

COMPANY PROFILE

# SOFTBANK Corp.

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## **TABLE OF CONTENTS**

<b>Company Overview.....</b>	<b>3</b>
<b>Key Facts.....</b>	<b>3</b>
<b>SWOT Analysis.....</b>	<b>4</b>

## COMPANY OVERVIEW

SOFTBANK (or “the group”) is engaged in providing mobile telecommunications, fixed-line and broadband infrastructure services. SOFTBANK primarily operates in Japan. It is headquartered in Tokyo, Japan and employs 21,799 people.

The company recorded revenues of JPY3,004,640 million (\$35,154.3 million) during the financial year ended March 2011 (FY2011), an increase of 8.7% over FY2010. The operating profit of the company was JPY629,163 million (\$7,361.2 million) during FY2011, an increase of 35.1% over FY2010. The net profit was JPY18,9713 million (\$2,219.6 million) in FY2011, an increase of 96.2% over FY2010.

## KEY FACTS

<b>Head Office</b>	SOFTBANK Corp. 1-9-1 Higashi-shimbashi Minato-ku Tokyo 105-7303 JPN
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<b>Web Address</b>	<a href="http://www.softbank.co.jp">http://www.softbank.co.jp</a>
<b>Revenue / turnover (JPY Mn)</b>	3,004,640.0
<b>Financial Year End</b>	March
<b>Employees</b>	21,799
<b>Tokyo Ticker</b>	9984

## SWOT ANALYSIS

SOFTBANK (or “the group”) is engaged in providing mobile telecommunications, fixed-line and broadband infrastructure services. Strong position in the Japanese mobile communications market provides a competitive advantage to SOFTBANK over its peers and also strengthens its bargaining power in the market. However, increasing competition may result in pricing pressures thereby negatively impacting the group's market share and operating margins.

<b>Strengths</b>	<b>Weaknesses</b>
<p>Strong position in Japanese mobile communications market Diversified portfolio reducing the group's business risk Strong initiatives towards servicing its debt</p>	<p>Weak presence in fixed-line telecommunications market Delay in launch of LTE services</p>
<b>Opportunities</b>	<b>Threats</b>
<p>Growth through investments and alliances Increase in mobile data traffic will enhance revenue generation Positive outlook for cloud computing provides new revenue opportunity</p>	<p>Increasing competition will negatively impact the revenues and market share Dependence on resources of other companies Risk from natural disasters Weak economic outlook for Japan</p>

### Strengths

Strong position in Japanese mobile communications market

The group has a strong position in the Japanese mobile communications market. According to industry sources, SOFTBANK is the third largest mobile communications provider in Japan. The group has a market share of approximately 21.3% in Japan’s cellular and mobile market. Also, in FY2011, the group recorded net subscriber additions of more than 3.5 million, significantly higher than any of its nearest competitor. Further, SOFTBANK MOBILE significantly increased the number of base stations from 60,000 in FY2010 to 122,000 in FY2011. Strong position in the Japanese mobile communications market provides a competitive advantage to SOFTBANK over its peers and also strengthens its bargaining power in the market.

Diversified portfolio reducing the group's business risk

The group has diversified business operations. SOFTBANK operated through 178 subsidiaries and 92 affiliates as of FY2011. It is a leading internet company providing a range of services, including mobile communications, broadband infrastructure, fixed-line telecommunications, internet culture, and others. The mobile communications segment offers a range of products and content services for individual and corporate customers. The fixed-line telecommunications segment offers fixed-line telephone services, data transmission, and dedicated line services. The group's internet culture segment provides online-based businesses such as internet advertising, e-commerce, and membership services.

Further, the group's infrastructure segment provides ADSL services, IP telephony services, distribution and sales of IT-related merchandise. The others segment includes the distribution business of IT-related products and services, Fukuoka SOFTBANK HAWKS related business and various Internet related businesses. A diversified portfolio reduces the business risk by expanding the reach of the group across various markets and segments and thereby increasing its revenues and profitability.

Strong initiatives towards servicing its debt

SOFTBANK has been proactively reducing the debt which will have a positive impact on the earnings. The group's net interest-bearing debt by the end of FY2011 was JPY1,209,636 million (\$14,152.7 million), compared to JPY2,158,149 million (\$25,250.3 million) in FY2007. The group's net interest-bearing debt declined at a compound annual rate of change (CARC) of 13% for the same period. Accordingly the net interest-bearing debt to equity ratio significantly declined from 7.6% in FY2007 to 2% in FY2011. Also, the decrease in interest-bearing debt resulted in a JPY7,133 million (\$83.5 million) reduction year-on-year in interest payments in FY2011.

Furthermore, SOFTBANK plans to decrease its amount of net interest-bearing debt, which stood at around JPY1,900,000 million (\$22,230 million) in FY2009, by half over the three years in FY2012, and to zero over the six years in FY2015. The group has also plans for early repayment of funds borrowed through the whole business securitization (WBS) program, associated with this acquisition of Vodafone K.K. (currently SOFTBANK MOBILE) and improve the credit status of the group. Moreover, SOFTBANK plans to undertake procurement of the necessary funds to repay the debt early. In other measures, to prepare for early repayment of the WBS debt SOFTBANK acquired all preferred stock and others issued by its subsidiary to the Vodafone Group of the UK and to Yahoo Japan in conjunction with the acquisition of Vodafone K.K.

Reduction of debt can be leveraged to enhance profitability as the interest expense, which is a recurring fixed expense, will reduce. Also, reduced debt ratio will also provide financing flexibility for future expansions. Reduced debt will therefore improve the group's financial position and also facilitate financing of future expansions.

## **Weaknesses**

Weak presence in fixed-line telecommunications market

The company has weak presence in the fixed-line telecommunications market compared to its peers. According to industry sources, the total number of telephone lines in Japan stood at 41.1 million at the end of September 2011. SOFTBANK's fixed-line subscribers were approximately 1.7 million during the same period, accounting to a market share of 4.1% in the fixed-line telecommunications market. By contrast, NTT East and NTT West together recorded fixed-line subscriber base of 33.2 million during the same period, accounting to a combined market share of approximately 80.8% of the total fixed-line telecommunications market.

Further, the telecommunications industry witnessed increasing consolidation in recent times. For instance, KDDI (competitor of SOFTBANK) acquired J:COM in 2010. The acquisition of J:COM improved KDDI's fixed-line customer base. The total number of KDDI's fixed-line subscribers was approximately 4.1 million at the end of September 2011, while J:COM's had a total number of approximately 2.2 million fixed-line subscribers during the same period. With this acquisition KDDI had an improved market share of 15.1% in the fixed-line telecommunications market.

The group's weak presence in the fixed-line telecommunications market positions the group at a competitive disadvantage.

#### Delay in launch of LTE services

SOFTBANK's LTE adoption has been slower compared to its peers. The group entered into a contract with Ericsson to build a new LTE radio access network in April 2012. Softbank is expected to launch LTE services later this year. In comparison, NTT DOCOMO has already tapped into this growing LTE market with the launch of its FDD LTE service in late 2010 and holds a network advantage over Softbank. According to the industry estimates, NTT DOCOMO gained 750,000 subscribers in fourth quarter of 2011 alone. This delay in adoption of the latest technology relative to the peers could impact the group's competitiveness further.

## Opportunities

#### Growth through investments and alliances

The group is significantly expanding its presence through strategic investments and alliances. For instance, in May 2011, TV Bank, a consolidated subsidiary of SOFTBANK and YOSHIMOTO KOGYO together establish a joint venture, Contents Bank to provide content created and procured by the YOSHIMOTO KOGYO in Japan and overseas. Also in the same month, SOFTBANK invested approximately JPY5,053.2 million (\$62.5 million) into Gilt Groupe, an operator of Gilt, an innovative online shopping destination. The group also agreed to acquire a 50% stake in Gilt Groupe K.K., a wholly owned subsidiary of Gilt Groupe. Further, in September 2011, the group invested approximately JPY8,085.1 million (\$100 million) in InMobi, of the InMobi Group, a global mobile ad network. In the following month, SOFTBANK and Bharti together established Bharti Softbank Holdings, a 50:50 controlled joint venture between Bharti and SoftBank established to focus on the mobile internet.

These strategic investments and alliances are part of SOFTBANK's growth strategy to strengthen its presence globally and gain competitive advantage over its peers.

#### Increase in mobile data traffic will enhance revenue generation

Mobile data traffic continues to increase rapidly as smartphones like the iPhone and Android take over the mobile web. According to industry sources, the global shipments for smartphones increased from 299.7 million units in 2010 to 487.7 million units in 2011, an increase of 63% compared to 2010. By 2015, the worldwide smartphone shipment is estimated to reach 1.03 billion, valuing a global market share of 54%. As a result, the amount of data traffic passing over cellular networks is expected increase by 40% by 2015. Furthermore, the increasing adaption of smart phones, tablets and other internet-connected mobile devices have caused a huge increase in mobile data traffic in Japan. The current smartphone penetration of only 10% in Japan further provides the telecommunications companies a significant growth opportunity.

The group has witnessed significant rise in data traffic accompanying the uptake of smartphones and tablets. Furthermore, in FY2011, iPhone and iPad drove growth in the number of subscribers. As a result, net subscriber additions were more than 3.5 million, far higher than any competitor. To address the sharp rise in data traffic following the rapid uptake of smartphones and increasing richness of content, SOFTBANK implemented the SOFTBANK network enhancement initiative. Under this initiative the group increased the number of base stations from around 60,000 in FY2010 to 122,508 in FY2011. Further, the group provides Wi-Fi routers free of charge to heavy users of substantial data traffic and also continuing to set up more Wi-Fi routers in places where large numbers of people gather. In addition, the group further plans to invest JPY1,000,000 million (\$11,700 million ) for the period FY2012 and FY2013, in order to expand its service areas and ramp up SOFTBANK's network capacity. Such initiatives to strengthen the mobile network will enable SOFTBANK to benefit from the growing mobile data traffic.

Increasing mobile internet and data usage along with increasing sales of smartphones, tablets and other internet-connected mobile devices position SOFTBANK to tap into the fast growing mobile data segment to enhance revenue generation.

#### Positive outlook for cloud computing provides new revenue opportunity

The worldwide demand for cloud computing services is expected to record strong growth in coming years. Cloud computing is a computing infrastructure model, which enables delivery of software-as-a-service (SaaS). Appeal to cloud computing has been increasing as it enables the companies to reduce expenses such as upfront royalty or licensing payments, investment in hardware infrastructure and other operating expenses. Consequently, the demand for cloud computing services has been increasing and is expected to grow from \$40.7 billion in 2011 to \$241 billion in 2020, growing at a CAGR of 22% for the period 2011-20. Further, as the market for cloud computing services grows, the enterprises are expected to earn about \$110 billion from SaaS, platform-as-a-service (PaaS) and infrastructure-as-a-service (IaaS) during the next five years.

The group is focusing on strengthening its presence in the cloud computing domain. SOFTBANK upgraded the lineup of White Cloud corporate cloud computing services in FY2011. Moreover, the group also provides White Cloud Desktop Service, a secure desktop environment using a cloud platform. SOFTBANK's also strengthened its White Cloud services through partnerships with Google and VMware in the US, and other prominent global companies. SOFTBANK also introduced the White Work Style service for corporations. This service enables innovative work styles by using these cloud-based services in combination with a broad spectrum of devices such as smartphones and tablets. Furthermore, in May 2011, SOFTBANK and KT, Korea's second largest mobile operator together formed a \$65 million joint cloud computing venture KTSB Data Service, a data center that will offer cloud computing services to Japanese companies. This joint venture is further estimated to reduce electrical of the group by usage by 70%.

SOFTBANK's presence in the cloud computing domain will provide it with steady revenues and increasing customer base in the medium and long term.

## Threats

Increasing competition will negatively impact the revenues and market share

SOFTBANK is facing increasing competition in all the markets, it serves. The consolidation in the telecom industry due to the acquisitions and alliances among competitor companies in fixed and mobile communications increases the competition among communications businesses including fixed-line and mobile services. In the internet market, the group faces intense competition from Fujitsu and Nippon Telegraph and Telephone (NTT). In the mobile business, the group faces intense competition mainly due to the liberalization of the telecom market in Japan, as well as the new legislation allowing mobile number portability which was introduced in 2006. SOFTBANK's principal competitors in the mobile market include NTT DOCOMO, EMOBILE, and KDDI.

Furthermore, SOFTBANK is also facing increasing price competition from its competitors in the iPhone market. For instance, Softbank, which was the exclusive provider of Apple's iPhone in Japan, faced significant challenge to defend itself against the new KDDI's iPhone offering. Softbank launched various campaigns in response to KDDI's iPhone release. In order to retain its share, the group incurred significant expenditure of JPY30 billion (\$0.4 billion) in the third quarter ended December 2011 due to heavy promotional expenses. As a result, the group's operating profit in the third quarter slipped 4% year-on-year. According to industry sources, price competition is further expected to increase as rivals step up efforts to launch new and bundled offerings and services to strengthen their share in the telecommunications market.

Increasing competition may result in pricing pressures thereby negatively impacting the group's market share and operating margins.

Dependence on resources of other companies



The group relies on other companies to provide mobile phone handsets and other types of telecommunications equipment required for providing telecommunications services. In case of any future changes in the relationship between SOFTBANK and suppliers, there is a possibility that suppliers will cease supply. Further, any major defect in the telecommunications equipment will negatively affect the brand image.

In addition, several of the group's services including Yahoo! JAPAN, Yahoo! BB and Yahoo! Keitai make use of the Yahoo! brand. The group currently has an amicable relationship with Yahoo!, but a significant change in this relationship in the future may prevent the group from developing its business as planned. Reliance on resources of other companies may hamper the groups business in case of any unfavorable changes in the relationship between the group and suppliers.

#### Risk from natural disasters

SOFTBANK is subject to disruption of production due to natural disasters such as earthquakes, floods, among others. The company primarily operates in Japan which is a highest earthquake prone region in the world. The country has witnessed many devastating earthquakes in the recent years which seriously disrupted the economy. In March 2011, the country witnessed one of the worst hit earthquakes in its history in the form of 2011 Tohoku earthquake (the Great East Japan Earthquake) off the Pacific coast of Tohoku. The earthquake triggered powerful tsunami waves that caused a number of nuclear accidents, primarily at three reactors in the Fukushima I Nuclear Power Plant complex.

The natural disaster rendered the SOFTBANK's telecommunications services difficult or impossible to use in some areas. In mobile communications services, 3,786 base stations were affected and no longer transmitting due to the earthquake. Further, in fixed-line telecommunications services, approximately 178,000 lines were affected by the disaster. The group had taken several initiatives in deploying mobile base station vehicles and mobile power supply vehicles, as well as temporary base stations that combine equipment for satellite uplink and IP mobile phone base stations. Furthermore, SOFTBANK recorded a loss on disaster of JPY14,416 million (\$168.7 million). Such natural calamities, if occur frequently could severely impact the group's overall revenue and profitability.

#### Weak economic outlook for Japan

SOFTBANK derives almost all of its revenues from Japan region. Japan's economy has been impacted by decline in exports and consumer demand in the recent past and is slowly recovering from the recent global economic recession. In addition, according to the IMF world economy outlook, the real GDP growth of the Japan is expected to slow down due to European debt crisis. Moreover, the recent earthquake and tsunami in March 2011 had a serious social and economic impact. According to the Japan Cabinet Office, the GDP dropped 2.3% on an annualized basis at the beginning of 2012. The GDP is further forecasted to fall to 1.7% for 2012. Such weak economic outlook for Japan is likely to impact the revenues of SOFTBANK in the near future.

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