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SoftBanks's Vision Fund II: Uncertainty Amidst WeWork's Failed IPO

By Chris Gronseth, J.D. Candidate 2022 | October 10, 2019

What would you do with $100 billion? Masayoshi ("Masa") Son, UC Berkeley graduate and SoftBank founder and CEO, raised that amount for SoftBank's Vision Fund ("Vision Fund") to use as a vehicle for private equity investments. In the process, he has subsequently transformed the private market, venture capital ("VC"), and investing landscape. To put the size of Vision Fund in perspective, total 2018 VC fundraising in the U.S. last year came to approximately $54 billion across 200 different funds. Vision Fund drew its financial backing from SoftBank, Saudi Arabia's sovereign wealth fund, Abu Dhabi's national wealth fund, Apple, Qualcomm, Foxconn, and others. Given the large fund size, Son set an unprecedented $100 million floor for individual investments with a focus on late-stage technology companies.

Since its inception, Vision Fund's financial metrics have been impressive. Last May, Son announced a 45% return and 29% net blended IRR (after fees), bolstered in part by exits in Nvidia and Flipkart and unrealized gains in OYO, Compass, Opendoor, DiDi, and DoorDash. Vision Fund states that its investment return targets are over 7-10 years from the initial investment, and with over 80 portfolio companies yet to achieve realized gains, there is certainly high potential for continued outsized returns in the years to come. As a result of these successes, Son recently announced fundraising targets for an even larger second vision fund ("Vision Fund II").

However, Vision Fund has also drawn its share of criticism. Jamal Khashoggi's death in October 2018 drew attention to Saudi Arabia's financial stake in Vision Fund, causing several Silicon Valley VCs to publicly speak out about the role that Saudi Arabia plays in funding U.S. startups. Additionally, some VCs are concerned about the size of Vision Fund's individual investments, which are forcing traditional VCs to either increase their investments in prospective portfolio companies or risk getting priced out of fundraising rounds. Some skeptics argue that larger private investments add excess cash to startups, which may spur lax corporate governance, unprofitable business models, and an over-inflation of private company valuations.

While Vision Find II was tentatively set to make its debut in late 2019, WeWork's recently botched IPO placed the spotlight on SoftBank and brought their plans for Vision Fund II into question. Vision Fund was the largest financial backer of WeWork, pouring over $10 billion into the unprofitable business. SoftBank reportedly scrapped WeWork's IPO after its $47 billion private market valuation was set to implode down to $15 billion. Other high-profile Vision Fund portfolio companies – think Uber and Slack – have faced similar scrutiny. For example, Uber's stock fell nearly 30% from its initial IPO price and Slack's stock is down 4% from its direct public listing price.

SoftBank's stock decreased by 10% in the past month, and reports indicate that it does not have enough cash to independently fund Vision Fund II. Son originally planned to finance much of Vision Fund II using realized gains from existing portfolio companies, but public investor enthusiasm for unprofitable high-growth companies has recently cooled. Combined with the negative press surrounding Saudi Arabia's financing of Vision Fund, it remains to be seen where Vision Fund II will draw its financial backing. In the meantime, the investment world cautiously awaits Vision Fund II's official launch.