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The \$100bn bet

# The meaning of the Vision Fund

05/10/2018 - 07:34



Getty Images/The Economist

Succeed or fail, Masayoshi Son is changing the world of technology investing

TWO years ago, if you had asked experts to identify the most influential person in technology, you would have heard some familiar names: Jeff Bezos of Amazon, Alibaba's Jack Ma or Facebook's Mark Zuckerberg. Today there is a new contender: Masayoshi Son. The founder of SoftBank, a Japanese telecoms and internet firm, has put together an enormous investment fund that is busy gobbling up stakes in the world's most exciting young companies. The Vision Fund is disrupting both the industries in which it invests and other suppliers of capital.

The fund is the result of a peculiar alliance forged in 2016 between Mr Son and Muhammad bin Salman. Saudi Arabia's thrusting crown prince handed Mr Son \$45bn as part of his attempt to diversify the kingdom's economy. That great dollop of capital attracted more investors—from Abu Dhabi, Apple and others. Add in SoftBank's own \$28bn of equity, and Mr Son has a war chest of \$100bn. That far exceeds the \$64bn that all venture capital (VC) funds raised globally in 2016; it is four times the size of the biggest private-equity fund ever raised (see Briefing). One VC grandee calls Vision Fund “the most powerful investor in our world”.

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Power does not necessarily mean success. Sceptics about the Vision Fund have lots of ammunition. After a long bull market, the valuations of tech firms are stretched. Mr Son personally makes most of the investing decisions. He has notched up some triumphs in his career, including an early bet on Alibaba. But his dotcom-era investments mean he is also the person to have lost more money than anyone else in history. His pursuit of the “singularity”, the point at which computer intelligence exceeds the human kind, might make him a visionary—or just an eccentric. The money is being shovelled out almost as fast as it was taken in. The fund has already spent \$30bn, nearly as much as the \$33bn raised by the entire American VC industry in 2017. And because about half of its capital is in the form of debt, it is under pressure to make interest payments. This combination of gargantuanism, grandiosity and guaranteed payouts may end up in financial disaster. Indeed, the Vision Fund could mark the giddy top of the tech boom.

But even if the fund ends up flopping, it will have several lasting effects on technology investing. The first is that the deployment of so much cash now will help shape the industries of the future. Mr. Son is pumping money into “frontier technologies” from robotics to the internet of things. He already owns stakes in ride-hailing firms such as Uber; in WeWork, a co-working company; and in Flipkart, an Indian e-commerce firm that was this week sold to Walmart (see article). In five years' time the fund plans to have invested in 70-100 technology unicorns, privately held startups valued at \$1bn or more. Its money, often handed to entrepreneurs in multiples of the amounts they initially demand and accompanied by the threat that the cash will go to the competition if they balk, gives startups the wherewithal to outgun worse-funded rivals. Mr Son's bets do not have to pay off for him to affect the race.

Mr. Son's second impact will be on the venture-capital industry. To compete with the Vision Fund's pot of moolah, and with the forays of other unconventional investors, incumbents are having to bulk up. Sequoia Capital, one of Silicon Valley's most

famous names, is raising its biggest-ever fund in response. Mr. Son is also bringing capital to places where it is still in fairly short supply—to India, to South-East Asia and to several European countries. When the Vision Fund invested close to \$500m in Improbable, a British virtual-reality firm, it broke a funding record, and its €460m (\$565m) in Auto1, a German online car dealer, was one of the country's biggest such investments in several years. Rather than wait for founders to make the trip to California, investors are under greater pressure to seek out entrepreneurs.

The Vision Fund's unprecedented span, across countries and industries, leads to its third impact. Mr. Son says he wants to create a “virtual Silicon Valley in SoftBank”, meaning a platform on which unicorns can offer each other contacts and advice, buy goods and services from each other, and even join forces. The concept of portfolio companies collaborating is familiar from private equity, but the fund's sheer breadth marks it out. Mr. Son is, for example, trying to orchestrate his various ride-hailing investments so that they do not burn through so much cash by competing with each other. He encouraged Uber to sell its South-East Asian business to Grab earlier this year and is urging it to make a deal in India with Ola.

The Vision Fund model is disruptive, then. But is it good for innovation and consumers? Mr. Son's project certainly has its attractions. It is shaking up the cosy world of Silicon Valley venture capital. And it may nurture competition against the tech giants. The fund offers founders of startups an alternative to cashing out to the likes of Google, Facebook and Amazon; its massive chequebook also gives those entrepreneurs a better shot at competing with the titans. The fund may perform a similar function in China, where nearly half of all unicorns are by now backed by one of the country's four tech giants, Baidu, Alibaba, Tencent or JD.com.

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Yet its disadvantages extend beyond the risk of losses. Its sheer size risks raising the cost of running a startup for everyone. Young firms that receive its cash often spend it on sales and marketing, which puts pressure on every other company in the industry to spend as lavishly in order to acquire customers. Companies that receive hundreds of millions of dollars of capital in one go are elevated far above their competitors. That hands a single individual kingmaking powers, while keeping young firms out of the clarifying glare of the public markets for even longer. Attempts to carve up markets among portfolio firms may in time raise a different set of competition concerns.

A proper verdict on the Vision Fund will not be possible for years. But the fate of many startups and the choices consumers enjoy in the future will be guided by the bets Mr. Son is making today. Fortune's biggest wheel is spinning.

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