

SOFTBANK TOP HOLDING: OUR NEW JAPAN ETF PROVIDES INDIRECT EXPOSURE TO ALIBABA

Jeremy Schwartz – Global Chief Investment Officer
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Alibaba Group Holding Ltd. recently filed with U.S. exchanges¹ for approval to sell shares to the public for the first time, which could amount to one of the largest [initial public offering \(IPO\)](#) in history. Alibaba is an Internet-based e-commerce business, similar to companies like Amazon² and eBay³, but it is even larger than the combination of the two from a revenue perspective. From a business model perspective, it includes online payments, cloud services, online travel, music and video streaming, e-learning and even financial services. A lure among investors is Alibaba's unparalleled access to more than 1.3 billion potential consumers in China and, more importantly, potential access to China's growing middle class. **SoftBank Corp. Has Benefited from Alibaba** One of the beneficiaries, if there were no further dilution of its stake through the IPO⁴, of Alibaba's success is SoftBank Corp., which owns approximately 34.4% of Alibaba. SoftBank⁵ is the largest holdings in the WisdomTree Japan Hedged Tech, Media and Telecom Fund (DXJT). For current holdings of DXJT [click here](#). Since the start of "[Abenomics](#)", SoftBank is up about 150%, approximately three times the [TOPIX](#) return of 53%.⁶ Please keep in mind that high double-digit and/or triple-digit returns are highly unusual and cannot be sustained. Investors should also be aware that these returns were achieved primarily during favorable market conditions. There is no question that the Abenomics policies have helped profitability and equity returns of both SoftBank and broad Japanese equities and many investors are optimistic about Alibaba, but without access to it, they have the opportunity to purchase SoftBank to gain exposure to Alibaba. SoftBank recently announced record earnings for its most recent fiscal year, proudly boasting about generating more than ¥1 trillion of operating profit, a 36% increase year-over-year.⁷ SoftBank also reported that Alibaba Group's net income grew four times year-over-year to more than ¥350 billion. Transaction volume for Alibaba also surged to ¥25 trillion, outpacing eBay's and Amazon's combined ¥16 trillion. SoftBank stated that Alibaba contributed ¥74.4 billion of the ¥586.1 billion, or approximately 13%, of its reported net income. Alibaba's estimated market value ranges from ¥12.5 trillion to ¥20.0 trillion (US\$125 billion to US\$200 billion) based on analyst estimates, so given SoftBank's 34.4% ownership, its stake could potentially be valued at between ¥4.3 trillion and ¥6.9 trillion (US\$43 billion to US\$69 billion). Considering that SoftBank's market value was ¥9.36 trillion (US\$91 billion) at the end of the reporting period⁸, Alibaba's value could represent anywhere from 45% to 75% of SoftBank's market value.⁹ If the projected valuation range for Alibaba is accurate, I find it very interesting that Alibaba represents such a large percentage of SoftBank's market value. Alibaba has reported that SoftBank will continue to own more than 30% of its issued and outstanding ordinary shares after the completion of the initial public offering¹⁰. But it is also important to consider that even without the Alibaba equity ownership, SoftBank was profitable over the reporting period and has other business ventures and pursuits. Last year, SoftBank successfully took control of Sprint¹¹ and is pursuing a deal with T-

Mobile¹². Masayoshi Son¹³ has attributed the ultra-low financing that is available in Japan as a key factor in helping spur mergers and acquisitions. Given his longer-term outlook and the cheap financing, it is clear that SoftBank desires to continue growing, and he views Alibaba as a strategic partner for its long-term success. [WisdomTree Japan Hedged Tech, Media and Telecom Fund \(DXJT\)](#) wisdomTree developed five new [Japan sector exchange-traded funds \(ETFs\)](#) designed to be vehicles for investment themes stemming from Abenomics, depending on investors' objectives. DXJT is designed to provide exposure to tech, media and telecom companies in Japan, while at the same time hedging the currency exposure. The Fund has more than 60% weight in the Information Technology sector and approximately 20% in both the Telecommunication Services and Consumer Discretionary sectors. Currently, the Fund's top holding is SoftBank, with a weight of 9.99%¹⁴. With this large allocation to SoftBank and how much of its [market cap](#) is derived from Alibaba, some may want to look to DXJT as an indirect way to participate in the potential growth of Alibaba. **Abe's Growth Strategies** I believe equity markets will remain supported as Abenomics continues to gain traction and especially as Japanese prime minister Shinzo Abe makes more progress on his growth strategy for Japan [the third arrow of Abenomics](#). Abe is pursuing pro-business issues by arguing for a lower corporate tax rate and urging companies and investors to stay focused on generating profits. Technology companies should also receive a boost from new government initiatives supporting additional capital spending and tax policies encouraging business consolidation. DXJT, with the heavy weight to SoftBank, is even more in focus now with news of this latest IPO. ¹New York Stock Exchange and the NASDAQ Global Market ²Amazon was a constituent of the WisdomTree Earnings 500 Fund (0.009%) and the WisdomTree Total Earnings Fund (0.002%) as of 5/1/14 ³eBay was a constituent of the WisdomTree Earnings 500 Fund (0.27%) and the WisdomTree Total Earnings Fund (0.24%) as of 5/1/14 ⁴Source: Alibaba Registration Statement ⁵SoftBank was also a constituent of the WisdomTree DEFA Fund (0.13%) and WisdomTree International LargeCap Dividend Fund (0.16%) as of 5/1/14 ⁶Source: Bloomberg, 11/30/12-4/30/14 ⁷Source: SoftBank earnings presentation, 5/7/14 ⁸Reporting period 3/31/13-3/31/14 ⁹Sources: WisdomTree, Bloomberg, 3/31/14 ¹⁰The drop from the current ownership stake of approximately 34.4% to more than 30% is an estimate of the impact of dilution on SoftBank's ownership stake. It is impossible to know with certainty how this picture will look after the IPO, but the point is that SoftBank is likely to remain a major stakeholder in Alibaba and is reasonable given public information up to 5/1/14 ¹¹Sprint was not a constituent of any WisdomTree Fund as of 5/1/14 ¹²T-Mobile was a constituent of the WisdomTree Total Earnings Fund (0.018%) and the WisdomTree Earnings 500 Fund (0.005%) as of 5/1/14 ¹³Masayoshi Son is founder and chief executive officer of SoftBank ¹⁴Source: WisdomTree, 5/1/14

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DEFINITIONS

Initial public offering (IPO): The first sale of stock by a private company to the public.

Abenomics: Series of policies enacted after the election of Japanese Prime Minister Shinzo Abe on December 16, 2012 aimed at stimulating Japan's economic growth.

Tokyo Stock Price Index (TOPIX): A free float-adjusted market capitalization-weighted index that is calculated based on all the domestic common stocks listed on the Tokyo Stock Exchange First Section.

Market Capitalization: Market cap = share prices x number of shares outstanding. Firms with the highest values receive the highest weights in approaches designed to weight firms by market cap.

Third arrow policies: The part of Japan's Abenomics process of reform that is focused on structural changes intended to promote economic growth.