



ARM Holdings plc Q2 and H1 2010 Results

**27 July 2010
London**



The Architecture for the Digital World®



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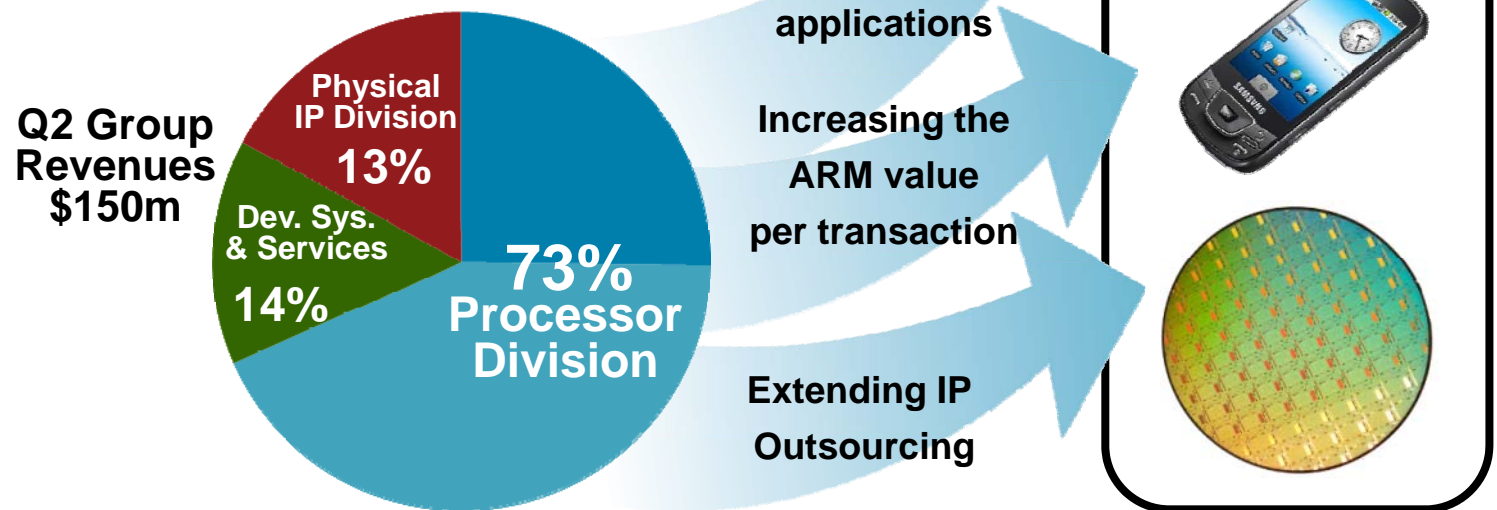
Business Update

Warren East
Chief Executive Officer



Q2 2010 Highlights

- ARM strategically well positioned for long-term growth
 - Outperformed the semiconductor industry through the cycle
 - Gaining share in end markets with structural growth drivers
 - Influential market leaders adopting ARM technology increases long-term growth opportunity in multiple end markets
- Physical IP strategy on track
 - TSMC licenses advance technology for 28nm and 20nm nodes
- Group backlog at record levels after strong Q2
- Financial discipline delivering profits and cash

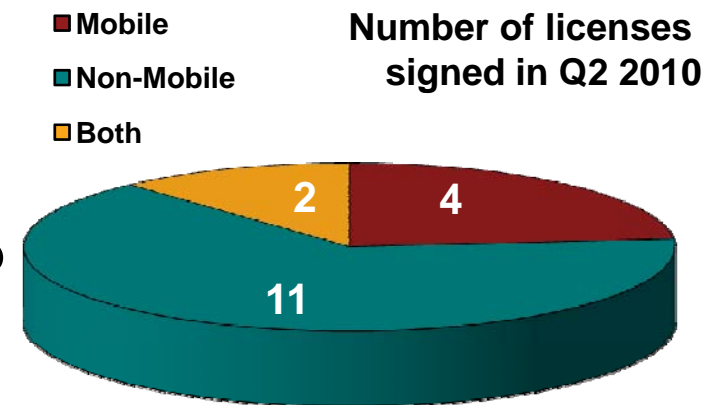
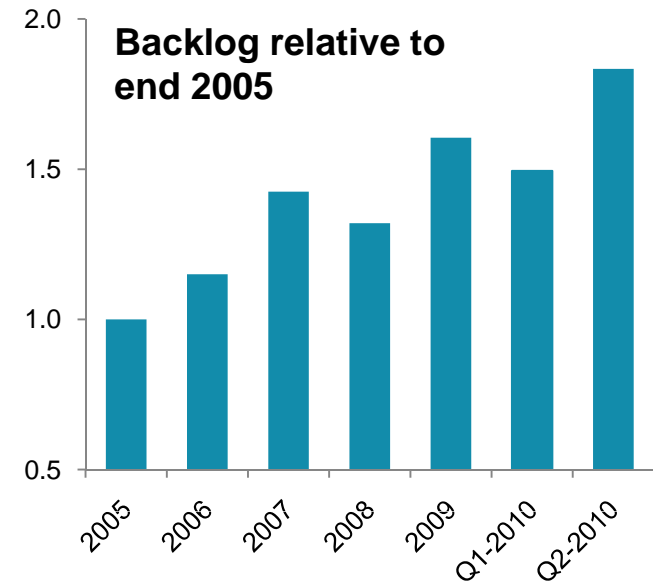


Processor Licensing

25%
Q2 group \$revs



- Q2 revenues at \$36.6m, strong booking quarter drives backlog to record levels
- Base of licenses grows to over 690 with 17 licenses signed in the quarter
 - Microsoft signs an architecture license extending long-term collaboration
 - 5 licenses for Cortex™-A class processors including a third lead licensee for “Eagle”
 - 6 licenses for Cortex-M class mainly going into microcontrollers
 - Three further commitments to Mali graphics technology – licenses total now 29
- Non-mobile is strong driver for licensing
 - DTV, microcontrollers and smartmeters
- Mobile opportunity as new customers develop first ARM based chips for mobile phones and mobile computers



Microsoft Architecture License

- Microsoft have licensed the ARM architecture
 - Collaborating on advanced technology for over 13 years in mobile and consumer electronics
 - Multi-year license enables Microsoft to be at the forefront of working with ARM technology, across a broad range of businesses, addressing multiple application areas
- Architecture license allows customers to build their own ARM-compatible processor

Microsoft®

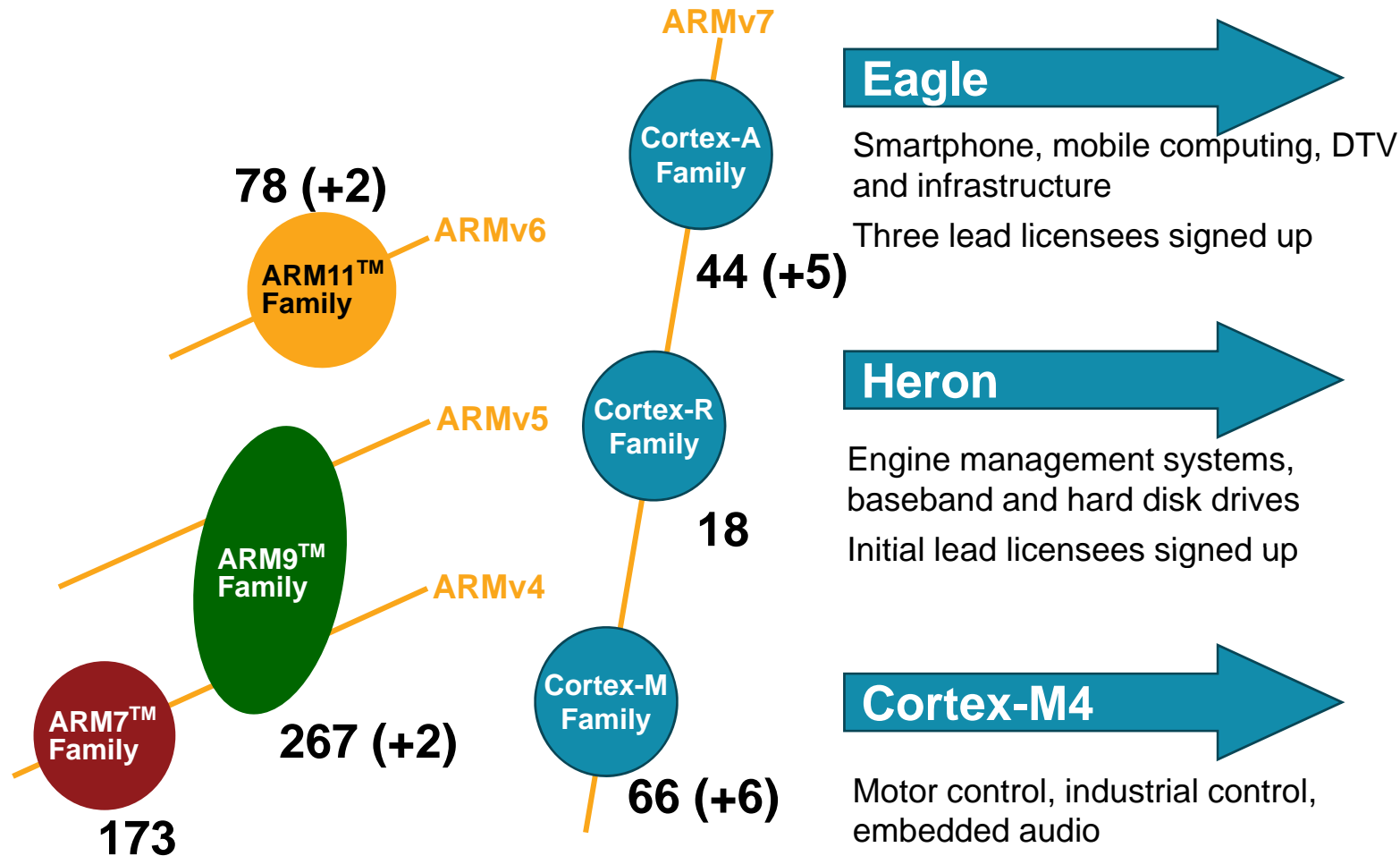


Growing the Licensing Base

Cumulative licenses
(Q2 2010 licensing shown in parenthesis*)

Processor Roadmap in 2010

Estimated Royalty Opportunity for 2014



Application Processors
3bn units per year

Real-time Embedded
10bn units per year

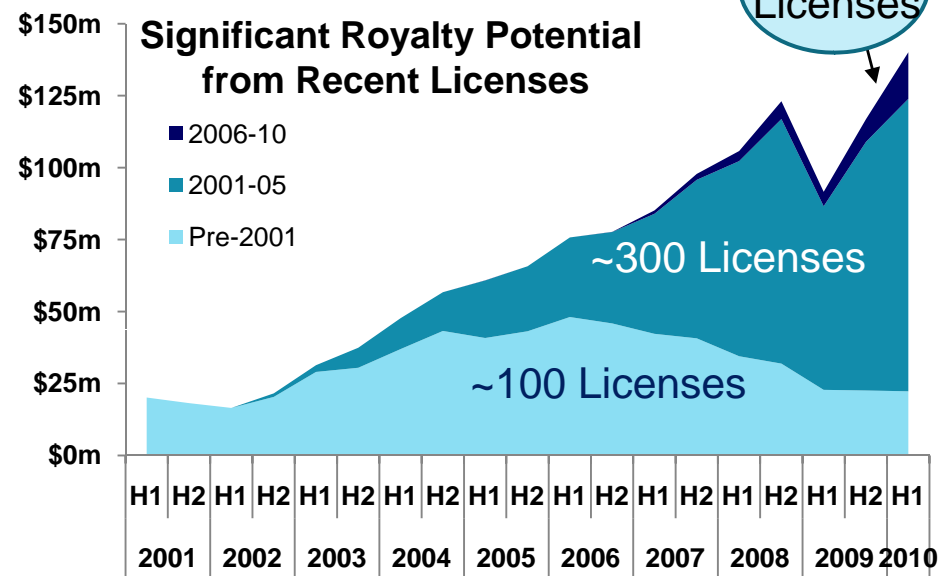
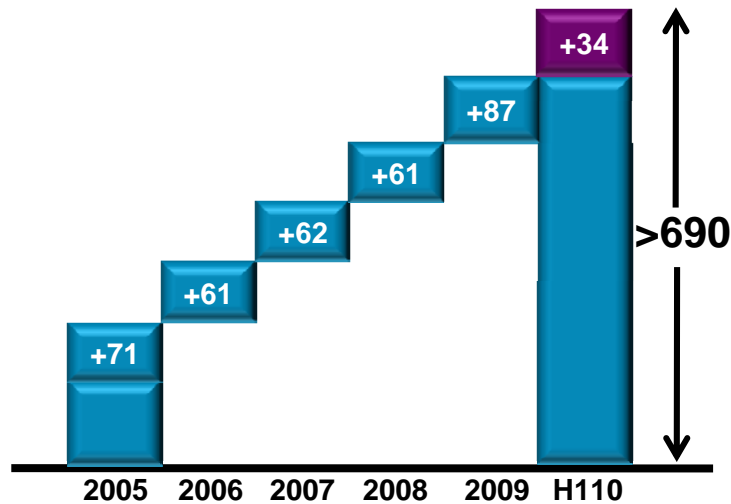
Micro-controllers
16bn units per year

Mali licenses = 29 (+1), Others = 21 (+1)

*Note: Licensing numbers adjusted for licenses that are no longer expected to generate royalties.


License Base Delivers Royalty Growth

- Each license can yield royalty revenues over very long period
- ARM's royalty revenue opportunity grows as:
 - New licensee starts to sell their first ARM-based chips
 - Existing customer starts to deploy ARM in a new division
 - ARM-based chips gain share and become the universal platform
 - New types of customer start to adopt ARM technology

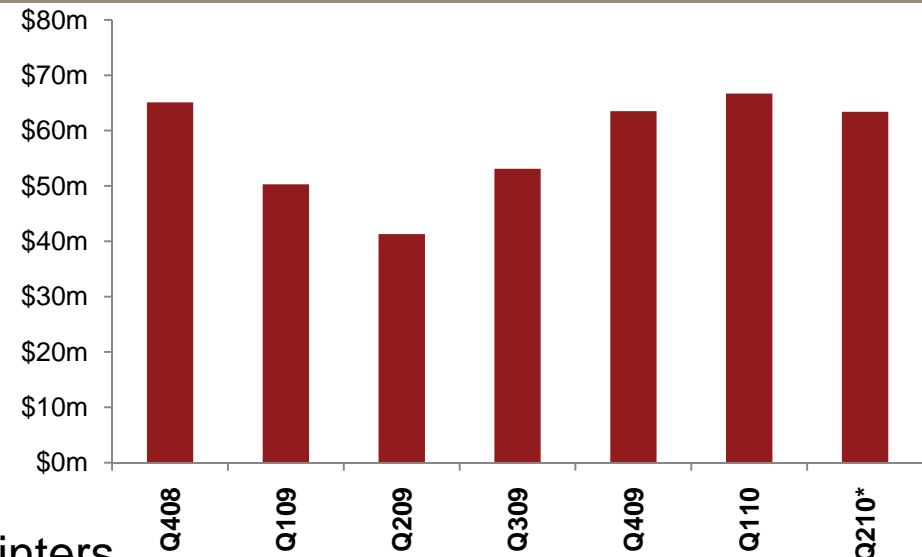


Processor Royalties

48%
Q2 group \$revs

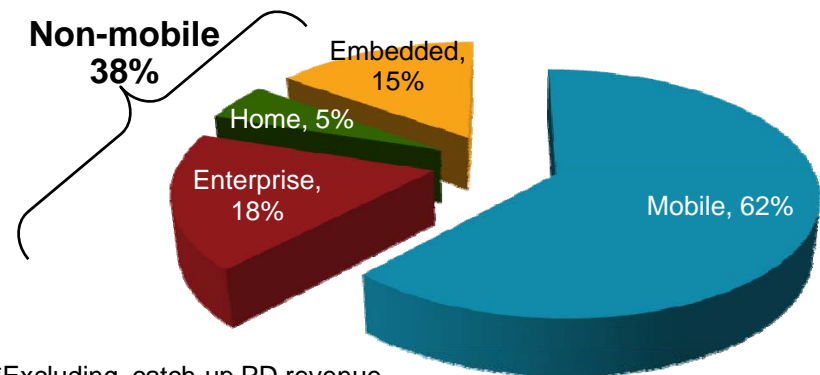


- Q2 royalty revenue* increases ahead of industry in the relevant period[†]
- Q2 units nearly double YonY
 - Cortex up 10 fold and represents 6% of all unit shipments
 - Cortex-A into mobile computers and smartphones
 - Cortex-R into disk drives and printers
 - Cortex-M into microcontrollers and wireless networking
 - Cortex-A typically at higher royalty percentage per chip
- Average royalty per chip 4.5c vs 4.8c in Q1 due to strong growth in Bluetooth, microcontrollers and wireless networking



*Q2 2010 excludes \$9m catch-up PD revenue

Q2 2010 Royalty Unit Split

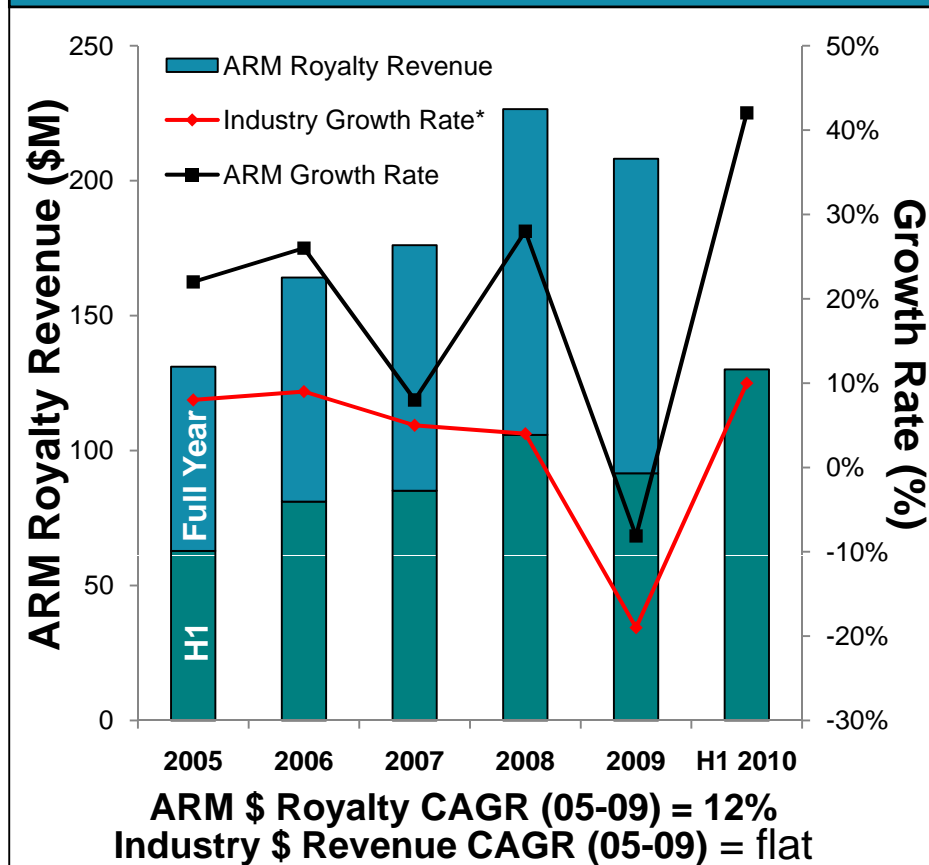


*Excluding catch-up PD revenue

†Source: SIA May 2010

Royalties Outperform Industry

H1 2010: ARM Outperforms Industry



* Source: SIA May 2010
 Offset 1 quarter to align with ARM's royalty revenue

Q2 2010: 1.4b units up ~95%

Industry units (ex-memory)* up ~40%

ARM mobile shipments up >50%

Industry shipments into mobile phones growing about 40% year-on-year

ARM digital TV shipments up >100%

Strong market share gains with market growing about 30% year-on-year

ARM microcontroller shipments up >100%

Strong market share gains with MCU market growing about 80% year-on-year

Advanced processor reported shipments

Cortex units up ~10 fold

Investing in the Software Ecosystem

- ARM invests in the ecosystem needed to create a rich and diverse community of third party developers around ARM processors

- Linaro collaboration provides common optimised Linux OS kernel and tools for Cortex-A based chips from multiple suppliers

- Linaro will provide the underpinning technology for leading Linux distributions
 - Easier for semis and OEMs to support multiple Linux distributions

- ARM invests across ecosystem
 - Over a decade of collaboration with Microsoft
 - Adobe Flash 10.1 now shipping
 - CMSIS standard for Cortex-M based microcontrollers



Recent ARM Powered Products

Internet Connected Screens

3bn
in 2014



Spring Design
Alex eReader



Compaq
Airlife 100



Samsung C7000



People of Lava Android TV



SkyViia Digital Media
Adopter

Real-time Processors

10bn
in 2014



Western Digital
My Passport disk drives



Dell Streak



Parrot AR Drone



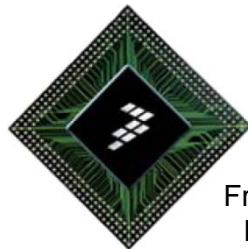
HP DeskJet



HTC
Desire

Embedded Computers

16bn
in 2014



Freescale
Kinetis



Marvell 2GHz
Plug Computer



Hyundai Sonata
Centre Console







Itron Openway
Smart Meter

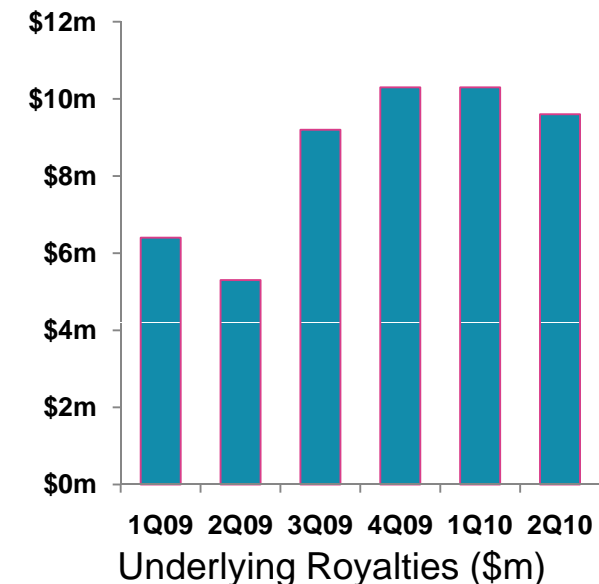
Physical IP



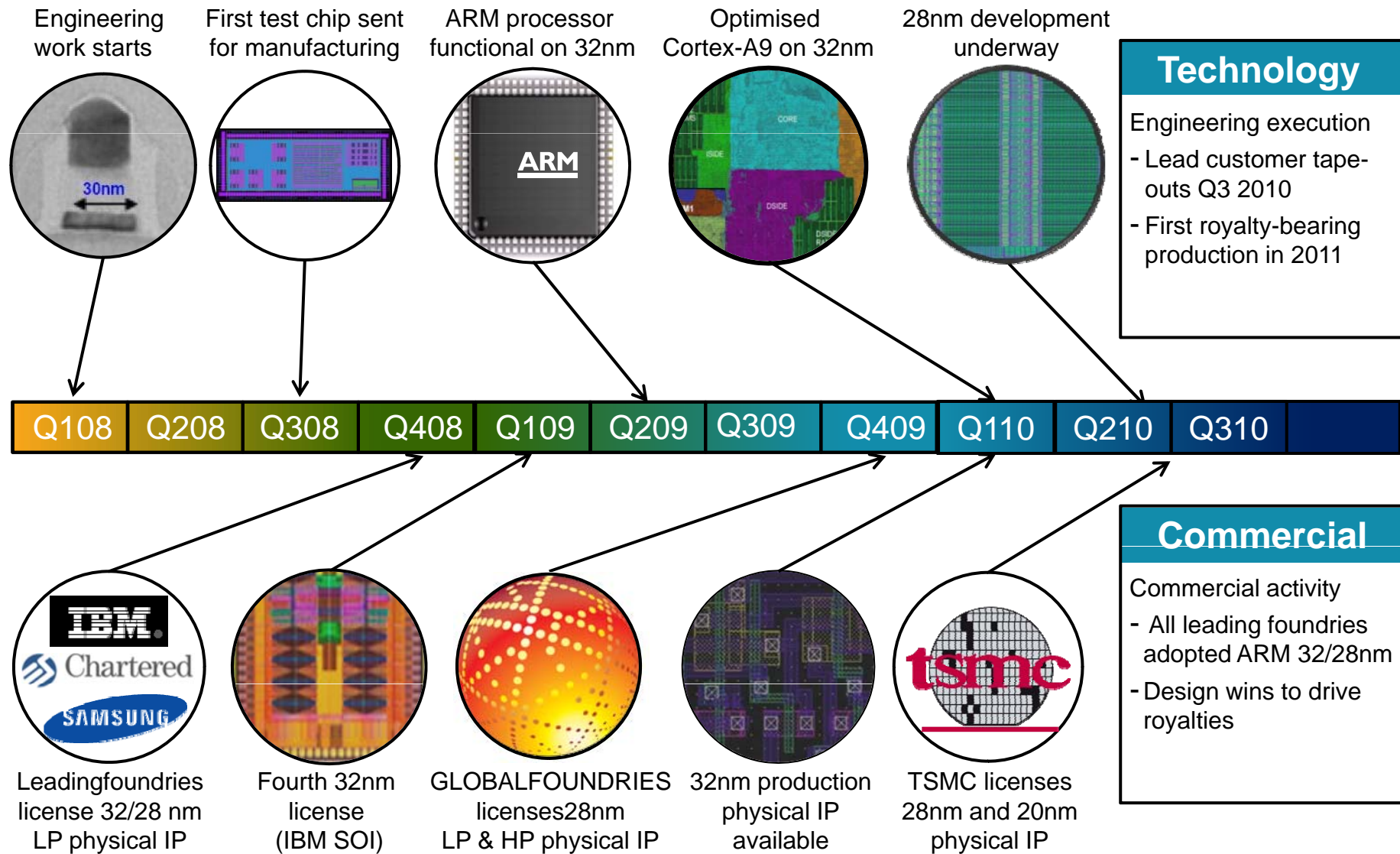
- Three new platform licenses in Q2 drives long-term revenue
 - Platforms at 45nm, 65nm and 130nm
 - More mature nodes allow more reuse, increasing profitability
- Early in Q3, TSMC licenses advanced physical IP platform at 28nm and 20nm
 - Includes high performance and low power process variants
- All major foundries have licensed ARM's physical IP at 32nm and/or 28nm
- Q2 royalty revenue \$9.8m
 - Underlying Q1 royalties at \$9.6m up ~80% on Q209

Advanced physical IP for leading foundries	
32nm* Production Ready	
28nm In Development	 
20nm Advanced R&D	

*32nm developed for GLOBALFOUNDRIES, IBM and Samsung



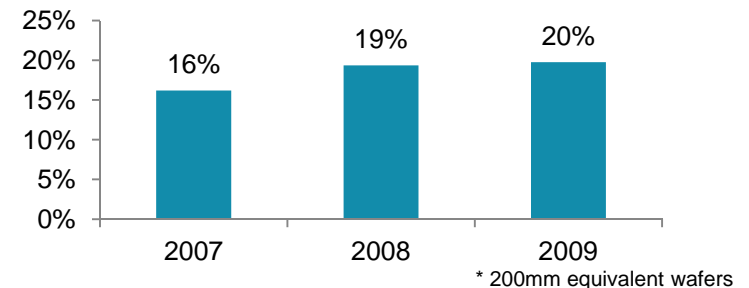
32/28nm Program on Track



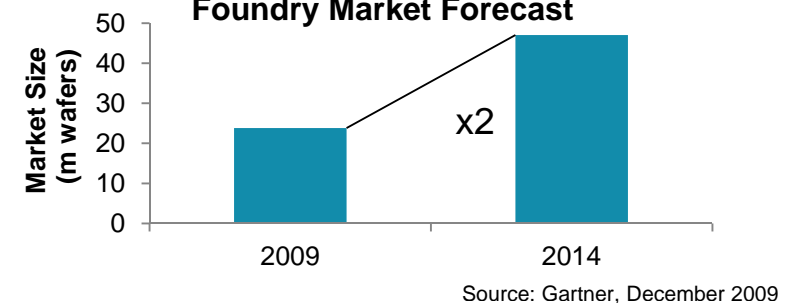
PIPD's Market Development

- PIPD market share has grown steadily
 - All major foundries licensed physical IP
- Foundry wafer volume expected to double as IDMs continue to outsource
- ARM well positioned for long-term royalty growth
 - Advanced foundries signed up for geometries at 45nm and below
 - Leading fabless semis starting to make outsourcing decisions
- Creates opportunity for growth as advanced nodes are forecast to become fastest growing nodes

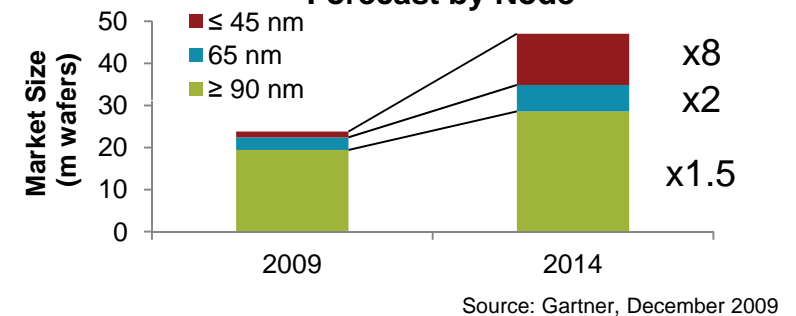
PIPD Market Share by No of Wafers*



Foundry Market Forecast



Forecast by Node



Summary

- Influential market leaders adopting ARM technology
 - Freescale, Microsoft, TSMC
- ARM is gaining share in long-term growth markets
 - Mobile devices, Digital TV, Disk drives, and Microcontrollers
- ARM has the best business model, technology and ecosystem for this time
 - Outperforming industry, royalty up 50%, driving profitability and cash generation, enabling investment in R&D and ecosystem for future growth



Financial Update

Tim Score
Chief Financial Officer

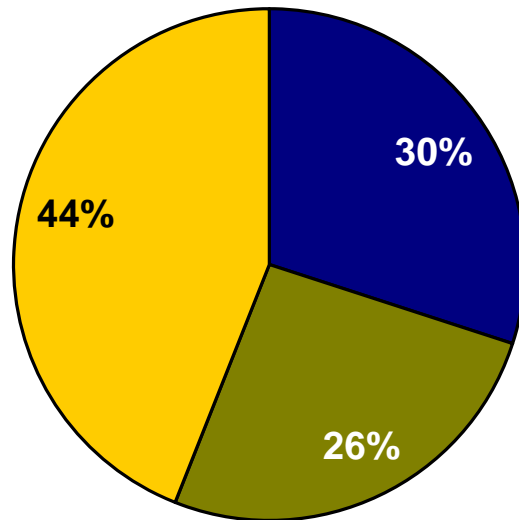


Q2 2010 Financial Highlights

- Strong licensing quarter
 - 17 processor deals and 3 physical IP platform licenses
 - Several licenses built backlog
 - Microsoft architecture license and Eagle lead license
 - Backlog up more than 20% sequentially and more than 50% year-on-year
- Broad adoption of ARM technology drives royalty revenue
 - Underlying royalties up over 50% on last year
 - \$9m catch-up PD royalty reported in Q2
- Accelerating investment in new technology development
 - Normalised opex expected to be £53-55m in Q3 (assuming Q2 fx rate)
- Margin expansion yielding strong net cash generation
 - £74.3m in H1 2010 vs £27.1m in H1 2009
 - Interim dividend increased by 20%

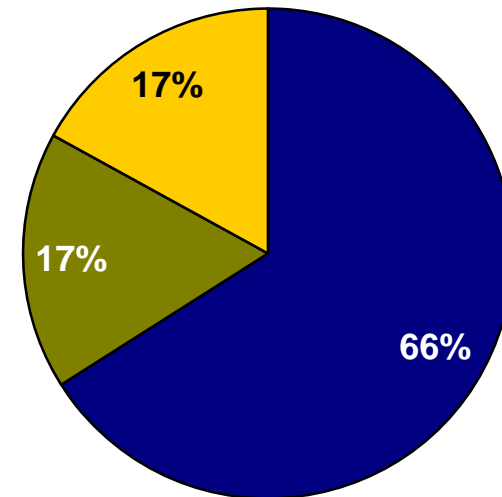
Backlog Analysis – End Q2 2010

Backlog by Maturity Profile



■ Q310/Q410 ■ Q111/Q211 ■ Q311+

Backlog Composition



■ Processors
■ Physical IP
■ Support, Maintenance & Other

Summary and Outlook

- Continued execution of ARM growth strategy in H1 2010
 - Broadening adoption of ARM processor and physical IP technology
 - Market share gains in target end-markets

- ARM is well-positioned going into H2 2010
 - Record order backlog
 - Opportunity pipeline remains robust
 - Market-share gains look set to continue
 - Impact of macroeconomic environment on end-consumer demand later in the year remains uncertain

- Reiterating confidence in FY2010 revenues
 - Expect group dollar revenues, excluding catch-up PD royalty revenues of \$9m reported in Q2, to be in line with current market expectations

Q&A



Appendix



Q2 2010 – Revenue Summary (\$)

	Q2 2010 \$m	Q2 2009 \$m	
PD			
Licensing	36.6	29.5	24%
Royalties†	72.5	41.3	76%
PD Total	109.1	70.8	54%
PIPD			
Licensing	10.4	9.2	13%
Royalties*	9.8	7.8	25%
PIPD Total	20.2	17.0	19%
Development Systems	13.4	10.3	30%
Services	7.6	7.4	4%
Total Revenue	150.3	105.5	42%

† Includes catch-up PD royalties in Q2 2010 of \$9.0m and in Q2 2009 of nil

* Includes catch-up PIPD royalties in Q2 2010 of \$0.2m and in Q2 2009 of \$2.6m

Q2 2010 – Revenue Summary (£)

	Q2 2010 £m	Q2 2009 £m	
PD			
Licensing	23.7	16.8	41%
Royalties†	49.3	26.8	84%
PD Total	73.0	43.6	67%
PIPD			
Licensing	6.7	5.2	29%
Royalties*	6.6	4.9	34%
PIPD Total	13.3	10.1	31%
Development Systems	8.9	6.5	38%
Services	4.8	4.6	5%
Total Revenue **	100.0	64.8	54%

† Includes catch-up PD royalties in Q2 2010 of £6.2m and in Q2 2009 of nil

* Includes catch-up PIPD royalties in Q2 2010 of £0.1m and in Q2 2009 of £1.6m

** US \$/£ effective rate of \$1.50 in Q2 2010 and \$1.63 in Q2 2009

H1 2010 – Revenue Summary (\$)

	H1 2010 \$m	H1 2009 \$m	
PD			
Licensing	70.8	61.5	15%
Royalties†	139.2	91.6	52%
PD Total	210.0	153.1	37%
PIPD			
Licensing	19.2	17.9	7%
Royalties*	20.6	15.9	29%
PIPD Total	39.8	33.8	18%
Development Systems	28.2	24.8	13%
Services	15.6	14.7	7%
Total Revenue	293.6	226.4	30%

† Includes catch-up PD royalties in H1 2010 of \$9.0m and in H1 2009 of nil

* Includes catch-up PIPD royalties in H1 2010 of \$0.7m and in H1 2009 of \$4.2m

H1 2010 – Revenue Summary (£)

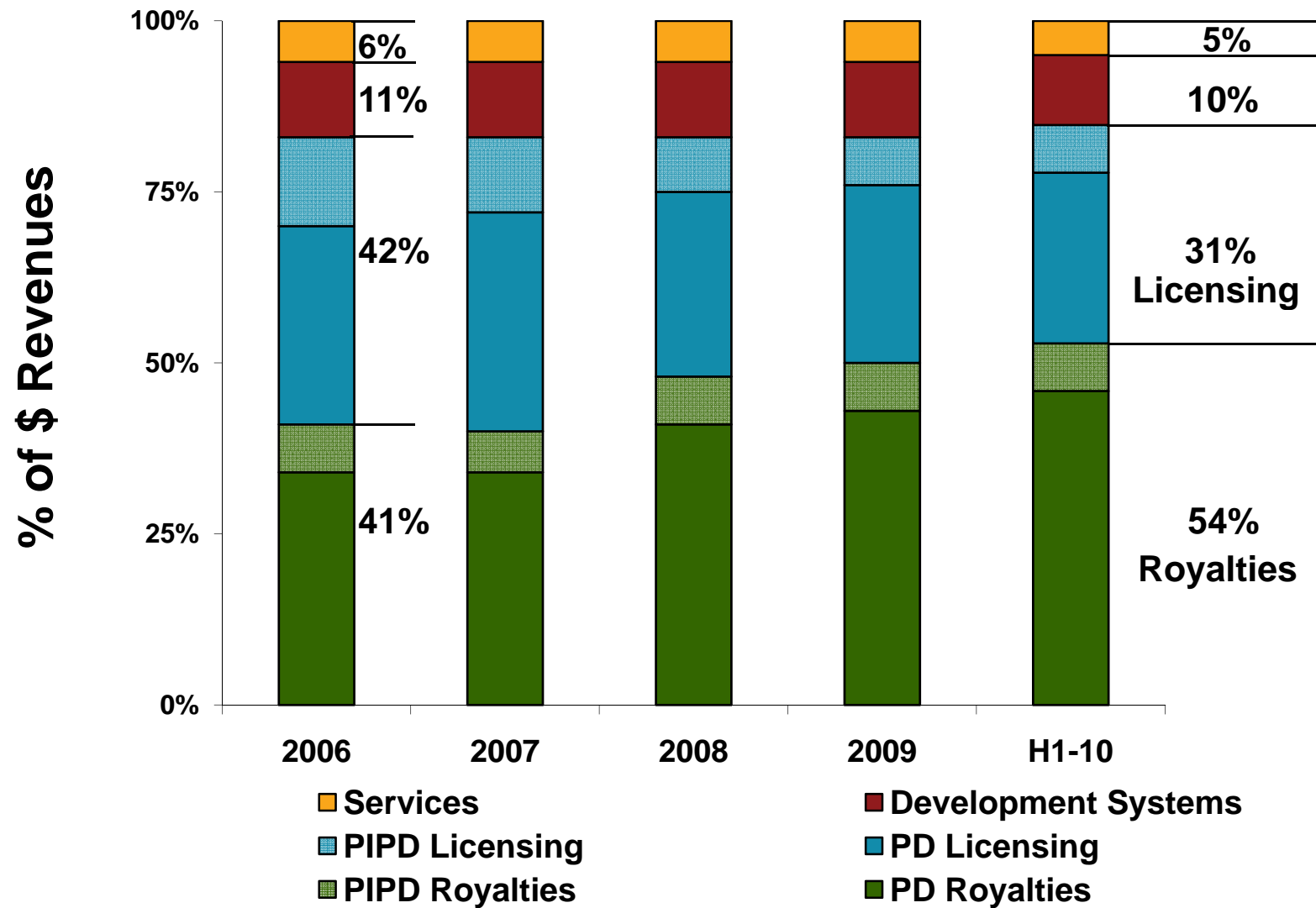
	H1 2010 £m	H1 2009 £m	
PD			
Licensing	45.5	36.4	25%
Royalties†	92.5	61.8	50%
PD Total	138.0	98.2	40%
PIPD			
Licensing	12.4	10.6	17%
Royalties*	13.5	10.5	28%
PIPD Total	25.9	21.1	23%
Development Systems	18.6	16.5	13%
Services	9.8	8.9	11%
Total Revenue **	192.3	144.7	33%

† Includes catch-up PD royalties in H1 2010 of £6.2m and in H1 2009 of nil

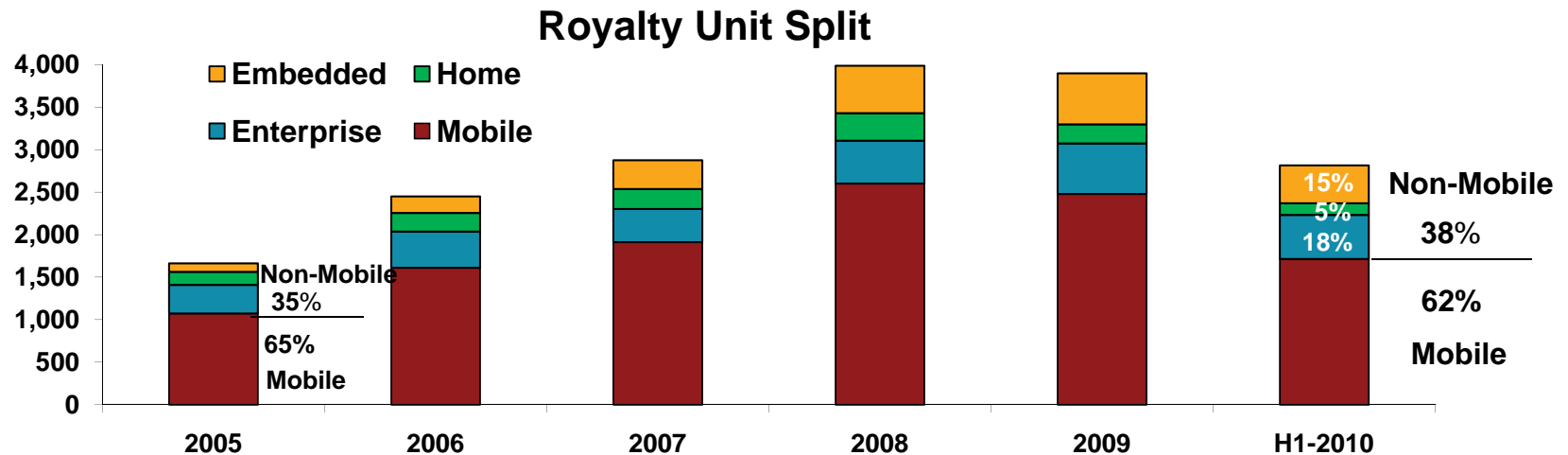
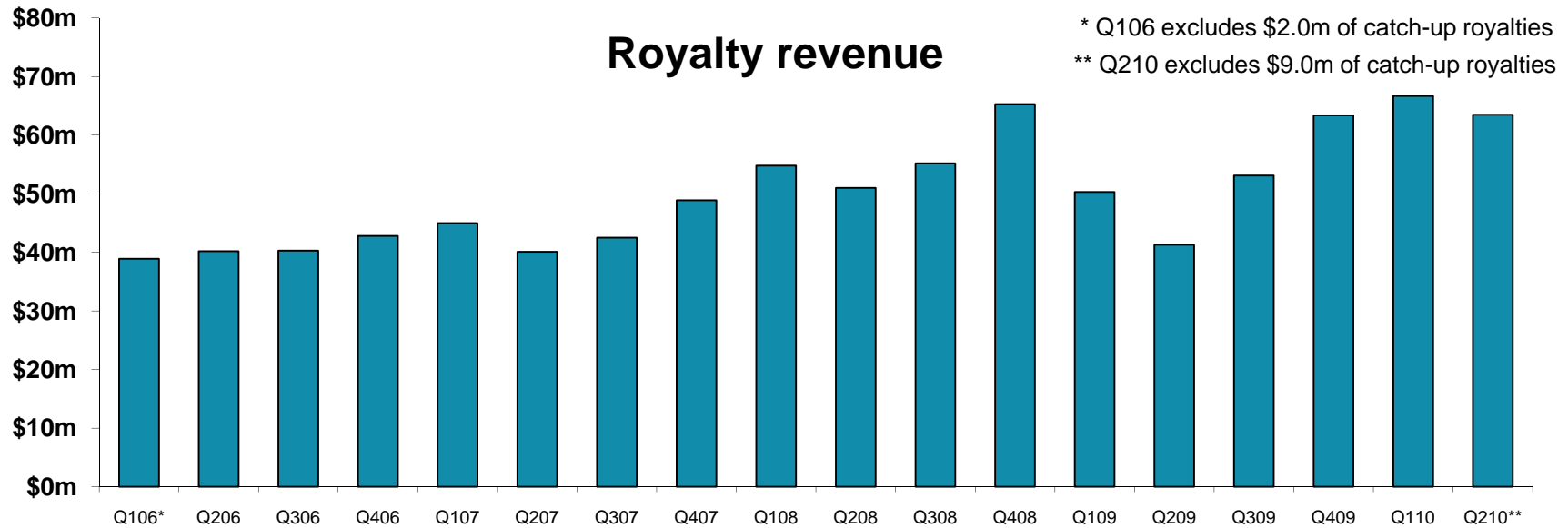
* Includes catch-up PIPD royalties in H1 2010 of £0.5m and in H1 2009 of £2.6m

** ARM's US \$/£ effective rate of \$1.53 in H1 2010 and \$1.57 in H1 2009

Revenue Split Analysis

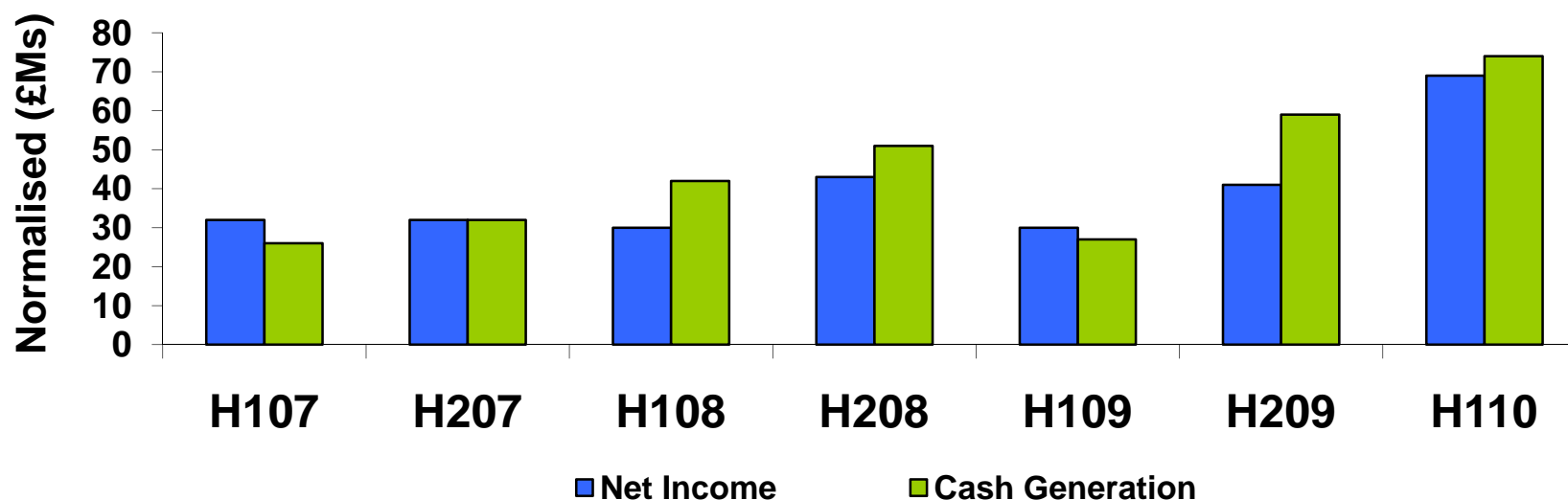


Processor Royalties



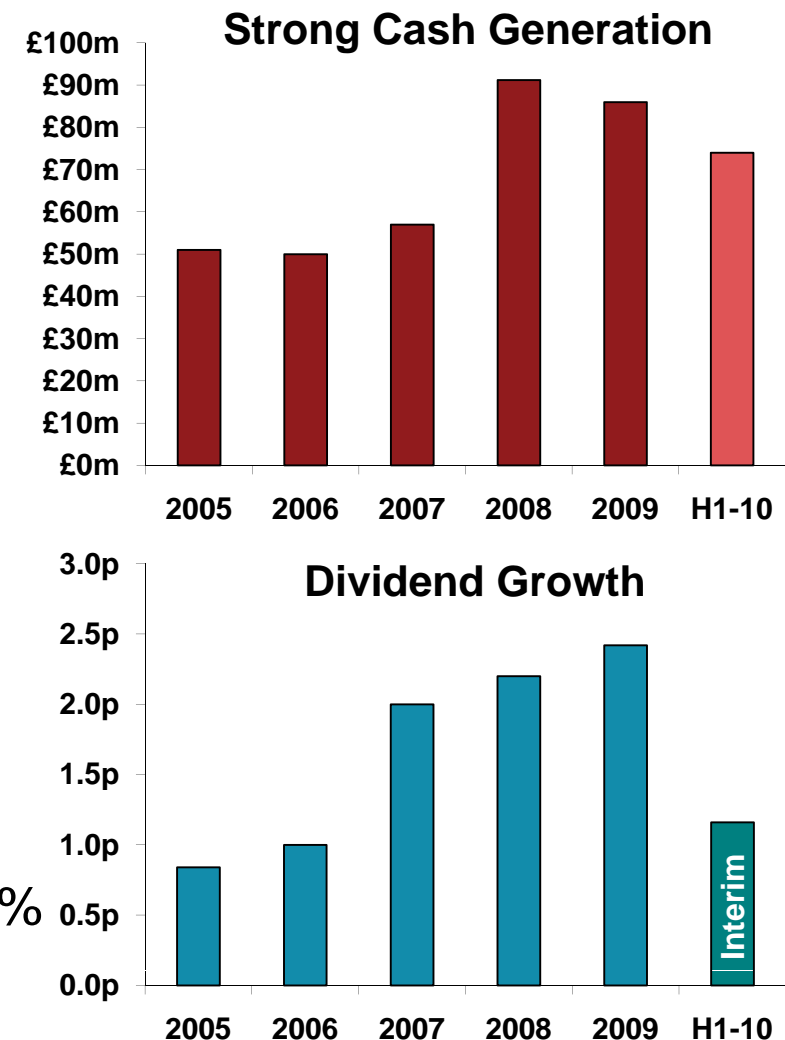
Converting Profit into Cash

(£m)	H107	H207	H108	H208	H109	H209	H110	Total
Profit for the Period	32	32	30	43	30	41	59	267
Normalised Cash Generation	26	32	42	51	27	59	74	311
% Cash Conversion	81%	100%	140%	119%	90%	144%	125%	116%



Strong Balance Sheet and Cash Generation

- Healthy margins drive strong cash generation of £30m in Q2
- Net cash of £202m at end H1
- Expect to retain cash rich balance sheet
- Total cash return of £386m over 6 years
 - £125m via dividend
 - £261m via buyback
- Progressive dividend policy
 - 2010 interim dividend increased by 20%



Quarterly Results Summary

	Q209 (£m)	Q309 (£m)	Q409 (£m)	Q110 (£m)	Q210 (£m)
Total revenues	64.8	75.2	85.2	92.3	100.0
US\$ revenues	105.5	123.0	140.0	143.3	150.3
Effective fx rate	1.63	1.64	1.64	1.55	1.50
Normalised operating profit	16.0	23.8	31.8	36.9	42.7
Operating margin (%)	24.7%	31.7%	37.3%	40.0%	42.7%
Normalised profit before tax	16.3	24.3	32.3	37.6	43.5
Normalised EPS (pence)	0.95	1.34	1.79	2.04	2.34
Net cash	88.2	121.7	141.8	196.0	202.3

Numbers before acquisition-related charges, share-based payments, Linaro-related, restructuring charges and impairments or profit on disposal of investments

Summary Balance Sheet

IFRS	30 Jun 10 £MM	31 Dec 09 £MM
Assets		
Cash	202.3	141.8
Accounts receivable (net of AROC)	80.0	52.8
Amounts recoverable on contracts (AROC)	11.8	12.4
Other debtors, inventory and investments	95.5	82.4
Property and equipment	14.3	13.6
Goodwill	556.0	516.8
Other intangibles	18.1	24.7
Total assets	978.0	844.5
Liabilities & shareholders' equity		
Deferred revenue	63.7	39.6
Other creditors	64.2	66.2
Shareholders' equity	850.1	738.7
Total liabilities & shareholders' equity	978.0	844.5

Cash Flow Summary

£MM	Q2 10	H1 10
Operating activities	32.9	76.8
Interest received	0.5	1.0
Tax	(3.5)	(7.7)
Capital expenditure	(1.8)	(3.6)
Investments and acquisitions (net of disposals)	(3.9)	(4.9)
Share options	2.7	18.4
Share buybacks and dividends	(19.0)	(19.0)
Other (forex, Linaro cash)	<u>(1.6)</u>	<u>(0.5)</u>
Cash flow	6.3	60.5
Opening cash	196.0	141.8
Closing cash	202.3	202.3

	Q2 10	H1 10
Profit before tax	43.5	81.1
Interest income, depreciation and amortisation	1.4	2.8
Cash flows from items excluded from normalised profits	(3.9)	(8.3)
Movements in working capital	(8.1)	1.2
Operating activities	<u>32.9</u>	<u>76.8</u>

Q2 2010 ARM Pro Forma P&L

	Normalised	Share-based payments	Normalised incl share-based payments	Intangible amortisation	Other acquisition-related charges	Linaro-related charges	IFRS
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Revenues	99,950	–	99,950	–	–	–	99,950
Cost of revenues	(5,144)	(649)	(5,793)	–	–	–	(5,793)
Gross profit	94,806	(649)	94,157	–	–	–	94,157
Research and development	(26,396)	(5,707)	(32,103)	(1,002)	–	(272)	(33,377)
Sales and marketing	(12,825)	(1,809)	(14,634)	(1,971)	(114)	(116)	(16,835)
General and administrative	(12,907)	(1,334)	(14,241)	–	–	(850)	(15,091)
Total operating expenses	(52,128)	(8,850)	(60,978)	(2,973)	(114)	(1,238)	(65,303)
Profit from operations	42,678	(9,499)	33,179	(2,973)	(114)	(1,238)	28,854
Investment income	782	–	782	–	–	–	782
Profit before tax	43,460	(9,499)	33,961	(2,973)	(114)	(1,238)	29,636
Tax	(11,899)	2,681	(9,218)	1,099	32	347	(7,740)
Profit for the period	31,561	(6,818)	24,743	(1,874)	(82)	(891)	21,896
Earnings per share (assuming dilution)							
Shares outstanding ('000)	1,347,999		1,347,999				1,347,999
Earnings per share – pence	2.34		1.84				1.62
ADSs outstanding ('000)	449,333		449,333				449,333
Earnings per ADS – cents	10.51		8.24				7.29

H1 2010 ARM Pro Forma P&L

	Normalised £'000	Share- based payments £'000	Normalised incl share- based payments £'000	Intangible amortisa- tion £'000	Other acquisition -related charges £'000	Linaro - related charges £'000	IFRS £'000
Revenues	192,296	–	192,296	–	–	–	192,296
Cost of revenues	(11,595)	(1,158)	(12,753)	–	–	–	(12,753)
Gross profit	180,701	(1,158)	179,543	–	–	–	179,543
Research and development	(51,558)	(10,993)	(62,551)	(2,002)	–	(272)	(64,825)
Sales and marketing	(24,851)	(3,501)	(28,352)	(3,859)	(228)	(116)	(32,555)
General and administrative	(24,708)	(2,568)	(27,276)	–	–	(850)	(28,126)
Total operating expenses	(101,117)	(17,062)	(118,179)	(5,861)	(228)	(1,238)	(125,506)
Profit from operations	79,584	(18,220)	61,364	(5,861)	(228)	(1,238)	54,037
Investment income	1,484	–	1,484	–	–	–	1,484
Profit before tax	81,068	(18,220)	62,848	(5,861)	(228)	(1,238)	55,521
Tax	(22,213)	5,584	(16,629)	2,165	64	347	(14,053)
Profit for the period	58,855	(12,636)	46,219	(3,696)	(164)	(891)	41,468
Earnings per share (assuming dilution)							
Shares outstanding ('000)	1,342,563		1,342,563				1,342,563
Earnings per share – pence	4.38		3.44				3.09
ADSs outstanding ('000)	447,521		447,521				447,521
Earnings per ADS – cents	19.68		15.45				13.86