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## **ARM.L - Q4 and Full Year 2008 ARM Holdings plc Earnings Presentation**

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## PRESENTATION

### Warren East - ARM Holdings plc - CEO

Good morning everybody. Nice to see you all again in spite of the snow. It's good to see that everybody's made it. We're going to talk about our 2008 results. As usual I will kick off with a summary to start with as soon as I've worked out just how hard you have to press the buttons on this thing. And I'll summarize 2008 numbers to begin with. That's first part. And then -- and that really reflects the pie chart on the bottom there. And then I'm going to remind people using the consistent framework that we've been using for 18 months or two years now about what we're doing towards building the business for the medium term.

So 2008, to start with, it was a very good year. We're very pleased with what happened from a revenue perspective during the year and in terms of building on new licenses to build that license base. It was a very good year for royalty. Record volumes, up 40% year on year to 4b units. A very strong quarter that we're just reporting, 1.2b units, we'll go into a little bit more detail on what made up all that shortly. Twelve months ago I stood here and talked about our physical IP activities and to all intents and purposes completing our technology acceleration program that we've been doing for three years. The good news is that in 2008 that started translating into some design wins. And we'll talk about those as well.

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We have been talking for some time about operating leverage that's natural in this business and we have also been talking about the financial discipline that we've been imposing over the last couple of years, maintaining our headcount, optimizing where we're doing things in different parts of the world and so on. And that has helped to deliver earnings growth this year. Obviously the strengthening of the dollar, particularly in the latter portions of the year, has added a considerable tailwind to that and Tim will go into a bit more detail on that later. And that has enabled consistently strong cash generation. We have had several quarters during 2008 where the cash generation has been at record or near record levels. And the current quarter that we're reporting is a record level by some way. So that -- it has been a very good 2008.

So what I'm going to do now is nip around the pie chart at the bottom of the slide there and just talk about the main revenue streams in the business and what happened during the year. So I'll start off with Processor licensing. And Processor licensing for the year at \$145m. We've had three years of very strong growth in Processor licensing where growth has been above our average trend line. 2008 was the year where revenues itself were below our average trend line. However we exit the year with backlog just marginally down compared with a record backlog again by a considerable margin that we entered the year. And so actually that licensing revenue performance for 2008 is a pretty good performance.

Q4 licensing up substantially year on year and that includes a reasonable kicker from a backlog item that was recognized in the quarter through some engineering deliveries that we made in October. And so that explains why -- or that partially explains why it was a strong number but I think as Tim will illustrate even without that backlog item it was still a very good quarter in terms of licensing revenue and in terms of licensing activity.

So looking to the future, we grew the base of licenses which are out there to generate royalties in the future during the year by 61 licenses with a good mix of new companies, new to the ARM partnership, and existing companies and a considerable portion of the main -- the top 20 semiconductor companies in the world continuing to buy new ARM technology. We did a little bit of OEM licensing as well. I was saying just out there while we were having coffee, it's probably a five year type trend that we're going to see looking forward over the next multiple years that there will be some OEM licensing and so we did a bit of that during 2008 as well.

The really encouraging thing is if you look at the type of use to which these licenses are being put, as shown in the pie chart there -- and I think we've been consistently demonstrating this throughout the year -- there's actually a broad base of applications. And about 60% of the licenses signed in Q4 and north of 60% for licenses signed through the year, the first intended use has been in the non-mobile space. And that's driven by things like digital TVs, the bringing of the Internet into the consumer space. And we can see that set to continue for some time but it bodes very well for ARM royalties in future and ARM royalty being derived from an ever broader base of different applications.

Not to forget the mobile opportunity -- and we'll talk about that too in a little while but we're seeing every richer mobile products with opportunities for more space for more ARM technology.

So moving onto royalties. As I said, a record year, 4b units, volumes up 40% year on year and crudely non-mobile up a lot more than mobile driven by microcontrollers in the embedded space. What it says is that we're growing in market share really across all of these spaces because obviously if you look at the underlying growth of technology in those market spaces it's considerably less than the numbers that we're putting up on the left-hand side of the chart. And it was a great year for demonstrating that breadth of applications. So about 2.6b units of mobile, 1.4b units of non-mobile. That is a very respectable number now of non-mobile products.

Looking to the chart on the right-hand side of the slide, you can see okay it's lumpy in terms of our growth on a quarter by quarter or year by year basis but the message I think it that ARM's market share growth, as demonstrated by the numbers on the left-hand side of the chart, in the medium term, taking that five year view there, you can see our royalty growth rate substantially outstripping what's going on in the market as a whole. And we see no reason for that trend to discontinue right now. Yes you do see lumps on our growth rate as the industry moves up and down but we can smooth that out over the medium term.

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And just to highlight some of -- looking to the future, ARM11 and Cortex products, we're now shipping Cortex products, very small volumes but they have started to ship. ARM11 which of course was introduced several years before has now reached respectable volumes, about 5% of the total volumes in the quarter for ARM11. So that's quite good.

So switching gear to our Physical IP business for a moment. The structure of the business very similar. Licensing and royalties. We -- the quality of the deals that we signed during the year and in particular during Q4, very strong in terms of new technology. That helped to push the backlog up in our Physical IP division. I'm pleased with the quality of customers as well. Looking at some of the 40nm deals that we did during the year and in particular in Q4 for instance with companies like STMicro, extending a commitment that they already had to our 40nm technology by buying more technology.

I said a year ago that we'd got to the end of the acceleration and we taped out 40 and 45nm products and that during the year we were going to concentrate on pushing forward into the 32nm world. We did that and at the end of September we announced a deal with IBM and the common platform group and by the end of the quarter that we're just reporting, by the end of December, we'd completed the trio of common platform partners and they've all licensed 32, 28nm technology now.

That's a project which is under development, there's no revenue recognized from that right now but we're very pleased with the progress of the project. We have actually taped out our first microprocessor on 32nm. I was hoping to have the wafer here to do some show and tell -- you can see a 12-inch wafer, 32nm and there's some ARM Physical IP implementing an ARM microprocessor on it. Unfortunately we haven't got the wafer here but I will be at Mobile World Congress in a fortnight's time and I will have the wafer I'm assured. So if anybody really wants to look at some ARM Physical IP 32nm implementing an ARM microprocessor we'll have it at Mobile World Congress.

Switching to royalty in the Physical IP division. Then that was up year on year. There was a catch-up element involved in Q4. But the good news is that the underlying royalties grew quite strongly as well and you can see underlying royalties again -- and I do say this more or less every quarter -- underlying royalties in Physical IP division outstripping the wafer shipment, indicative of increasing market share for our Physical IP.

Now obviously the royalties is a lagging indicator and we have seen the foundry shipments fall off very, very sharply in Q4. You've all listened to companies like PSMC and Chartered and what's happening to their business and we can see that reflected in the foundry wafer shipments chart on the top right-hand side there. And I just highlight that as a look ahead to our Physical IP royalties in Q1. We do expect in spite of the market share that I'm talking about at the bottom of the slide, we do expect to see some effect from that in our Physical IP business royalties in Q1.

So that was our 2008 business. I'll now move on to talk about growth in the medium term. So the first thing to do is if I flip back to the framework we've got this base of Processor licenses here and then we've got an applications oriented and a technology oriented growth strategy on the right-hand side. So what about the base of Processor licenses. Well it's important that we continue to growth that and in particular it's important when you go into a year where the business is quite uncertain to make sure that we have a healthy portfolio of new products available for licensing. And that's what we're showing on the right-hand side of this chart. The picture on the left-hand side is the usual way in which we represent the roadmap. You can see during 2008 we grew the platform and we licensed across the product portfolio. As we look into 2009 we've got Cortex-A9, a fresh product that is available for general licensing. We've done some Cortex-A9 licensing in 2009. Target applications are things like smartphones and high-end digital televisions. That should continue as we go into 2009 with a fresh new product at the high end of our roadmap.

Moving to the other end of our roadmap, the Swift at the bottom of the chart here. This isn't a product announcement, I'm not going to talk about any details of the product but we are launching a new low end product targeted at microcontrollers. We are talking with our partners about it right now. We will be launching marketing-wise in due course and talking about all the functions and features and benefits that that delivers. But we do expect to do some licensing of that product during 2009.

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And the Sparrow is -- there's nothing about the size of the birds by the way in these. They happen to be birds but there's nothing to be read into the size of the real birds. The Sparrow is the codename for our midrange product. It's targeted at feature phones and real time applications. It's really a follow on to the Cortex-R4 type product. And once again that's a new one that we're introducing this year for licensing this year. We're talking to lead partners about it now and during 2009 and that's rather more towards the back end of the year and so that will be general licensing more in 2010. But important that we grow that Processor licensing base and important that we have a fresh processors available for licensing.

Switching to the applications and looking at growing. First of all looking at the non-mobile space. How can we increase our market penetration? We have the non-mobile market segmented into these three areas. On the left-hand side it's really the sort of products that are in the home space. In the middle of the slide that's the enterprise space and on the right-hand side of the slide is embedded microcontroller type applications.

And all of these three areas are growing strongly and we are outstripping the rate of market growth. Unit shipments for digital TVs and set-top boxes up 70% at the moment versus a market growth of about 40%. What's happening here is these are really exciting products because they're not just a TV that sits in the corner of your room. They're the TV that brings the Internet into the house. That presents huge opportunities for ARM technology as the televisions come heavily equipped with the sort of applications processor that you'd find in a PC or in a smartphone. And they're also equipped with things like hard disks and Wi-Fi. These are all opportunities for ARM technology. And in fact ARM is designed into the top three digital TVs that are selling in the US at the moment. And that's probably helping to drive our market share.

Looking in the enterprise space, it's the same sort of products that we've been talking about for a long time but as these products are replaced -- and yes, there's going to be fewer of them sold during 2009 than perhaps were during 2008 but there'll be more ARM microprocessors sold because these products are richer in terms of technology. And that's why you can see those growth numbers there for what's happening in the ARM space at the moment.

And in microcontrollers, that's really the strongest area in terms of volume growth and the sort of driving applications there are things like motors, medical applications, robotics and other industrial products. And all of these things are getting more sophisticated, they're demanding more sophisticated microcontrollers. That means 32 bits and that means things like the Cortex-M3 and the ARM-based microcontroller. So it's been a very successful area for us and that's where we're growing right now.

Now I shouldn't forget mobile because the thing about mobile is we're already designed into over 90% of the mobile phones so how we increase our business in that space is by putting more and more ARM technology into the sophisticated mobile phones. We would expect in 2009 the number of handsets to decline. That's our observation of -- people's observation of the market.

But smartphones we expect to increase and of course that's very good for ARM royalty and it's how we grow our business in the medium term. During 2008 we've continued the increase that you can see -- it's been happening for the last five years or so -- of more ARM technology per handset. We're now up to 1.9 cores per handset. Look out for two cores per handset during 2009. It's bound to happen. Well I think it's bound to happen. Basic phones have the base band and even basic phones have other technology in them these days which are opportunities for ARM microprocessors. And that's what's driving these average numbers up.

And within the mobile space nowadays it's not just mobile phones. You're seeing -- Apple for instance the other day were talking about gaming on the iPhones. You're seeing these applications that we've been talking about for a while finding their way into more mobile products and each of these applications is more opportunity for more ARM technology. So that's how we're driving growth in the mobile space.

There are some newer categories of products as well. Although we're there in the world's leading mobile computers at the top of the slide and you can see many ARM-11 based smartphones now and the user experience with an ARM-11 based smartphone

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is a lot better than it is with an ARM-9 based smartphone. We're seeing the first Cortex-A8 smartphones starting to ship, things like the Palm Pre at the top of the slide there took the CES show this year by storm. That's a Cortex-A8 based product.

But if we look beyond that into the sort of products at the bottom of the slide, we see more sophistication. The sort of activities that ARM is involved with, how are we driving growth in this space, it's working with the infrastructure companies such as Adobe, such as Microsoft, such as Canonical, such as Mozilla for their software products which enable this mobile Internet device space. So you've seen during 2008 and you will continue to see in 2009 announcements from ARM about improving the support for the ARM infrastructure in that space. And that translates into the sorts of products that you see at the bottom of the slide there. Interesting hybrid products where PCs are adopting ARM technology alongside Intel technology for functions such as the Internet and for e-mail because that gives you a much longer battery life as a user. And also products such as the one on the far right there which is an ODM product based on a Cortex-A8. It's a reasonably high performance Cortex-A8, roundabout 1GHz, but it's a Linux-based netbook and you can get all day use out of that sort of thing. And we see that product category as being an exciting one for growth during '09 and beyond.

Switching to Physical IP, this is our third area of growth. As a reminder of the structure here we have our free IP program where we license the technology to foundries and we have many, many process nodes supported by a whole bunch of foundries. And then semiconductor companies can go and use that Physical IP and download it free of charge from our website and then drive volume. And actually many of the larger semiconductor companies are using that IP now and driving royalty volume from our foundries. The make-up of that royalty is slightly different from what it was a few years ago.

On the right-hand side of the slide we also have direct licensing of our Physical IP. Sometimes it's complementary technology that just adds to what's available in the free library program. And that's the sort of 45nm platforms that we're selling to companies like ST. And sometimes it's processor optimization where we're doing specific Physical IP to optimize the implementation of ARM processors and microprocessors in general.

What are we doing about growing that license base for the future? The left-hand side of the slide as with the microprocessor one is all about where we are at the moment with approximately 60 different process nodes supported between our 250nm and 65. And then looking forward at the new technology that's driving licensing now and driving licensing in the near future we've got our Physical IP roadmap with products centered around 45nm. We've already been doing some licensing of that, that's rather analogous to the sort of licensing we've been going on Cortex-A9. And then going beyond that to 32, and I talked about wafer a moment ago and we've got our R&D team engaged on 22.

I thought it was worth just spending a couple of minutes peeling back a little of the detail here. I want you to please ignore the techie bits in there. But within each one of those platforms that I talk about, the rectangular boxes on this slide are a platform from the previous slide. Within each one of those there is a range of different Physical IP products which are the sort of products that semiconductor companies need to build real system on chip devices and real microprocessors. And you can see for each of those generations of different process -- of different semiconductor process we have a range of Physical IP products. And that's what's happening at 32nm at the moment. All those green ones are in development. And the R&D project on our 22nm technology is replicating that because rather than just having point solutions we're aiming to develop the whole platform.

And when you peel back one of those platforms and look at a bit more detail there you can see within one of those platforms, for instance the 32nm platform, yes we've a range of different products but it's a range even within those products to target different applications. So there is a selection for instance within the Logic family, different standard cells aimed at different performance points which is aimed at people building system on chip devices for different products, as you can see ranging from super low cost ultra high density therefore very small area but it doesn't run very fast applications through to optimizing for super high performance at a GHz and beyond. And the design team obviously works with our microprocessor design team to ensure that they develop the best possible IP here.

In fact that's where I'm going to finish this look ahead into the future and what are we doing about developing the future. Now this is where we bring our Physical IP activity and our Processor activity together to build better processors. The combination

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of the R&D teams means that we get a better result. We develop Physical IP specifically for ARM processors and that does help drive licensing sales as well as simply help our customers build better products.

A couple of examples on the right-hand side of the slide. People are implementing the Cortex-M3 microcontrollers. I've talked about the growth opportunities in microcontrollers and how that's growing at 80% per annum at the moment. One of the things people want to do is produce versions of those microcontrollers with very, very, very low energy consumption for applications like remote metering. And so we've developed a memory product for use with those microcontrollers which enable huge reductions, 90% reduction in the overall power consumption even on older technology such as 180nm technology. And we've actually sold half-a-dozen of those licenses during 2009.

On the left-hand side of the slide we're talking about how we improve the performance of a Cortex-A9. So taking a Cortex-A9 on a 40nm process, driving the performance up through -- and the pie chart is showing how much improvement comes from -- how much of the improvement comes from the Physical IP working with the processor design, specific Physical IP products. And the other 40-odd percent is design flow techniques. But you can see the benefits there that we get from synergy.

So that concludes the review of 2008 from a high level point of view and what we're doing about developing the business for the future. Tim is now going to talk in a bit more detail about '08.

#### **Tim Score - ARM Holdings plc - CFO**

Thanks Warren. Well the good news is not too much more detail. There is a lot of detail in the earnings release and there is a lot of detail in the slides that most of you are used to when you're thinking about the numbers. So what I actually plan to do today is just provide a little bit of commentary on some of the aspects in Q4 to help you think about the numbers for 2009. And as you can see from there I'm essentially going to talk about revenue, costs and cash which is basically what accountants tend to do. So that's what I'm going to do.

Headline level, Warren's covered it, we're up 6%. Very similar to how we set out the year in fact. You may recall that we guided for somewhere around there subject to marked deterioration. Now the good news is there's been marked deterioration in 2008 but we've hung in there pretty close to the original guidance. So it's a reasonable performance on the revenue line.

From a cost standpoint, as Warren says we've been controlling costs now pretty carefully for two years or more. And a lot of it was about getting productivity from the fairly significant investments we made in 2006. But of course the overall environment has helped focus the mind further but we continue to control those costs carefully.

And so one of the things I want to touch on is the underlying costs because the Q4 OpEx number is actually higher for various reasons that I'll go into shortly than the underlying level as we look into Q1 of '09. So we'll talk about that. Those two things combined with the stronger dollar have, as Warren said, given earnings above 20%. And then we'll make some comments on cash because obviously we've been managing our cash slightly differently in the back end of 2008 than we had indicated when we set out, when we talked about 50m net cash or thereabouts. We've obviously been running it a little bit higher than that and the buyback activity has been a little bit lower. So we'll come onto that.

As a very brief reminder of the revenue -- it's in your pack. You can read it but I'm going to talk about some of the component parts there just to make sure that we can understand the bridge from Q4 into next year. So it was a strong quarter for PD licensing. We stood here in July on the back of \$30m of PD licensing and the question was is this an inexorable downward trend in PD licensing. And we said, no we think this is really just timing and lumpiness and actually what we expect in the second half is something in the more normal range of \$35m to \$40m. What we've seen in the second half is \$35.5m in Q3 and \$43m in Q4. And in that \$43m in Q4 is as it says there a higher than usual contribution from backlog in the mid to higher single digit. So strip that out and you're in that \$35m to \$40m range. Overall the contribution from backlog to license revenue in Q4 was



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between 45% and 50%. So not particularly abnormally high. It's certainly been there before, but higher than the normal tracking which is about 40% in terms of contribution of backlog into revenue in a given quarter.

And the last comment there is important. Current opportunity pipeline remains robust. You've heard us now for the last three quarters at least talking about a pretty robust opportunity pipeline for licensing but cognizant of the fact that in this environment the chances of deferrals and push-outs has been there. To be honest, as we said in October, we haven't really seen it yet. But clearly the environment has deteriorated since we last stood up here. We've come through with a good Q4 but the prospect of deferrals if anything has to be higher than it was three months ago. And we can't deny that. But when you look at the base business the customers, the technology that they need, it's a pretty robust picture. Maybe some questions about timing.

In terms of royalties, again Warren's covered it. Or course we're aware it relates to Q3 shipments. And of course we're aware that the industry in Q4 -- I wouldn't quite say fell off a cliff but marked slowdown. And we will see some of that in our Q1 royalties and I think that is factored into the way that you're putting your models together.

PIPD license revenue lower than a year ago but good quality of licensing and some of the underlying messages we've been giving about positioning that PIPD business. I think again Q4 was a good quarter for that, some good leading edge technology licensing. And I think Warren's covered the detail sufficiently on PIPD royalties. Clearly going into Q1 foundry utilization fairly dramatically down and we're bound to be impacted by that, no question. So that's the backdrop to revenue.

A quick view of margins. I think the interesting thing about 2008, although the year on year margin increase doesn't look dramatic what we've actually seen is the operating margin on a normalized basis track up sequentially each quarter during 2008. Some of that is clearly related to the way the exchange rate has moved. But when you think about what I'm going to say about OpEx in Q4 in a minute we've got an unusually high OpEx number in Q4 and therefore the -- if you like the true underlying margin of the business in Q4 is quite significantly higher than the 34.6% we reported, recognizing of course that we're in a difficult revenue environment going forward. But I think that's just worth noting that.

So what's been going on? If you think about the GBP41m of normalized OpEx that we reported in Q3 how do you get to GBP51.8m in Q4 and how do you get to our guidance of mid-40s in Q1 of '09. Dealing with the Q3 to Q4 transition, clearly there's an issue about translation of our US cost base. Broadly half of our costs are US dollar. And the impact of the effective rate moving from \$1.80 odd to \$1.50 odd is four-ish million which was largely factored into consensus estimates which is why the OpEx consensus coming into this quarter was GBP44m, GBP45m. And in a sense obviously to the extent the exchange rates stay where they are that stays with us going into 2009.

The other things don't necessarily. What we've seen in Q4 -- you may recall that ARM has a progressive hedging policy where we -- the most common thing we do is take out forwards to sell surplus dollars. And we take those hedges out progressively. Now in Q4 the dollar moved from \$1.78 at the beginning of the quarter to \$1.46 at the end. And if you're applying a progressive hedging policy by the time you get to \$1.46 you're going to have a number of those instruments that are effectively out of the market when you mark them to market.

So whereas typically in an ARM quarter we would have a debit or a credit of about GBP1m as a result of this phenomenon, in this particular quarter we got a debit of about GBP3m because of that dramatic strengthening of the dollar through the quarter. What that's basically saying is that the down to \$1.46, basically our P&L has taken the pain. So to the extent that \$1.46 or thereabouts is the go-forward rate you wouldn't expect such a material impact on a quarterly basis. Clearly if it strengthens again to \$1.25, \$1.30 there would probably be another charge but we'll take that for \$1.25, \$1.30.

So that is unlikely to recur in Q1. Also in Q4 a couple of other things. There are a couple of receivables situations where we've taken a very prudent view of the outturn in 2009. They may or may not go bad but we've taken a prudent view of them. And therefore the receivables provisioning level in Q4 is higher than normal and higher than I would expect going forward. Also because Q4 was so strong the corporate-wide employee bonus arrangements where we've been accruing the bonus through



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the year, there's a little bit of truing up in Q4 because revenues were stronger and the profitability was stronger. So again the bonus charge in Q4 was higher than run rate and higher than I would expect it to be in Q1.

So you put all those things together. We say in the release GBP44m to GBP47m normalized OpEx for Q1. It's going to be somewhere in that mid-40s depending on exchange rate we expect at this moment. And in a way that's not surprising that it's running at a similar level to Q3 '08 adjusted for currency because actually what's going on in the business is that the headcount is broadly the same and we've got a pay freeze in from January 1. So the underlying costs of the business are not increasing. And as it says there, carefully managed. Our headcount is less than 5% higher than it was at the end of 2006 so we've been controlling heads fairly carefully since then.

We've also been undergoing a specific headcount reduction exercise at the end of '08. A little bit more to come in Q1 of '09. In fact in terms of the actual timing of the people leaving it's biased to Q1 which is why the restructuring charge related to that is split over two quarters but Q1. So when you're thinking about your models there'll probably be -- there'll be another charge of around 1m, 1.2m in Q1 and as we say the pay freeze stays until further notice.

So generally the message is we are, as Warren said, trying to maintain that balance between short term cost control recognizing the environment but also very much keeping mission critical development projects on track so that we can continue to have the world's key semiconductor companies basing their designs on our technology.

Now you saw us today talking about being confident about 460. If we do end up tracking below that we'll clearly be keeping a very careful eye on this cost and there's more that we can do if things get more painful than they currently are. But at the same time we will be protecting the medium to long term. So it's a balance that we have to deal with the whole time. We've made certain decisions so far and we'll make other decisions if life changes.

On the cash front, again Warren touched on it. Q4 was our record cash flow quarter. In fact the last three quarters of 2008 have been -- all of them have been well in excess of GBP20m of free cash flow. That's going well. We only spent GBP3m on buyback in Q4. So even though we've paid dividend we exit the year with a higher cash balance of close to GBP80m. Although we have increased the final dividend by 10%. That's the same level as the interim. And that's really a message about the medium to longer term for this business rather than a message about 2009. And that clearly as you know is about half the rate of earnings growth in 2008. So a slightly different tack than normal. Arguably fairly prudent but certainly a strong comment about the medium to long term in this business.

Going into 2009, I think we won't be at all embarrassed to be building that cash balance up a little bit. It's not burning a hole in our pockets and so we expect to retain a cash rich balance sheet. And just a reminder that over the last five years via dividend and buybacks we've returned GBP338m. But you can expect that run rate to be lower in 2009 for the reasons I stated.

Accountants also unfortunately on occasion have to talk about accounting rules and regimes. And we mentioned it earlier but as from Q1 2009 ARM will be reporting only under IFRS. You may have noticed in November 2007 that the SEC stated that it was no longer necessary for foreign registrants reporting under IFRS to do a reconciliation to US GAAP. What that means in reality is that companies like us don't need to do two GAAPs which is tedious and duplicative, time consuming and not very enjoyable. And so we are moving to IFRS from Q1 2009.

You will see in this release, as we publish in every half and full, the reconciliation between IFRS and US GAAP. And what you'll see when you look at it is that when you look at the normalized numbers they're very, very minor differences between IFRS and US GAAP. Most of the GAAP differences actually occur in the areas of share based remuneration and tax on share based remuneration. And that's where some of the complexity -- with the focus on the consensus being on normalized I think you're going to see very minor differences.

The areas to note will be revenue recognition where the accountants among you will know that IFRS is much more principles based and gentlemanly whereas the US base is much more rule driven. But because we've grown up applying rules we have --

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if you look back at our history you'll see no revenue recognition GAAP differences between US GAAP and IFRS. And in the absence of rules under IFRS we will continue to draw very heavily on the US GAAP framework that we're used to. So I wouldn't expect to see a change in approach from ARM in terms of revenue recognition. So that's the first thing.

The second thing is R&D. The rules are slightly different about capitalization of R&D under both GAAPs. That's clearly an issue we've had to deal with in the past and we have concluded that for us it is appropriate to write off all of our R&D as incurred under both IFRS and US GAAP and we expect to continue to do that unless the type of projects that we do change and we have to think about it in a different way.

And also on tax, normalized tax rate essentially the same. But you will see some complexity and some different numbers coming out of the IFRS GAAP number versus the US GAAP number.

So that's it from Q1 2009 we'll be IFRS.

So that's it on the numbers. I'm happy to talk afterwards. I'm just going to hand over now to Warren to wrap up.

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**Warren East** - ARM Holdings plc - CEO

Thanks Tim. The good news is that engineers don't often have to talk about accounting rules and regimes so I'm not going to. So a quick summary of what have we done this morning.

2008 -- we've looked at 2008 and for ARM it was a good year. We continued to outperform the industry. We continued to grow our base of licenses to generate royalty into the future. The Cortex family is doing well and Cortex-A9 is starting to license more broadly but we're going to build on that in 2009 and bring some new microprocessors to market.

Looking at the applications space, we're enjoying very strong momentum in terms of royalties as our market share grows in a wide range of end markets across a whole load of customers. In our Physical IP division we're delivering the new technology that we've been developing and that's getting us design wins with major Tier 1 foundries and Tier 1 semiconductor companies. And as Tim's been talking, we've been -- as he's been talking about we've been managing our costs very carefully and that combined with the natural leverage of the business model and the effect of the tailwind from the stronger dollar, particularly in the second half, has delivered the record earnings.

So looking into 2009, we go into 2009 with the fundamentals of our business in a very strong situation and we couldn't really want for it to be any better at the moment. And as we've said the bottoms up view current pipeline of opportunities remains quite robust and the backlog is at near record levels.

That said, quite a lot of what Tim just talked about was about how we've been carefully managing our costs and in 2009 we will continue to carefully manage our costs. We've put into place programs like the pay freeze.

We have been managing our staff numbers down a little, with optimizations and restructurings. But we need to balance that against developing new technology for the future that I've been talking about.

So with an industry that has been slowing down markedly in Q4, it's slowing down more in Q1, we can see that definitely. But we have less visibility than we would normally have at this time of year. We've got no better visibility than anybody else really. And so that causes us to take a cautious approach to 2009. That said, we fully expect our dollar revenues to be at least in line with current market expectations. We expect the exchange rate contributions that Tim talked about to help protect our earnings.

And, with that, we'll hand over to questions.

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I'm not sure, was it Didier first here? I wasn't sure quite who got their hand up then.

## QUESTIONS AND ANSWERS

**Didier Scemama** - RBS - Analyst

Good morning. Didier from RBS. A couple of questions. Talking about your guidance of \$460m at least in 2009, if I take into account what TSMC have said, of 30% industry sales decline in '09, bearing in mind we see our Q1 is their Q4, and looking at what you've been talking about, basically a decline of 16% or less for '09, I was wondering if you could really talk to us through your assumptions when it comes to licensing and when it comes to royalties, debt fees and services?

Because if I do the math right, it looks like, assuming, say, 5% decline licensing, debt fees and services, you're looking at a decline of about 25% in dollar terms for your royalties business which seems like very optimistic assumptions that would assume a very sharp recovery in the foundry industry from Q2 onwards. So I was just wondering if you could give us your underlying assumption. And I've got a quick follow-up on that.

**Warren East** - ARM Holdings plc - CEO

Okay. Well I'll start off. Obviously we can, as I've just said a moment ago, we can see what's happening in the foundry space in particular and in the industry at large. And I think the foundry space witnesses conditions, A, a little bit worse than the industry at large because, of course, the whole point of a foundry is flexible capacity. And so when your demand decreases and you're a semiconductor company, you tend to wind down your outsource production before you wind down your in-house production. So I think the numbers that the TSMC are talking about are probably worse than the industry at large. So let's put that piece of context out there.

And then secondly, our business, I think, will accurately, just straight arithmetic, from a royalty point of view, reflect the shipments that are genuinely happening out there. However, it will be offset, to an extent, this is our royalty business, by the market share gains that we are enjoying that I talked about and, in the mobile space, the mix shift to smartphones.

So ARM, as a business, is not as fully exposed to what's going on in the semiconductor industry where numbers are being driven down by collapsing memory prices that are still in a mess and that whole exposure to the PC segment. So that's the royalty part of our business.

And in the licensing part of our business, well, as Tim was saying, the opportunities are there in licensing. We have a typical 12 month sales cycle. It hasn't particularly changed. The pipeline remains robust to date. But, as you know, with a 12 month sales cycle we can't tell. And we've been saying all through 2008, we don't actually know when licensing may or may not stop.

But we can make assumptions based on the bottoms-up opportunities that we have. We can see the opportunities are there. And we can bring new microprocessor products to market, as I was describing, which help offset some of the tendencies to not license under uncertain conditions. So that's our assumptions. Do you want to put any numbers on market assumptions?

**Tim Score** - ARM Holdings plc - CFO

Well, not particularly because these ladies and gentlemen know better than I do. The other things that we're saying, clearly the smartphone assumptions that are out there are important. And were they -- were we all living in a cloud of optimism which turned out to be much worse, then clearly that would have an impact on us.

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I think the other thing that's worth saying is the exit rate of our royalties coming out of 2008 is significantly higher than the earlier three quarters so even though clearly there's going to be an impact in Q1, when you look at it on a full-year/full-year basis, I think that considerable tick up in the back end of the year is actually quite important.

**Didier Scemama** - RBS - Analyst

Thank you. And just the quick follow-up. I was wondering is since you have given us a bit of guidance for 2009? I was wondering if you could maybe tell us a bit more about Q1 since it's a bit more close to us.

**Tim Score** - ARM Holdings plc - CFO

I can understand, Didier, why intuitively you might think it's easier to guide on the next three months than on 12 months. But actually, in our business and our business model, because of the sales cycles that Warren just described, it is much easier for us to assess a 12 month trading position than it is a Q1. I think you'll find that we have really no history hardly at all of guiding for a quarter.

I think if -- and we're aware of what consensus estimates are for Q1, and they're for the 115m, 117m. And I guess if we felt very uncomfortable with those in the context of a \$460m guidance, we'd have to say something specific. But, as I say, I think it's more appropriate for us to stick with the 12 month view.

**Warren East** - ARM Holdings plc - CEO

I think Sandeep's next.

**Sandeep Deshpande** - JP Morgan - Analyst

Yes. Hi. Good morning. Sandeep Deshpande from JP Morgan. Just one with respect again to back to the \$460m guidance. When you spoke on last conference call you were more confident on better sales in 2009. Clearly market changed a lot in Q4. Is the change in your tone in terms of what you're going to do, \$460m this year, of course, but consensus is there as well, but is the change in tone mainly because of what you've seen on the royalty side, or have you seen any of your potential pipeline in licenses weakening and there's been some change in what your customers in licensing are telling you at this point? That's my first. And I have one follow-up.

**Warren East** - ARM Holdings plc - CEO

Okay. Well let's answer that one first. You're right. Things have changed a lot during Q4. And we just talked about some of the foundry numbers. I think that has happened. And therefore we are making assumptions about royalty which is helping to drive our expectation of the total.

As far as licensing is concerned, no, there is no specific change right now. But we said with that backdrop of overall semiconductor revenues being depressed, and with the somewhat discretionary nature of a licensing purchase, particularly with regard to timing that's there, all through 2008 we've been saying the uncertain environment may affect licensing. We've seen the environment get markedly worse. Therefore the probability is that it's more likely to affect licensing than it has done.

That still doesn't guarantee that it is going to affect licensing. But it's common sense more likely to do so. But specifically to answer your question, no, we haven't seen any change in behavior.

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**Sandeep Deshpande** - JP Morgan - Analyst

Secondly, regarding the royalties itself, how do you recognize the royalties or how do your customers recognize these royalties because clearly things are deteriorating dramatically, but many of the customers have built large amounts of inventory at the end of the fourth quarter. So does that already have been reported -- does that already get reported in the royalties, or do your customers only report to you shipments which they have made to their customers and not what is built in their inventory?

**Warren East** - ARM Holdings plc - CEO

Yes. It's the latter. Our customers who pay us royalties, i.e. the semiconductor companies, pay when they sell products. However, there is inventory all the way down the chain to the retailers. And so what's sitting as chips, waiting to go into phones, if they're in the hands of the production facility rather than in the hands of the semiconductor company, it has been counted as a royalty for ARM.

**Sandeep Deshpande** - JP Morgan - Analyst

So you've already been -- I mean at least by half in Q1 but then Q2 might go down because, essentially, it's already in your numbers?

**Warren East** - ARM Holdings plc - CEO

I'm saying that when a semiconductor company has sold a chip to a manufacturer, it counts as royalty to us.

**Sandeep Deshpande** - JP Morgan - Analyst

Finally one quick one for Tim. Your goodwill number has gone up dramatically in the fourth quarter. Is there a reason for that?

**Tim Score** - ARM Holdings plc - CFO

Mostly exchange, because most of our goodwill is US denominated. It's a little bit on the Logipard acquisition.

**Nicolas Gaudois** - UBS - Analyst

Hi. Nicolas at UBS. First question is on -- just to follow up a bit on Didier on this year. So royalties, processors, last year you grew 28%. The semis industry was down 3%. So you had a big delta. I don't think any of us were forecasting this to start with 12 months ago. Could you -- I know it's difficult, but would you try maybe to help us a bit in giving us an idea of a delta you could see in 2009? So forget about the base line, just focus on the delta.

**Warren East** - ARM Holdings plc - CEO

Unfortunately it's very, very difficult for us to call that on 2009. It's a situation, like Tim said, where it's much easier to guide over the longer term than the shorter term. And that's what we tried to do in the slide where we illustrated that over a five year period industry growth rate is X and ARM royalty growth rate is Y, substantially more than X.

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It's easy for us to reflect that medium-term view. Calling it on a year-by-year basis really depends on sales of individual products. And we look at exactly the same data as you do it. How's the Nokia XYZ phone, comparing and what sales are like there. So I really can't offer any color.

I would fully expect our royalties to outperform the industry. But flat could be a good performance, for instance, compared with an industry where consensus is down, looks like about 20% at the moment. We really can't offer you any specific guidance.

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**Nicolas Gaudois** - UBS - Analyst

And specifically on the Swift and the Sparrow, is this still a vision of an architecture?

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**Warren East** - ARM Holdings plc - CEO

Yes.

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**Nicolas Gaudois** - UBS - Analyst

Yes. So you -- consequently, we should -- when you talk about lead licensing, what would be this year a handful or less of initial licenses for both basically potentially?

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**Warren East** - ARM Holdings plc - CEO

Yes. Although you note on the slide for Swift, we're engaging lead licenses, but we expect general licensing in 2009. And for Sparrow it's lead licenses in '09 and licensing more broadly in 2010.

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**Nicolas Gaudois** - UBS - Analyst

And the last question, does [Booth] get a special prize this year maybe for reaching 4b units before 2010?

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**Warren East** - ARM Holdings plc - CEO

He is the original seer, yes. We'll have to get another call from him.

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**Brett Simpson** - Arete - Analyst

Hi. It's Brett Simpson at Arete. Warren, you mentioned in the presentation that in the 21 deals signed in Q4, roughly 60% was non-wireless, 40% was wireless. And I guess if we look at that wireless portion and just consider the consolidation amongst the -- your licensees over the course of the last 12 months, how do you see the pipeline or the opportunity for deals in 2009 given all the joint venturing and M&A we've seen in that space?

And maybe just second question on PD licensing. Mali, I think you said 15 deals already so far has been signed. People like Qualcomm are not taking the Mali solution. How many opportunities are still out there, do you think you can grab for Mali going forward?

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**Warren East** - ARM Holdings plc - CEO

Right. Okay. Well, sadly I'm not actually going to put a number on the Mali licensing. And the answer to the Mali question will follow from the answer to the first one.

Yes, there is consolidation happening in the wireless space. And if the semiconductors need disappears, then there's an opportunity to sell a license that has disappeared. The reality is though that we've been seeing consolidation across the industry for a long time. And I can remember sitting at these types of presentations four or five years ago being told that we've licensed ARM technology to anyone and everybody and then this consolidation and your licensing is going to disappear. And we've just reported the last three years of above average trend growth in licensing. And 2008, yes, is down. But we just reported a quarter with licensing revenue up 12%.

So the reality is that with the product portfolio we have, the broadening product portfolio, and the wider range of target applications, then we can still drive our licensing activity. And if you want to take specific examples, for instance, ST-NXP getting together in the wireless space, well, there was ST, there was a joint venture, there was NXP. And arguably, because both the parent companies use ARM in a wider range of products than the mobile space, we've actually increased the number of licensing opportunities there are. So consolidation isn't always bad news for us.

And as far as Mali is concerned, then I think it's the same story as this sort of broader range of applications. We haven't gone into detail about where all the Mali licenses have gone, and absolutely, the initial driving application is putting graphics into mobile phones. And that's what we stood here and said a couple of years ago. But since then we've been selling Mali licenses into a wider range of applications, things like digital TVs and set-top boxes that we had on the slide a while ago.

**Brett Simpson** - Arete - Analyst

Maybe just a quick follow-up. I think you've said in the past that Intel is still a major contributor to your royalty business. Can you talk a little bit about what exactly you're -- what are they shipping that's on base today and with a shift towards non-ARM within the business? They're certainly quite vocal about their add-on strategy, etc. How do you see that Intel opportunity going forward?

**Warren East** - ARM Holdings plc - CEO

I think it's fair to say, given Intel's public pronouncements, that we would be foolish to be modeling large growth in Intel royalties. It ain't happening. However, these things do take a while to get designed out. And ARM is in a handful of Intel products, in particular in the high speed wireless interconnectivity space, things like WiMAX devices.

And on the ground there are still design slots where Intel will do what's right for Intel on a commercial basis. And I'm sure there will be some design-ins, even though, from a corporate point of view, they've been very vocal about not using ARM. At the end of the day they've got a business to run and they'll do the right thing for their business.

I think the lady can see who's got their hands up. Sorry.

**John Clarke** - Brewin Dolphin - Analyst

Thanks very much. John Clarke, Brewin Dolphin. Two questions. Firstly just a little bit of a clarification on your steer on continuing dividend growth. Okay, obviously making the assumption that guidance is net and some -- and earnings per share, and so on and so forth, the continuing -- well, you're hoping for a sort of 10% dividend growth in the current year.



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Secondly, if things go wrong, obviously visibility, by your own admission, is not as high as you'd like it to be. Is it -- how quickly can you pull levers if there's little or no sign of recovery during particularly perhaps in Q3?

**Tim Score** - ARM Holdings plc - CFO

Maybe I'll just deal with the dividend point. The -- what we -- what I was just saying there, John, was that for the recommended final dividend for 2008 is up 10% in the context of earnings up 20%, and a general indication that we would narrowly grow dividends in line with earnings. I don't think we're making any forecast whatsoever about dividends for 2009 and beyond other than the context of our dividend policy remains a relationship with earnings growth and our ongoing confidence in the cash generation potential of the business.

**John Clarke** - Brewin Dolphin - Analyst

But perhaps it's cash earnings, if you like, perhaps, or cash flow generation perhaps, if you like, the final deciding metric.

**Tim Score** - ARM Holdings plc - CFO

Yes. But if you look at the profitability and the conversion to cash, it's really quite rapid and quite full. So the profit's a pretty good proxy for cash in this business.

**John Clarke** - Brewin Dolphin - Analyst

And on the levers?

**Warren East** - ARM Holdings plc - CEO

Sorry, on the costs, I think it's as Tim indicated in the presentation really. We are a headcount business. We've been managing our headcount carefully for the last couple of years. If you put it into context of the fact that we grew our headcount by 25% just a couple of years ago. And we've demonstrated that we can control it pretty carefully.

We'll continue to do that in 2009, but we will be balancing it against the medium term which is there. And we continue to monitor the situation really, really closely. But the levers are there at our disposal if we need to take cost down further. But they're quite hard levers to pull because it does mean taking away from the future development and slowing down the progress of the business. Right now we're gaining market share and look upon this downturn as an opportunity to strengthen our competitive position.

This man over here has been extremely patient. Becoming less so.

**Simon Schafer** - Goldman Sachs - Analyst

Thanks very much. It's Simon Schafer from Goldman. Just a question on the first half in terms of gross margin. Well, presumably your royalty payments will be less just based on what we've discussed and what we're seeing in terms of the broader situation of inventory, etc. But what would be the impact in terms of gross margin?

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**Tim Score** - ARM Holdings plc - CFO

I don't -- if you look at the last 10 years in ARM through various cycles, your gross margin has been in that sort of 87 to 90 category. And I would be surprised if it moved materially outside of that range, to be honest. There are quarterly fluctuations. But I wouldn't expect -- a lot of it will obviously depend on the currency as well. But I wouldn't be modeling material change.

**Simon Schafer** - Goldman Sachs - Analyst

But presumably the underlying gross margin for license is significantly lower than royalties, so if we are seeing a significant shift towards that part of the business.

**Tim Score** - ARM Holdings plc - CFO

We say that, Simon, but in the context of R&D expenditure being fully written off, a license drops through in the same way as a royalty does.

**Simon Schafer** - Goldman Sachs - Analyst

Yes. Okay. And just a follow-up question on the cost part of the equation, you used to give some sort of indication whereby if dollar revenues were growing 10%, you typically expected your OpEx to grow somewhere in the range of 5%, i.e. half the pace of the revenue growth. Does that work the same way on the way down, i.e. if revenues are down 15% in dollar terms, will you reduce your cost base by 5 -- by 7.5%?

**Tim Score** - ARM Holdings plc - CFO

Interesting question. I don't think that relationship necessarily works in that what would be hopefully a very short, let's say, a one year view. And also those comments were pretty -- almost made in the context of a fairly constant currency environment. I think it's very difficult when you've got the volatility that you've seen in 2008. So I think it's not -- we can't apply the formula quite that simply.

I think the message coming from here is that we are managing cost very carefully. And even though our businesses continue to perform very well, we've taken some pre-emptive cost measures in anticipation of life getting much more difficult, consistent with the guidance we're giving. That's a 15%, 16% year-on-year revenue decline and costs need to be managed carefully on that basis. But I think if we're talking constant currency, those sorts of numbers, then you would be getting into the serious muscle of the developments in the next three or four years.

**Simon Schafer** - Goldman Sachs - Analyst

Thanks.

**Nick Hyslop** - RBC - Analyst

Nick Hyslop from RBC. A question on licenses. I wonder if you could talk about -- you talked about some licenses being sold on a subscription basis. I wonder what proportion that is of Q4 licenses and whether it's fair to think of those as slightly more recurring than your one-off licenses.

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**Tim Score** - ARM Holdings plc - CFO

No. The subscription license debate really happened more in Q4 2007 because it just so happened -- to put it into context we have four subscription licenses. And three of them -- well, two of them renewed in Q4 2007 and one new one signed. So there are questions there about is this the new business model and is this the way forward. And we said very unlikely indeed. And I think I'm right in saying there haven't been any -- haven't been any since.

So it is a business model that is attractive to a small number of semiconductor companies. And they're typically companies who intend to use the broad suite of ARM technology across a lot of their markets and don't want to have to write a new license every time they want to access a new piece of technology. It works for some. Others prefer to license on an implementation basis.

So no fundamental business model change. Could there be one or two more? Yes. But it's not going to be a shift.

**Nick Hyslop** - RBC - Analyst

Q4, it's a low percentage?

**Tim Score** - ARM Holdings plc - CFO

In Q4, the only revenue component from subscription is the rate of recognition of the existing subscription licenses. And it's very low in the context of the 43.

**Nick Hyslop** - RBC - Analyst

Okay.

**Gareth Evans** - Investec - Analyst

Thanks. Gareth Evans from Investec. Warren, you talked about some direct OEM licensing coming through in PD. Could you just describe a little bit more about what's driving that trend, and also maybe give your view in terms of whether the current economic environment is actually speeding that up? Or is it, in fact, delaying the trend?

**Warren East** - ARM Holdings plc - CEO

Yes. What's driving the trend is OEM companies, product companies taking more control of the design of their products in order to differentiate them more. And as I said in the presentation, I feel that is more of a company viewer type trend than anything we should get particularly excited about in -- well, for 2008 or 2009.

We simply put it on the slide, acknowledging the fact that it is happening. Halfway through the year you will recall that we talked about an architecture license with a significant handset OEM. And now that's happening. I think the trends that are driving it are just about people wanting to control their products more. And I really wouldn't make any changes to anybody's expectations of business performance at ARM on the basis of that.

**Gareth Evans** - Investec - Analyst

Thanks.

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**Nick James** - *Panmure - Analyst*

Morning. Nick James from Panmure. Just on the smartphone dynamic, can I ask what your assumption is for the growth for smartphones in 2009? And then as that segment matures, the extent to which the number of calls per smartphones comes under pressure as you have more and more consolidation of functionality onto chips within the smartphones.

**Warren East** - *ARM Holdings plc - CEO*

Two things. We can see a range of estimates for smartphone growth in 2009. I believe the consensus is still in the upper teens to 20% for smartphones. Depends a little bit on what -- how you define a smartphone. We mean a phone that runs a heavy operating system with a separate applications processor.

And as for consolidation, then I think the tail end of your question you talked about consolidation onto a single chip which doesn't necessary imply consolidation onto single microprocessors. Many of these chips have multiple microprocesses as they combine multiple functions onto a chip. It's really quite a detailed question and probably warrants more of a detailed discussion than this sort of forum. Sorry.

**Nick James** - *Panmure - Analyst*

Thanks. And then just one other question on hedging. Is there any appetite to change your hedging policy given the favorable FX environment you have currently?

**Tim Score** - *ARM Holdings plc - CFO*

Nothing to comment on that really. Is it favorable? We'll probably have to wait for six months to find that out. We plan to apply our policy consistently. I can understand where the question's coming from, but nothing specific to say about that.

**Nick James** - *Panmure - Analyst*

Okay. Thanks.

**Warren East** - *ARM Holdings plc - CEO*

We're getting some signals that we're --.

**Tim Score** - *ARM Holdings plc - CFO*

There's a question on the left, actually who's been very patient, here.

**Warren East** - *ARM Holdings plc - CEO*

We're getting some signals that we're running out of time. So if we could just have a couple more max, then we'll stick around and talk.

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**Arun George** - Noble - Analyst

Hi. Arun George from Noble. Just two questions. Sorry, the first one is again on the guidance. If you look at 2008, 6% growth was significantly ahead of the semi growth. And if you look in 2009, if I look at your chart 6, it looks like something close to 16%, 17% growth. And consensus now -- sorry, 16% to 17% decline. And consensus assumes a similar sort of decline for your revenues on a dollar basis. So I'm trying to understand what would it take for ARM to outperform the semi industry in 2009?

And the second question is on if you can -- Tim, if you can give me some more color on the receivable provisioning and why that won't -- why the provision won't increase in 2009.

**Warren East** - ARM Holdings plc - CEO

If I start with the growth. Yes. On the slide we quote Gartner's most recent number. The reality is that estimates for growth in the overall semiconductor industry are still fluctuating quite a lot as people are absorbing the current data points, which certainly point to something worse than Gartner there. But I think careful analysts are taking a balanced view and recognizing the fact that there is an inventory reduction cycle going on here at the moment, as well as a shift to a lower level of demand, and that perhaps the view for 2009, as a whole, is a little more favorable than what's actually happening at the moment, which is why you get numbers like 16% or so for Gartner.

And historically we do outperform the semiconductor industry. Could we underperform the semiconductor industry? Absolutely. If what I was talking about with people's appetite for licensing disappearing, I guess it's possible. If a lot of things go wrong for us at once, then it is absolutely possible.

Do I expect ARM to underperform in the semiconductor industry? Not at all. We have consistently outperformed the industry through the cycles. And so there's no reason really to suppose that ARM's going -- business is going to behave any differently this time.

**Tim Score** - ARM Holdings plc - CFO

And what I was saying this morning was actually -- I was talking about Q4 '08 OpEx really, where there is some numbers in there which are taking a prudent view of what might happen in '09 in some specific cases. I don't necessarily expect the provisioning level generally through '09 to run any higher than normal. Having said that, there is a backdrop out there that's -- some companies may, more than usual, might get into difficulty.

Having said that, most of the value of our licensing and therefore our receivables resides in the big players. So yes, where do you get the exposure? It's on that large number of smaller companies. But we have always taken a very cautious approach to payment terms and things of that nature. And if we can't get satisfied with the credit, then we don't deliver the technology until we've been paid, which is why, historically, you'll see that we don't have much bad debt history. But in Q4 it was a little bit higher than normal.

**Warren East** - ARM Holdings plc - CEO

I think we'd better make this the last question and we'll discuss afterwards.

**Brett Simpson** - Arete - Analyst

It's Brett Simpson at Arete again. Warren, there's been a lot of talk about ARM moving into the computing space, and I think you showed some products with netbooks and notebooks now going forward. I guess the obvious question is we've not seen much in the way of ARM going into Microsoft XP or Windows 7, or some of the mainstream Microsoft OSs that drive the industry.

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Can you talk about plans to do this? Does it make sense? Is there any technical reason why it hasn't happened so far? Because if you're supporting Ubuntu or other Linux variants, makes some sense you move forward and import to Microsoft.

**Warren East** - ARM Holdings plc - CEO

Okay. Yes. Absolutely. These sorts of products, we see them as a great opportunity for ARM. Yes, we've been working with Microsoft on and off for about the last 11, 12 years. And in an ideal world would the ARM offering be more competitive if big Windows was available on ARM today? Yes, it would.

It isn't not because of any technical reason. Not really because of any commercial reason from an ARM perspective. But really you'd have to talk to Microsoft about when they want to support our market. It's actually not up to us. However, that said, we're seeing a lot of activity in the Linux space. So I don't think it's a serious break on our progress into that new application area right now.

I think we'd better wrap up at that point. I'll thank everybody for your support and battling through the ice to get here. And we'll see you in six months.

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