# ARM Holding plc.

## Merrill Lynch: Telecommunication, Media, and Technology Conference

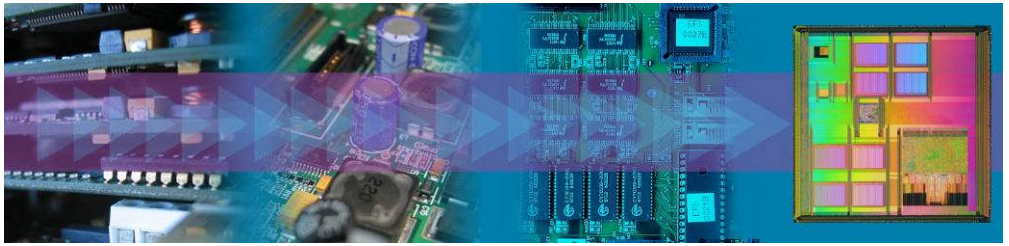
Tim Score

Chief Financial Officer

7th June 2006

# ARM: A long term growth story

- ARM is a secular growth story with a 25+ year time horizon
- Industry is 50 years old and looks set to continue for another 50 years
- Several waves of semiconductor technology
  - Now in the middle of CMOS
  - CMOS has enabled MSI>LSI>VLSI>SOC
- Technical progress brings a basis for industry evolution
  - Miniaturisation
  - Reductions in costs
  - Increases in complexity



- Vertical integration gives way to horizontal specialisation
  - Creates a sub-sector:  Semiconductor IP

# Background – Computing Market

- Computing has evolved in parallel with the Semiconductor market over a similar but slightly longer period

- Semiconductor technology is now allowing computing to become embedded into everyday products
  - Enhancing existing products
  - Enabling the creation of new ones

# What does ARM do?


**Processors**

**System Level IP:**

Data Engines

Fabric

**Physical IP**

# ARM develops technology at the heart of …


Nokia N90, N91, N70 Multimedia Handsets

Epson P-2000 PMP


Nintendo Gameboy Micro

Mitsubishi Pocket Projector

Sony Playstation Portable - PSP

SpotME Portable Wireless Contact Manager


Nokia 770 Internet Tablet


Panasonic - PT-56DLX75 HDTV

Reciva Internet Radio


Airspan EasyST


Alvarion BreezeMax

DrewTech – ScanDaq

DynonAvionics - EMS-D10
(Engine Monitoring System, EMS-D10)


Linksys: Compact Wireless-G Broadband router

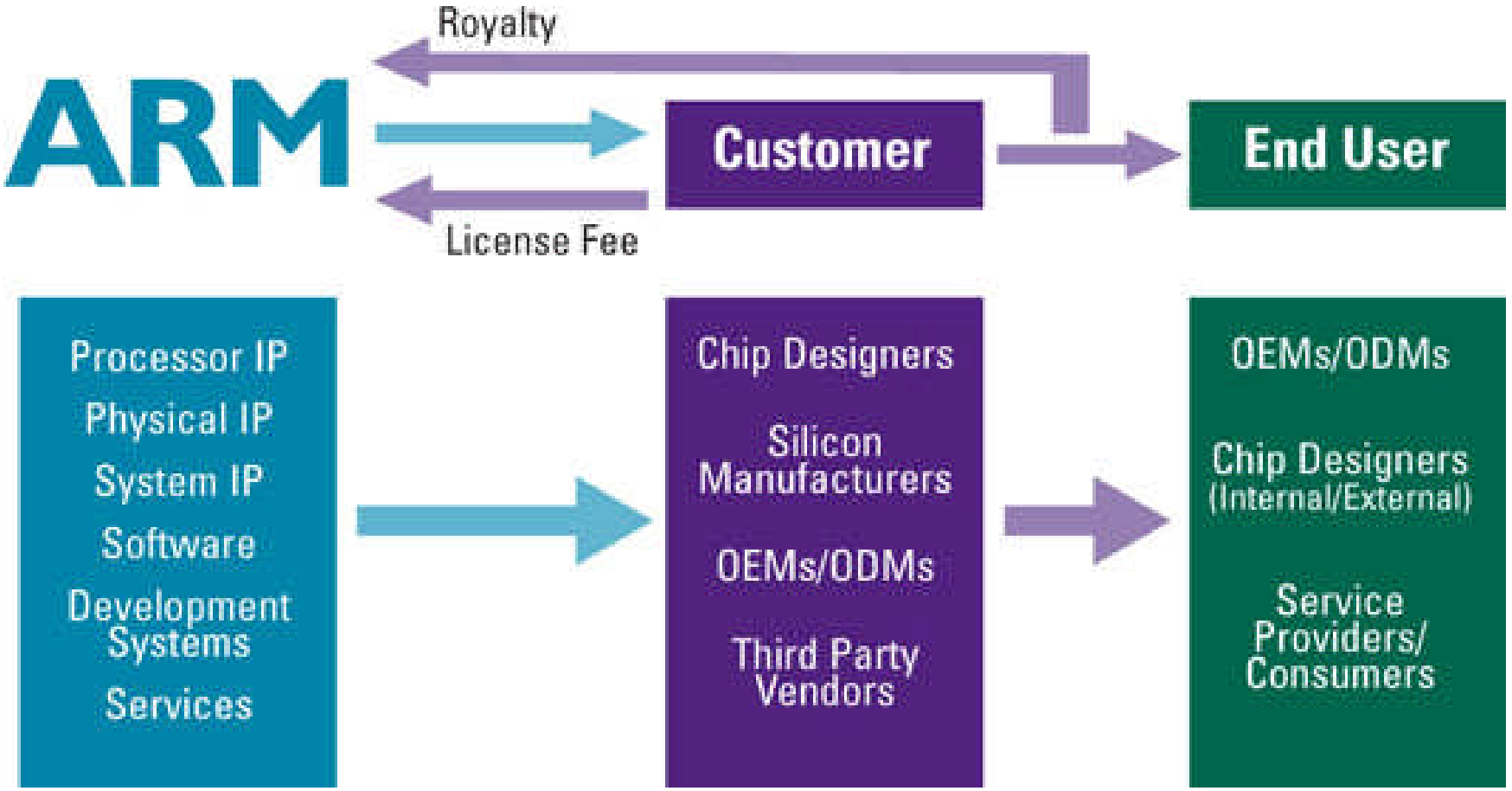
XKey 2.0 USB Memory Stick



Magellan Road Mate 700

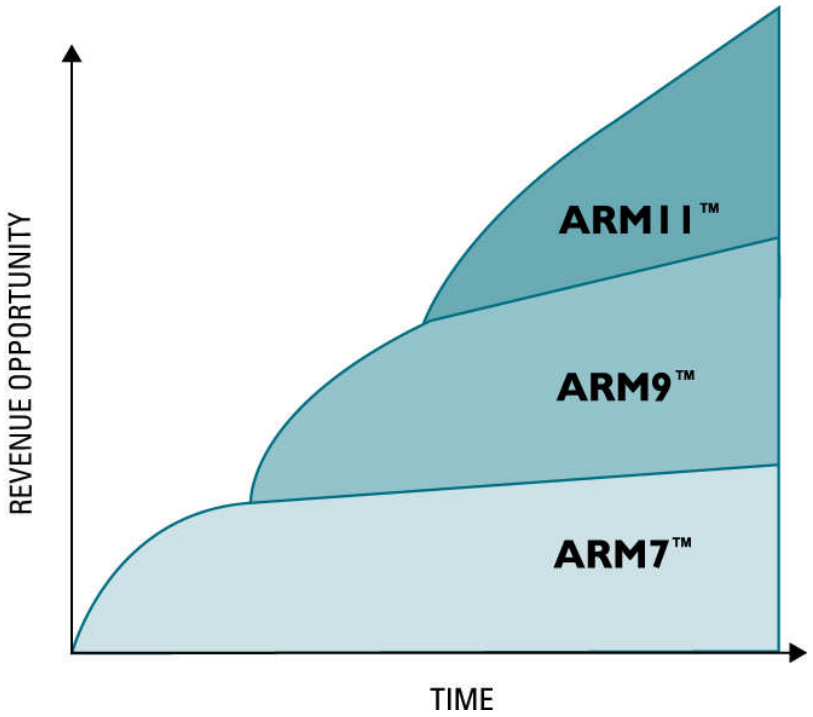
Dynon Avionics - EFIS-D10A
(Electronic Flight Information System)

# ARM Business Model

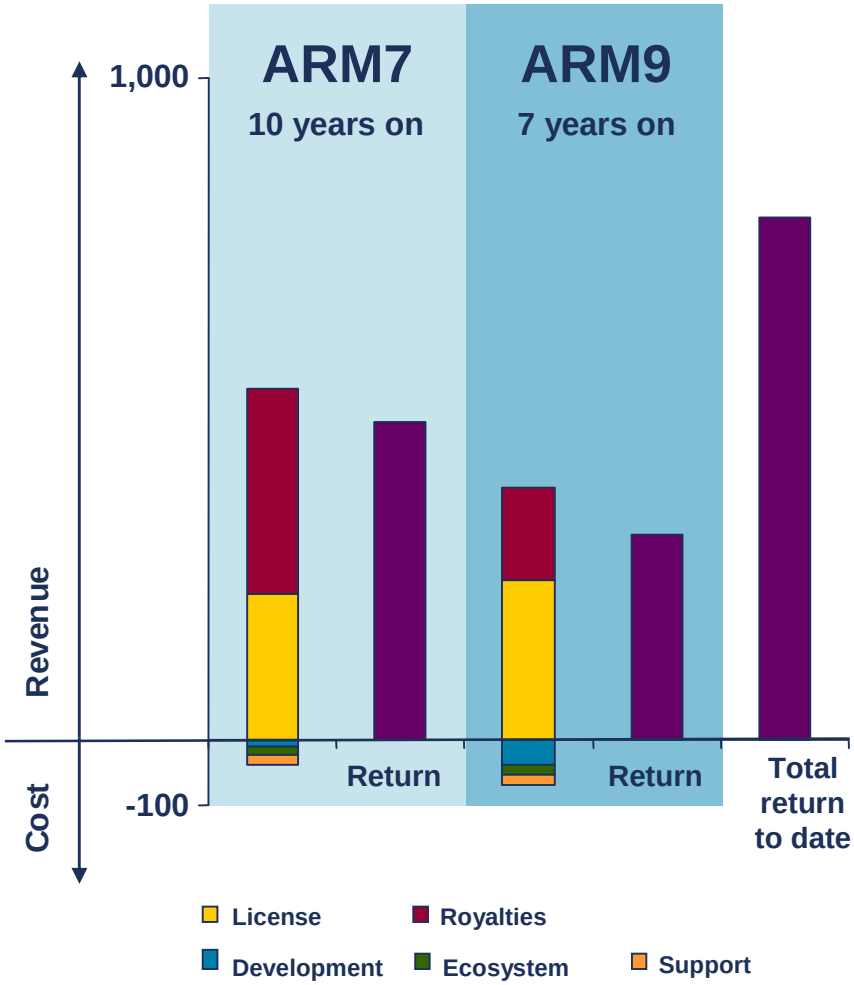


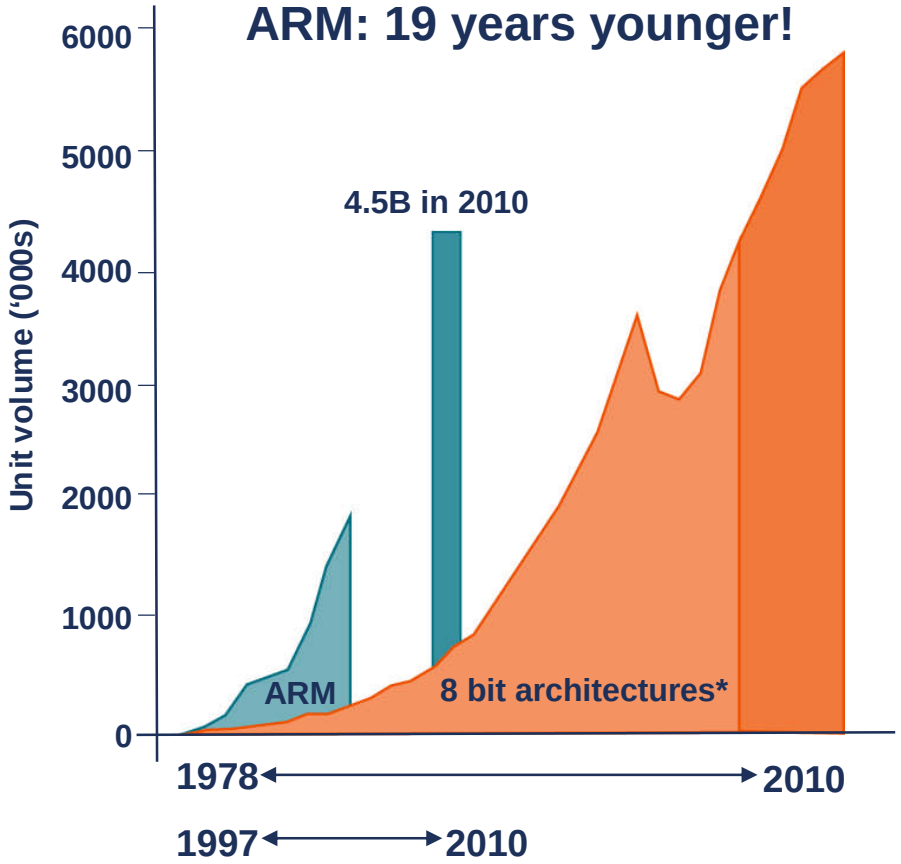
# ARM: A very profitable business model

- Multiple applications drive long microprocessor lifecycles
- Licenses have a 25+ year lifetime
  - 6-10 licenses to breakeven per development
  - 413 processor licenses signed to date
- Royalties = f(n) cumulative licenses
  - ~ 50% of licenses are yielding royalty
  - 4+ years between licensing and noticeable royalty
- Highly profitable business
  - Build once → Sell multiple times

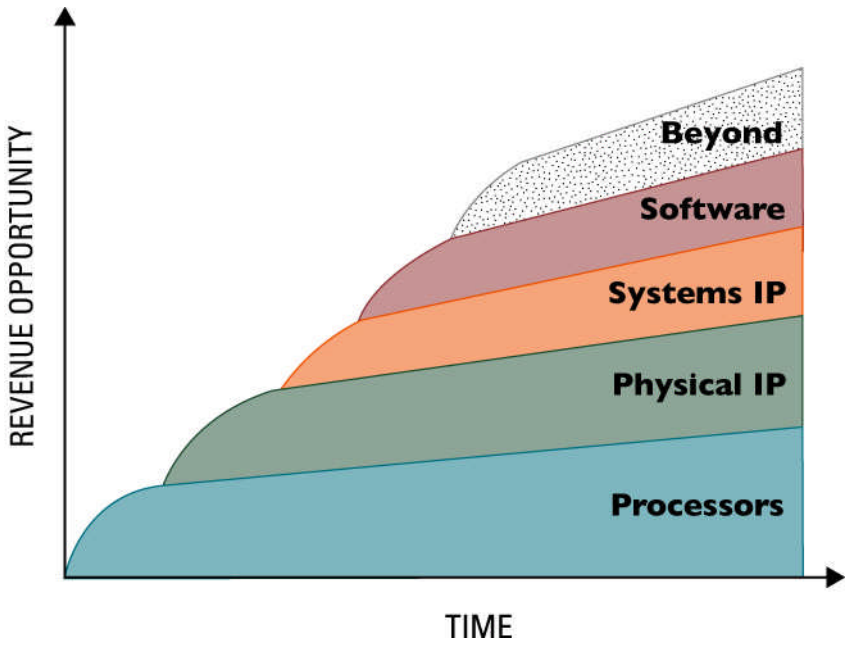
# Profitability of ARM Processors

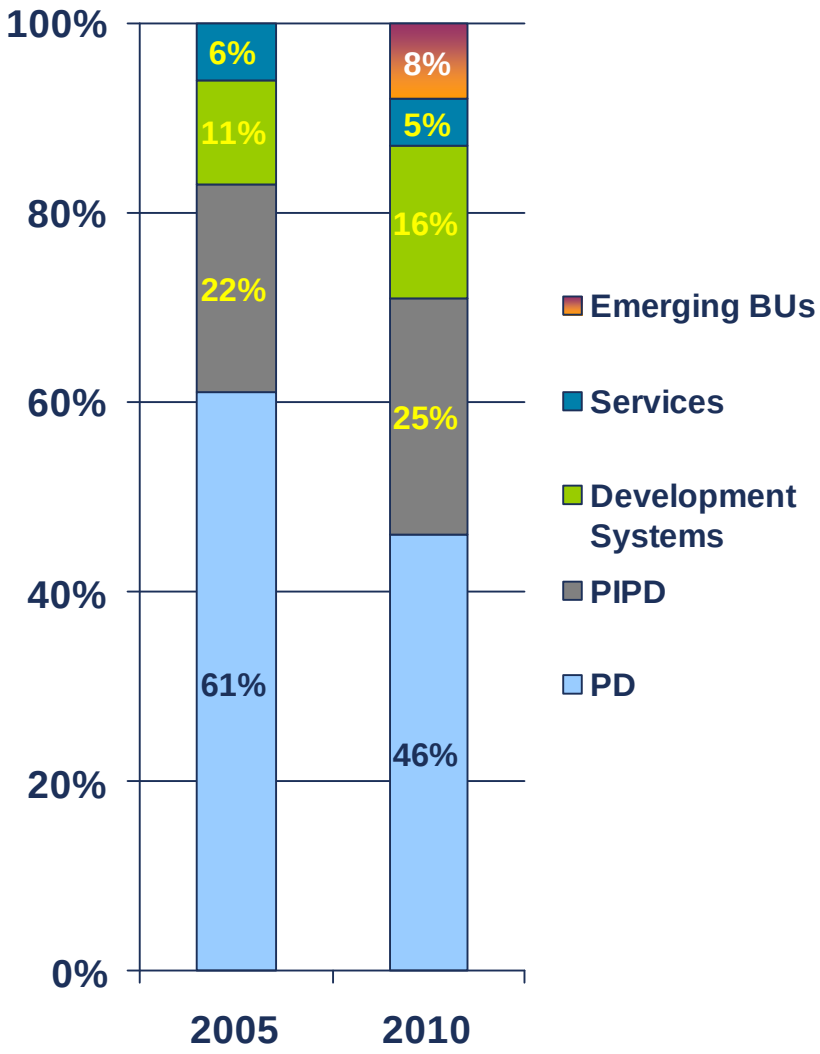



* Source: Instat

# The Shape of ARM in Future



# Translating into results:

# Q1 2006 Business Highlights

- Financial Highlights
  - Revenues continue to grow faster than the industry
  - Royalty revenue at 44% of total revenue
  - Record normalised operating margin at 35.6%
  - EPS up 34% compared to Q1 2005
  - £7m returned to shareholders via share buyback

- Operational Highlights
  - Long-term technology agreement signed with TSMC for Physical IP
  - Licenses signed for technology across the processor porfolio
  - Record underlying royalties in Processor and Physical IP
  - Record 572 million ARM Powered® products shipped
  - Development systems revenues up 38%
  - Total group order backlog flat sequentially

# Near-term summary

- Summary
  - Strong activity across the product lines in all divisions
    - Cortex family-based product lines being introduced by our partners
    - Physical IP being licensed for leading-edge technology nodes
    - Baseline and microcontroller tools gaining momentum
  - Royalty shipments remain strong
    - PD shipments up 47% vs. Q1 2005
    - Record underlying royalty revenue in PIPD

# Outlook

- Outlook
  - Broad technology portfolio for licensing
  - Long term royalty momentum in PD and PIPD
  - Strong Development Systems revenues
  - Some currency exposure but trading outlook remains consistent
  - Remain confident in achieving another strong performance in 2006 in line with current market expectations

# Long-term Summary

- Early stage in the digital revolution
  - Intelligence and functionality driving growth
- ARM is not a standard semiconductor company
  - Revenue received at multiple points in a product life time
  - Highly leveraged profitable business model
  - Predictable long-term growth story
- Further semiconductor IP outsourcing will occur
  - Physical IP follows Microprocessors
- ARM is executing well and has a bright future

Many short-term moving parts

But long-term growth story