

Colossal SoftBank fund could shake up tech world

November 12 2017

Japan-based SoftBank is sending tremors through the tech world with a massive new venture capital fund for investing in startups that's expected to dominate the industry so thoroughly it's playfully referred to as a "gorilla."

The Vision Fund's \$100 billion coffers nearly equals the total amount pumped into venture capital-backed companies last year, according to market intelligence firm CB Insights, and some say it may be a game-changer for Silicon Valley.

"SoftBank shows a remarkable amount of bravery, confidence and optimism to look to apply this much money in technology," said Bill Maris, who started Google Ventures nearly a decade ago and runs his own California-based investment firm Section 32.

"I can't say it's a wrong bet, if you think the trends in tech will continue in the future. I would be much more worried if SoftBank was saying tech is dead."

Last year, VC-backed firms received \$100.8 billion across 8,372 deals around the world, according to CB Insights data.

The huge amount of cash could accelerate the trend where fast-growing startups remain private—without the scrutiny and transparency of a [stock market debut](#).

Some investors worry that the Vision Fund will buy into startups at high prices, overinflating the market, while crowding out other investors and prolonging the time it takes for young companies to go public.

SoftBank has outlined plans to focus on late-stage investments when startups are more established, and on investments of at least \$100 million.

Matchmaking

The SoftBank fund is widely expected to pump some \$10 billion into ride-sharing giant Uber, which has a whopping valuation near \$70 billion. Such a deal would boost the profile of the Japanese group in Silicon Valley.

Maris predicted the venture capital market would adapt to the Vision Fund, and in the end there would be more money available for entrepreneurs.

"I always think more dollars available to innovators and inventors is a good thing," Maris said.

"If it does shake up the market, maybe things do need to be shaken up a little bit."

SoftBank chief executive Masayoshi Son has demonstrated a strategic appreciation for bringing together startups with the potential to benefit one another, according to analyst Patrick Moorhead of Moor Insights & Strategy.

Moorhead added that he was expecting either spectacular wins or failures from the Vision Fund, nothing in between.

"It is looking for mega-investments," he said.

Consolidation goals

SoftBank's early, lucrative, investment in Alibaba was part of a strategy focused on booming e-commerce in China, according to GGV Capital managing partner Hans Tung.

SoftBank's recent investments in ride-sharing firms in various countries fits a pattern of seeking money-making synergies by bringing competitors together to share technology, learnings and more.

"Masayoshi Son understands the value of consolidation," said Tung.

"It is affecting the way society moves from less efficient to more efficient, and the amount of innovation that could happen."

"If consolidation is somewhat expedited with SoftBank money, that is not necessarily a bad thing," Tung said.

He added the caveat that the kind of power that comes with such a large fund could be abused.

"If that money is used correctly, he should do well and do better for society," Tung said of Son.

"We don't need five ride-share companies battling each other."

For example, making industries, financial institutions, and health care more efficient with big investments might be welcomed.

Analyst Moorhead likened Son's style of investing to "matchmaking," targeting diverse companies that could help one another in the future.

Targets for the Vision Fund were expected to include e-commerce, ride-sharing, robotics and machine learning.

SoftBank has shown preference for technology trends with the potential to spread across borders and have significant impact on society, according to those who have tracked the company.

And with all the data collected by ride-sharing, e-commerce and other platforms, investing in artificial intelligence to mine insights from mountains of information makes sense.

"I don't see it impacting the entrepreneurs in the garage; those are typically smaller seed rounds," Moorhead said of the Vision Fund.

Since SoftBank has indicated it will make late-stage investments, its moves could become signals startups are planning to go public.

That strategy also leaves early funding of entrepreneurs to others, but could squeeze the profits of those investors when SoftBank negotiates from a position of strength to buy them out down the road.

"I admire the fact he is doing something visionary, I imagine that is why they call it the Vision Fund," Maris said.

"It is about investing in other people's dreams instead of squirreling the money away for yourself. Someone is making a really optimistic bet on the future."

© 2017 AFP

Citation: Colossal SoftBank fund could shake up tech world (2017, November 12) retrieved 14 May 2024 from <https://phys.org/news/2017-11-colossal-softbank-fund-tech-world.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.