performance of companies expected to produce good returns.



Impending Recession

Inversion of Yield Curves

Global Slowdown

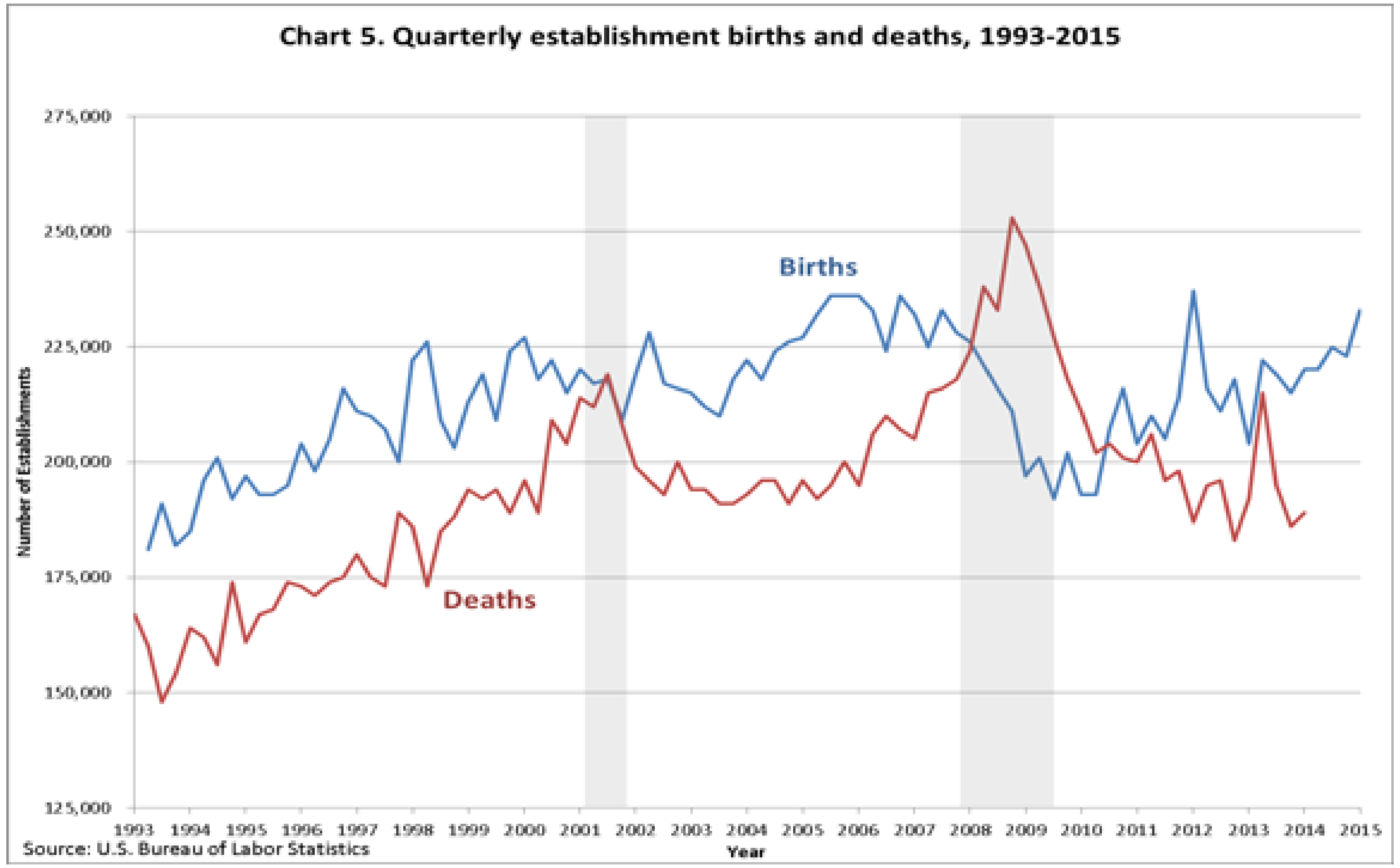
US-China Trade Wars
Brexit
Chinese Debt Crisis

Deceleration of GDP Growth

Decreased return on long-term investments

Impact of Recession

Contraction in public equity market, leading to reduced discretionary spending in consumers and business.



- **The Burnout-Rate of startups increases**
- **Decrease in Equity to have more cash rounds.**
- Increased pressure on startup valuation
- Smaller, less frequent rounds of cash.

The Effect of Recession on IT-Companies

Oracle

Cognizant

Google

Baidu

Source-Microtrends

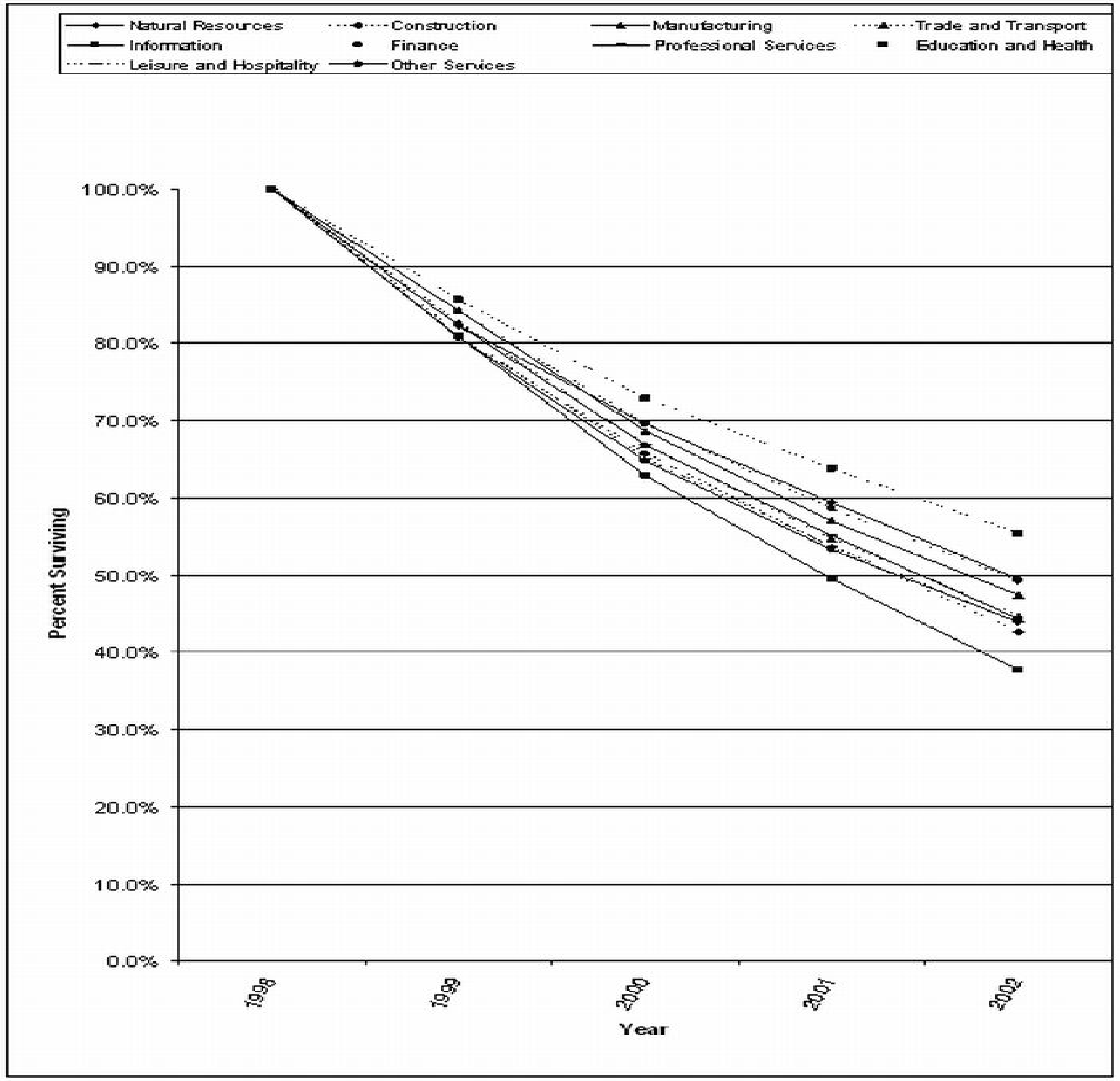
Recession Proof Business Model

Factors governing survival of businesses.

Age

Size

Industry Type



Source: Adapted from Knaup, A. 2005. Survival and longevity in business employment dynamics data. Monthly Labor Review, May: 50-56.

- The 4 year survival rate of start-up in IT sector was 38% while surviving rate for start-up in education and health care sector was 55%
- Average start-up in education and health care sector is 50% more likely to survive than average start-up in IT sector.
- Hedging risk by increasing relative investments in food and beverage industry, education and healthcare industry.

Thank You