

## WHAT ABOUT ARM? BY: LAURIE BALCH AND MARY OLSSON

While discussing investment issues with a financial analyst, we noticed the announcement that SoftBank Group Corporation of Japan will acquire ARM Holdings plc, of Cambridge, England, for \$32.34 billion. The acquisition will require approval of at least 75 percent of voting shareholders. The analyst was very familiar with SoftBank Group Corporation, but knew very little of ARM. SoftBank is a large investor with Internet and wireless sectors. SoftBank operates businesses in advanced telecom and consumer Internet companies.

### A Little ARM History

ARM was founded in 1990, and quickly grew its revenue base built on an ecosystem of partners. As the late Gary Smith noted in 2011, ARM's success was built from the Intel Playbook Strategy. ARM captured a strong CPU position in the emerging heterogeneous processor cluster architecture war developed for the Mobile world. Intel was king of the PC world with homogeneous processor vendors.

By 2014 ARM had become a leader in semiconductor IP technology, offering design solutions and licensing IP to create SOC platform designs. ARM grew its EDA revenue by 17.5 percent in 2014 to \$1,250.6 million. They were ranked number 3 behind Synopsys and Cadence Design Systems. ARM successfully collaborated with TSMC (the number one Foundry supplier) on IP building blocks, EDA tools and design flow.

### A GSEDA Perspective

From our perspective, in the short term this acquisition likely changes nothing in the market. ARM has a solid position of strength in the smartphone market and is making good inroads into IoT design opportunities as well. Their product roadmap is well-positioned to take advantage of new semiconductor design concepts and electronic system creation. The company is in good financial shape to organically grow and advance its product and customer portfolios. Being part of the SoftBank corporate umbrella doesn't change any of that in the immediate term.

SoftBank understands that ARM has a great business model already and is unlikely to upset that anytime soon. SoftBank's stated commitment to increase headcount both in the UK and across the globe is encouraging and should help to diffuse concerns about job security within the ranks of ARM. ARM employees will probably continue to operate in a "business as usual" mode and customers will probably not see any real difference in their relationship with the company either.

A larger concern is that SoftBank may well be putting itself in a challenging financial position to accomplish this acquisition. They are likely to take on significant debt to do this deal and that could potentially jeopardize their financial stability in the longer term. For instance, if their Sprint telecom division suffers from SoftBank not having sufficient cash to infuse into that business, it could drag down the whole conglomerate. Might that negatively impact ARM (and all their other corporate divisions)? Perhaps. On a positive note, the CEO of SoftBank seems to have a pretty good track record of managing his investments and technology division, which is encouraging.

Thus the magnitude of this deal is not without financial risk. However, there is also significant potential upside to SoftBank's other business units from learning and collaborating with ARM. With SoftBank's existing Sprint and Domestic Telecommunications segments coupled with ARM, SoftBank will now have the full smartphone design and distribution chain under one roof. Controlling the hardware IP, operating system and distribution channel has obvious benefits for near-term opportunities in the smartphone market, which is presently ARM's stronghold and a core focus for several SoftBank divisions.

Still, the long-term strategy for both ARM and SoftBank is still looking beyond smartphones to the broader IoT space, but that's more of a future vision than a guaranteed reality. In particular, SoftBank's robotics unit could derive advantages from closer ties to ARM. ARM could also benefit from such a tight relationship with developers on the cutting edge of IoT implementation. Knowledge gained from working intimately with leading-edge engineering teams in market segments beyond mobile computing could give ARM a leg up on the competition in pursuing IoT design-in dominance.