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# **ARM Holdings plc**

## **Update – Q4 and FY 2004**

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# Agenda

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- Introduction – Sir Robin Saxby
- Business Overview – Warren East
- Financial Review – Tim Score
- Q&A

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# Sir Robin Saxby Chairman

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# Chairman's Summary

- ARM® business robust
  - Momentum – community / global standard
  - Strong license revenues
  - Record backlog levels
  - Royalty momentum
- Strong technology portfolio
  - ARM11™ moving to mainstream licensing
  - Three partners for “Tiger” signed
  - OptimoDE™ gaining traction
    - Competitive advantage recognised
- Extending regional influence
  - Excellent progress in China
  - Commercial & engineering growth in India
    - Bangalore HQ
- Strategic investment in 2004
  - Artisan acquisition to broaden IP offer
  - ESL tools capability through Axys acquisition
  - Software division established



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# Warren East CEO

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# 2004 – Year of Growth & Execution

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## ■ Growth

- Dollar revenues up 32% year on year
- 15 ARM11 licenses signed in 2004
  - 25 ARM11 licenses to date
- Order backlog 30% up end 04 vs end 03
- Unit shipments up 63% to 1.272 billion
- Operating margins up to 26% from 18%
- Headcount up to 1,171 from 740 at end 03
- ARM ecosystem
  - First ARM Developers' Conference – Santa Clara
  - ARM Connected Community



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# 2004 – Year of Growth & Execution

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- Strategic Development
  - Tools portfolio extended to include electronic system level (ESL) design with Axys acquisition
  - Physical IP business created via acquisition of Artisan
  - Embedded Software division established
  - OptimoDE technology launched, gaining traction
- Regional expansion
  - Beijing office opened
  - Bangalore sales office opened and design centre acquired



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# 2004 – Year of Growth & Execution

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- Technology development and delivery
  - ARM11 MPCore™
    - Symmetric multiprocessing core
    - Enhances power efficiency and stretches performance to 2.6GOPS
  - ARM1176™
    - ARM11 processor with TrustZone™ and Intelligent Energy Management (IEM) technologies
    - Technology delivered to lead partners
    - First ARM1176-based products shipped in 2005
  - ARM1156™
    - ARM11 processor with Thumb®-2
    - Highly efficient memory



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# Technology – Ongoing Innovation

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- OptimoDE Data Engines
  - Configurable DSP programmable in C
  - Combines performance and power efficiency of hardwired logic with flexibility and programmability of microprocessor
  - Extends breadth of ARM processing from control across the DSP space
    - Digital Video Processing
  - Complementary to generic DSP solutions from ARM silicon partners
  - 4 licences by end 2004



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# Technology – Ongoing Innovation

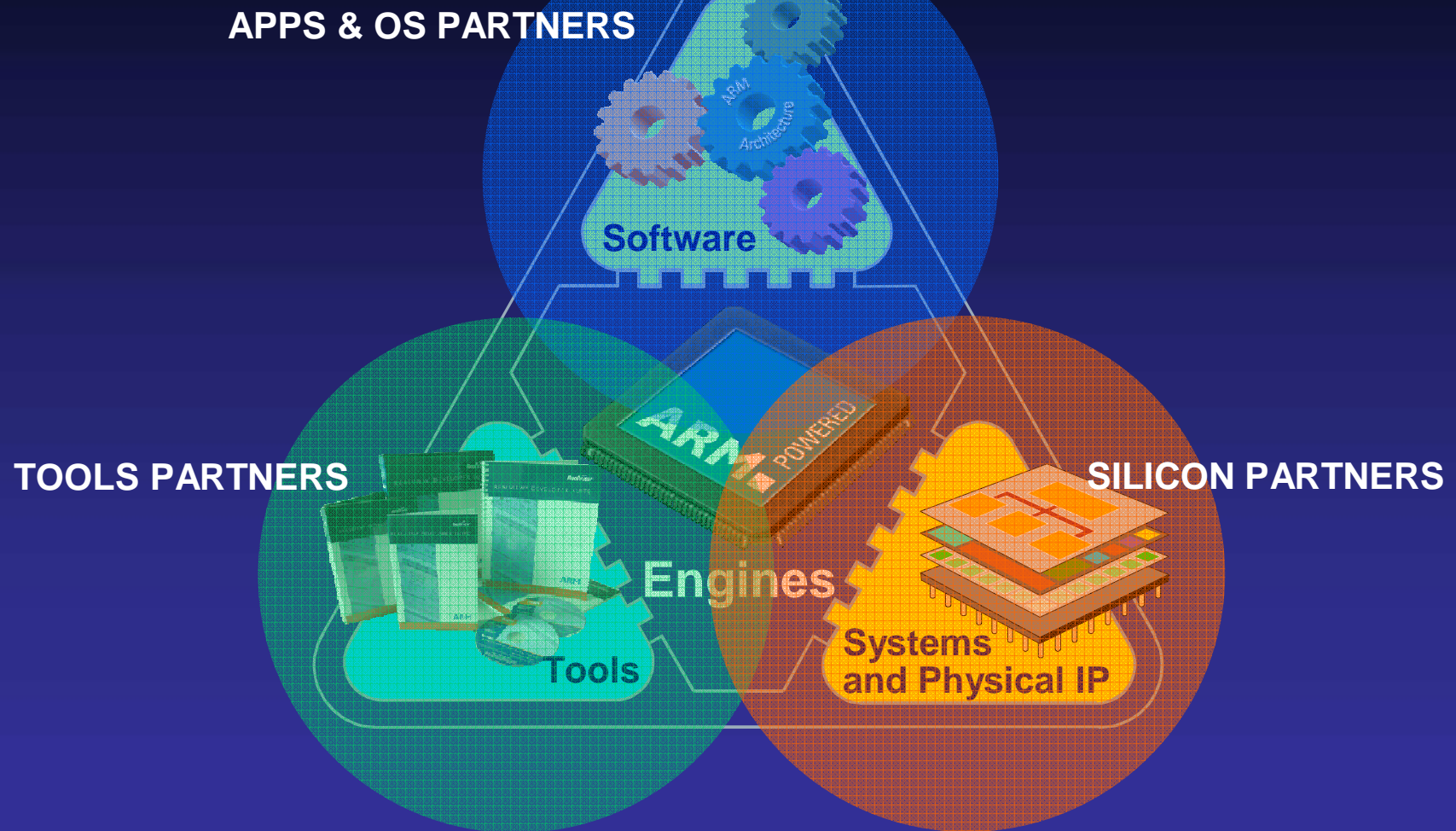
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- Cortex™ Processors
  - Launched October 2004 with Cortex-M3 for microcontrollers
  - Bringing new architectural developments to multiple performance points
  - Application, Real-time and Microcontroller series
  - High-performance “Tiger” processor approx. 1000 DMIPS
  - NEON™ general purpose, floating point DSP extensions
- Other new products in development for 2005 launch



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# Strategic Context

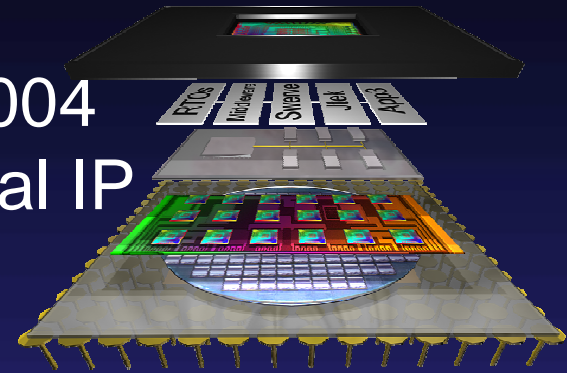


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# Corporate Development - Artisan

- Acquisition completed December 2004
- Leader in libraries and other Physical IP
- Creates Physical IP division
- \$90 million business in 2004
- 347 people with design centres in Sunnyvale, San Diego and Bangalore
- Low power and high performance libraries
- Working with ARM on “Tiger” library and IEM low-power library
- Opportunity to realise combination of benefits
  - Revenue and cost synergies
  - Better products



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# Revenue Opportunities

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## ■ Short term

- Extend ARM per-use license reach using Artisan sales channel and Axys models
- Artisan mixed-signal products extend ARM portfolio

## ■ Medium term

- 3rd party libraries help ARM Partners through cost reduction
  - Enable Partners to concentrate on key differentiators
  - Some big fabless and increased use of fab-lite approach

## ■ Longer term

- Facilitates development of better ARM products through technical synergy
  - “Tiger” library
  - IEM



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# Corporate Development - Axys

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- Acquisition completed August 2004
- Leading Electronic System Level (ESL) tools provider
- ESL design
  - High-growth, emerging area of the System design space for the next 3-5 years
- Rapid accurate System modelling enables optimum hardware / software system design evaluation and trade-off
- ARM ESL tools integrate with ARM RealView™ software development environment



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# ARM Developers' Conference

- Santa Clara, California
- October 19 – 21 2004
  - More than 2000 attendees
  - 90+ exhibitors & sponsors
- Format
  - Presentations
    - 8 parallel tracks of papers
    - 180+ papers
  - Panel discussions
  - Hands-on labs
  - Sponsorships and events

ARM DEVELOPERS'  
CONFERENCE '04



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# ARM Connected Community



Thousands of Physical IP Users

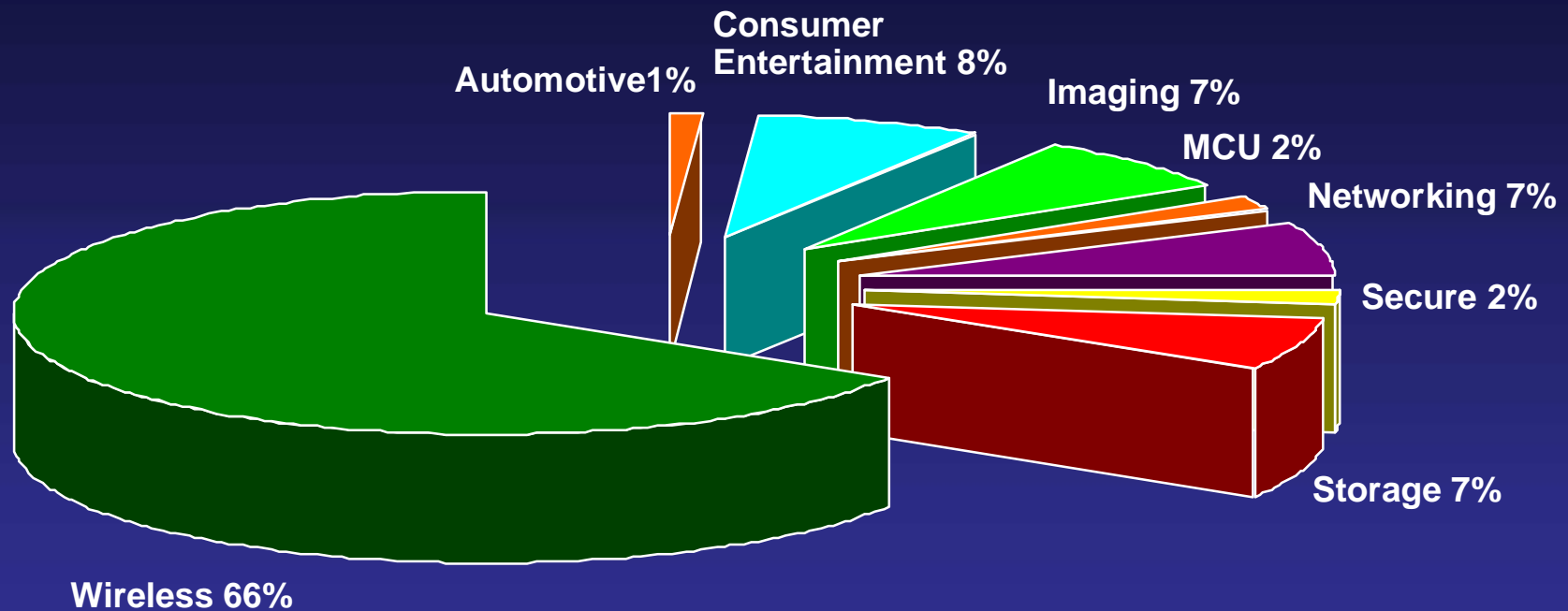
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# Q4 Royalty Analysis

Units Shipped in Q3 2004 by Segment



# Imaging / Networking

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HP Deskjet 5850



Draytek Vigor2600G  
ADSL Router



HP mp3220  
Digital Projector



Lexmark P315  
Photo Printer



IBM xSeries 235 Enterprise Server  
(3x ARM processors)



InFocus LP600  
Projector

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# Automotive / MCU / Storage



BIAC Portable Medical  
Electric Muscle Stimulator



Verbatim Store 'n Go  
Pro DiskOnKey



TritonFT5000 ATM



Navman iCN 630 GPS



Fujitsu MH Series  
Mobile HDD

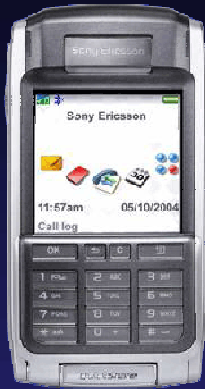


Tom Tom Go  
GPS 3D

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# Wireless



Sony Ericsson P910  
SmartPhone



Nokia 9500  
Communicator



i-mate PDA2k



BenQ P30,  
SmartPhone



Lipman Point-of-  
Sale Terminal



Panasonic X700  
Phone



Verifone Vx 510/Vx 610  
Countertop Multi  
Application Terminal



Motorola A1000  
Phone

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# Consumer - Audio & Video



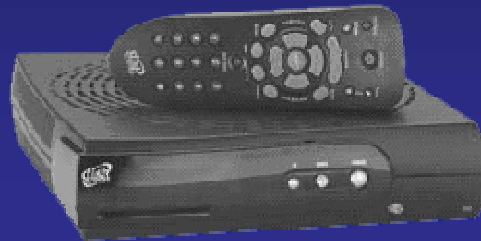
Toshiba 52HM84  
DLP Television



Kiss DP-1000  
DVD Player



Samsung HLP5685W  
DLP TV



Dish Network  
Dishpro 111



Dave Networks Xport  
Media Receiver



RCA HD61THW263  
Thin DLP HDTV

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# Consumer



**Gizmondo Portable  
Gaming Console**



**Tapwave Zodiac2 Multimedia  
Palm & Portable Gaming Device**



**Virgin 5GB  
MP3 Player**



**Mattel Juice Box  
Personal Media Player**



**Deja View Camwear 100**



**Swatch "Paparazzi"  
Wrist Watch**

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# Summary

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- Ongoing focus
  - Core expertise
    - Low-power system design; standards; Partnership
  - Generic IP of the highest value
    - “standards capable”
- 2005 priorities
  - Integration of Artisan – ARM Physical IP
  - Delivery of “Tiger” to initial licensees
  - RealView tools enhancements and further ESL tools integration
  - Effective utilisation of Bangalore design centre



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# Summary

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- Outlook
  - Changing technical and economic climate
  - Royalty growth
    - Wireless
    - Microcontroller
    - Consumer
  - First ARM1176-based products shipped
  - Steady growth in licensing revenues
  - Revenue to grow faster than overall industry
    - Broad technology portfolio
    - Royalty momentum
    - Good backlog



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# Tim Score CFO

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# Q4 2004 – Financial Highlights

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- **Record total dollar revenues at \$74.7 million**
  - Up 7% Q on Q
  - Up 31% year on year
- **\$ licensing revenue at \$28.8 million**
  - Up 13% Q on Q, with 19 licenses signed in Q4
- **\$ royalty revenues at \$29.4 million**
  - Record 367 million units shipped
- **Operating margin (excluding non-recurring and acquisition-related charges) at 28.0%**
  - Up from 22.4% in Q4 2003
- **Backlog grows strongly**
  - Approx 15% sequentially
  - Approx 30% higher at end 04 vs end 03
- **Strong cash generation**
  - £10.1 million generated in ARM stand-alone business



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# Quarterly Results Summary

	Q404 (£MM)	Q304 (£MM)	Q204 (£MM)	Q104 (£MM)
<b>Total revenues</b>	<b>41.5</b>	<b>39.4</b>	<b>36.9</b>	<b>35.0</b>
US\$ revenues	74.7	70.1	65.3	62.3
<b>Operating profit</b>	<b>11.6</b>	<b>11.8</b>	<b>8.8</b>	<b>7.9</b>
Mgn (%)	28.0%	30.0%	23.8%	22.6%
<b>PBT – U.S. GAAP</b>	<b>13.5</b>	<b>13.7</b>	<b>10.4</b>	<b>9.4</b>
<b>EPS – U.S. GAAP (p)</b>	<b>1.19</b>	<b>0.96</b>	<b>0.70</b>	<b>0.64</b>
<b>Net cash</b>	<b>142.8</b>	<b>174.6</b>	<b>166.3</b>	<b>158.9</b>

Figures exclude non-recurring and acquisition-related charges of £8.2m in Q404 and £0.4m in Q304



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# Summary Balance Sheet - 31 Dec '04

Consolidated ARM and Artisan 31 Dec 04  
£MM

## Assets

Cash	142.8
Trade debtors	34.3
Other debtors, inventory and investments	48.0
Property and equipment	14.1
Goodwill	339.7
Other intangibles	74.6

<b>Total assets</b>	<b>653.5</b>
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## Liabilities & shareholders' equity

Deferred revenue	21.4
Other creditors	79.8
Shareholders' equity	552.3

<b>Total liabilities &amp; shareholders' equity</b>	<b>653.5</b>
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# 2005 Acquisition-Related Charges

	Q1 05	Q2 05	Q3 05	Q4 05
	£MM	£MM	£MM	£MM
Artisan intangibles amortisation	3.8	3.8	3.8	3.8
Other acquired intangibles amortisation	0.1	0.1	0.1	0.1
Deferred compensation	2.0	1.7	1.4	1.0
<b>Total charges</b>	<b>5.9</b>	<b>5.6</b>	<b>5.3</b>	<b>4.9</b>

Total 2004 acquisition-related charges: £4.2 million



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# Impact of IFRS on ARM

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- Market consensus for ARM based on US GAAP
  - IFRS results reported at half and full year
- Stock options
  - IFRS 2 – fair value of employee stock options charged to P/L
    - Currently note disclosure only under US GAAP
- Goodwill
  - No amortisation, regular impairment reviews
  - Consistent w/US GAAP
- Other intangibles
  - Amortised as per US GAAP
  - IPRD capitalised under IFRS, written-off under US GAAP
- Capitalisation of R&D
  - Expect to continue to write-off as incurred
- Revenue recognition
  - IFRS moving closer to US GAAP

# Cash Flow Summary

£MM – U.K. GAAP	2004	Q4 04
Operating activities	50.8	17.3
Interest	7.2	2.5
Tax	(11.6)	(3.4)
Capital expenditure	(5.4)	(2.0)
Acquisitions	(50.4)	(43.6)
Dividend	(9.0)	(2.9)
Other	1.4	0.3
Cash flow	(17.0)	(31.8)
Opening cash	159.8	174.6
Closing cash	142.8	142.8

£MM – U.K. GAAP	2004	Q4 04
Operating profit	35.2	6.8
Depreciation and amortisation	14.7	4.2
Movements in working capital	1.3	6.3
Investments	(0.4)	0.0
Operating activities	50.8	17.3

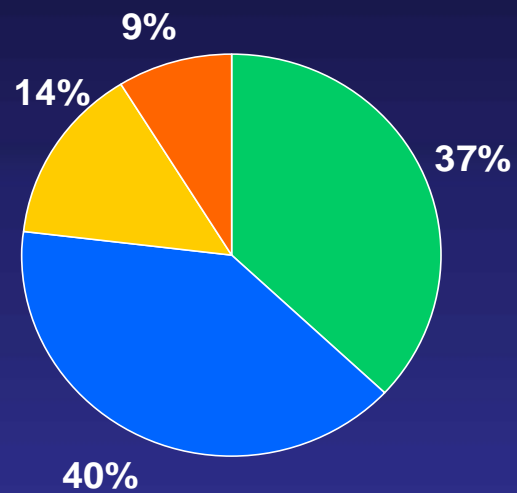
# Cash Flow from Acquisitions

	2004	Q4 04
	£MM	£MM
Cash component of Artisan consideration	(122.3)	(122.3)
Artisan cash acquired	82.6	82.6
Fees and expenses paid pre-year end	(3.9)	(3.9)
Axys consideration	(6.9)	-
Axys cash acquired	0.1	-
<b>Net cash impact of acquisitions</b>	<b>(50.4)</b>	<b>(43.6)</b>

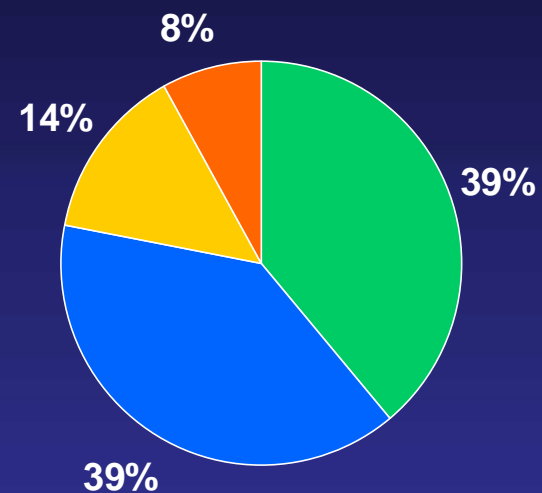


# Revenue Split

Q3 2004



Q4 2004



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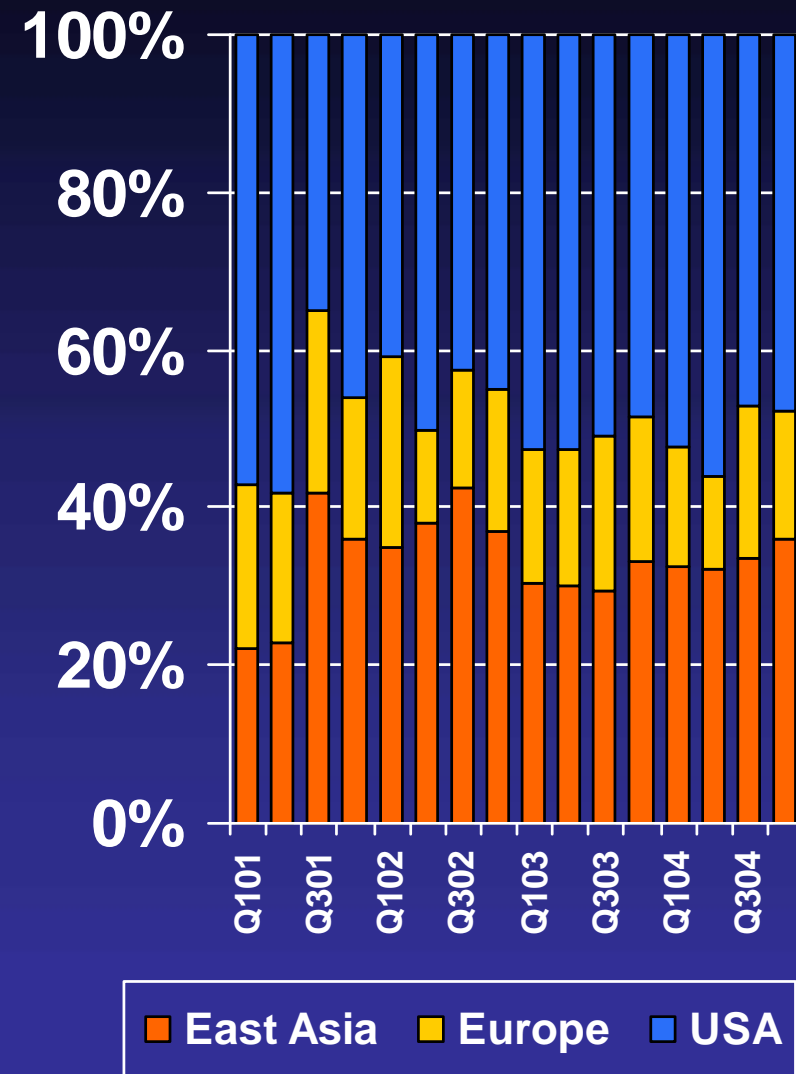
# Geographic Spread

## ■ Revenues Q404

- 48% USA (47% Q304)
- 36% Asia (34%)
- 16% Europe (19%)

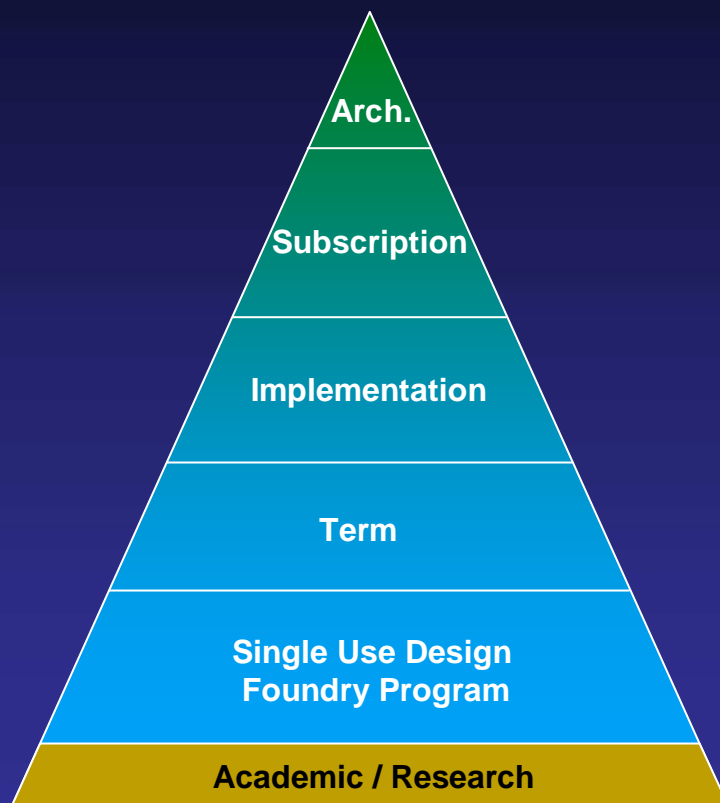
## ■ Bookings Q404

- 49% USA (45% Q304)
- 39% Asia (34%)
- 12% Europe (21%)



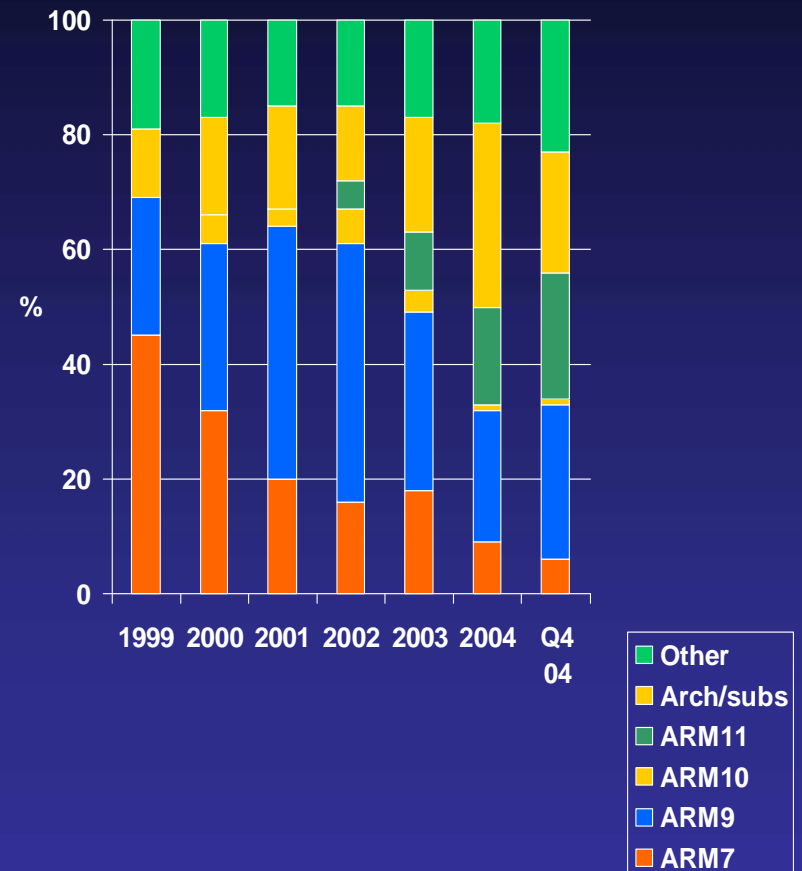
# Licensing Analysis

## Licensing Models



ARM Partner / Product Proliferation

## Core and Non-CPU Licensing

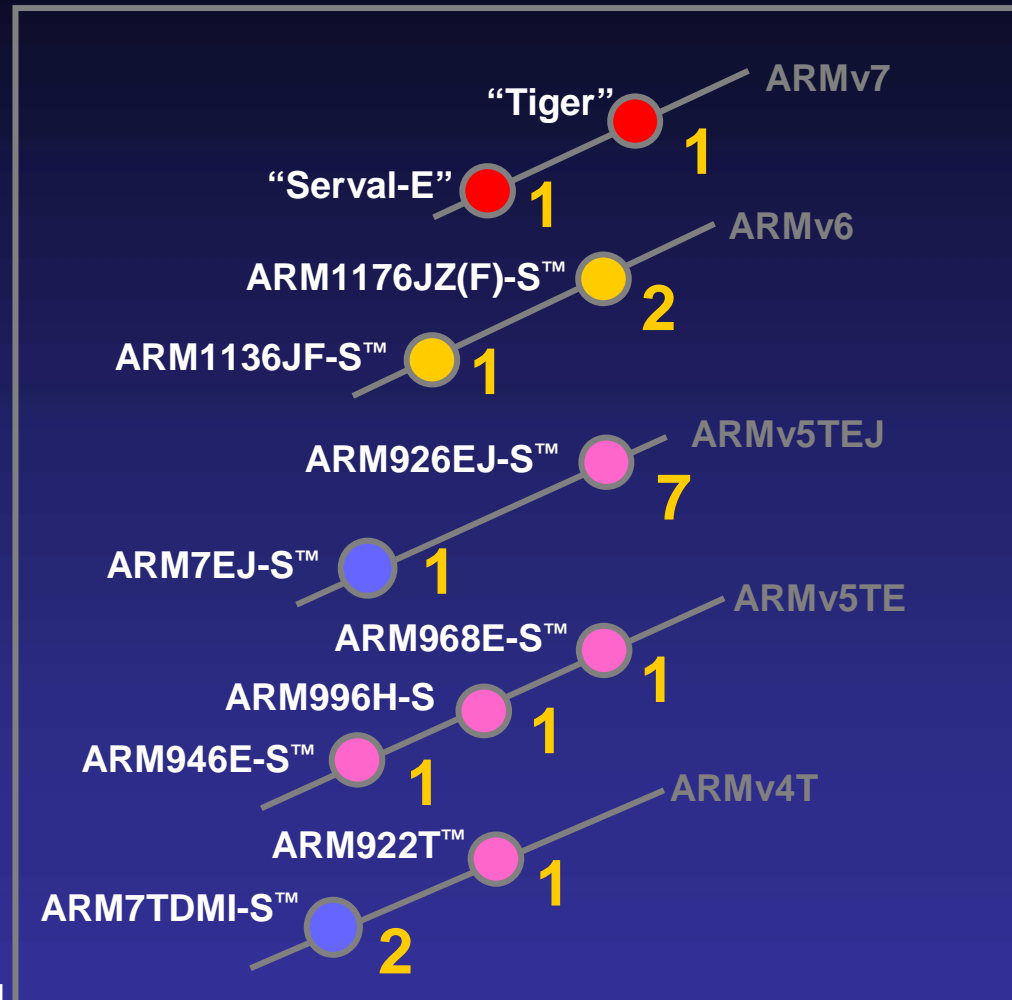


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# Core Licensing – Q4 2004

- Q404: 19 licenses
- 4 new partners
  - 4 x per use ARM926EJ-S™
  - 1 x per use ARM922T™
- 9 existing partners
  - 8 derivatives
    - 3 x ARM7™ family
    - 5 x ARM9™ family
  - 6 upgrades
    - 1 x ARM9 family
    - 3 x ARM11™ family
    - 1 x “Tiger”
    - 1 x “Serval-E”
- 140 Partners at end Q404



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# Core Licensing – Cumulative



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# Royalties – Q4 2004

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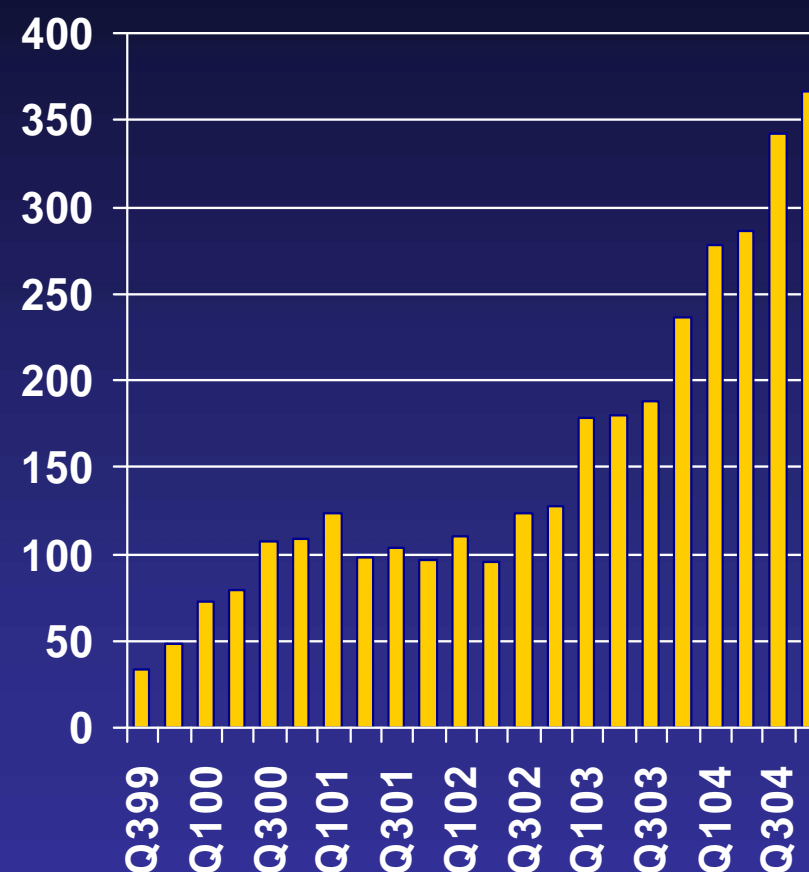
- 367 million units shipped by our partners in Q3
  - Reported by ARM in Q4
- Total 04 unit shipments up 63% Y on Y
  - 1,272 million (03 – 782 million)
  - 405 million outside Wireless
    - More than 3x 2002
- Record royalty revenues in Q4
  - \$29.4 million (\$28.6 million in Q3)
- Number of partners shipping at 60 (out of 140)
- Q4 average royalty rate at 8.0 cents
  - FY 04 rate at 8.4 cents (03 – 9.1c, 02 – 8.3c)
  - ARM9 accounts for 24% of total shipments
  - ARM926 accounts for circa 3% of total shipments



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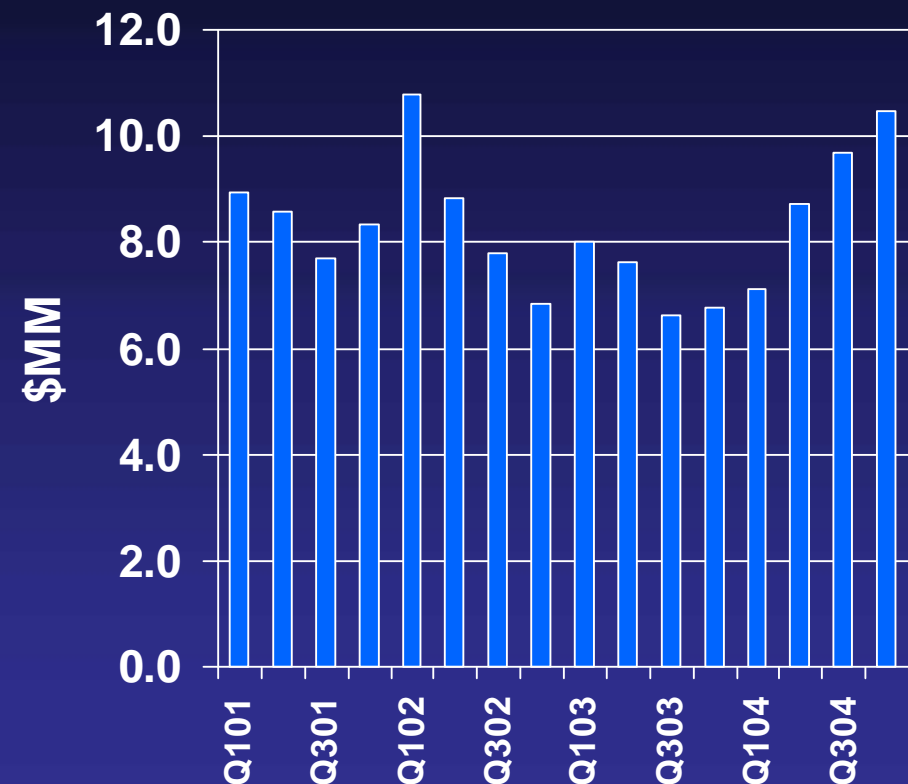
# Royalties

	Q104	Q204	Q304	Q404
<b>Roy.Revs (£MM)</b>	13.4	13.9	16.0	16.3
<b>% of Revs</b>	38%	38%	40%	39%
<b>Units (MM)</b>	278	286	342	367
<b>No.shipping</b>	63	59	59	60
<b>Roy.Revs (\$MM)</b>	24.1	24.9	28.6	29.4



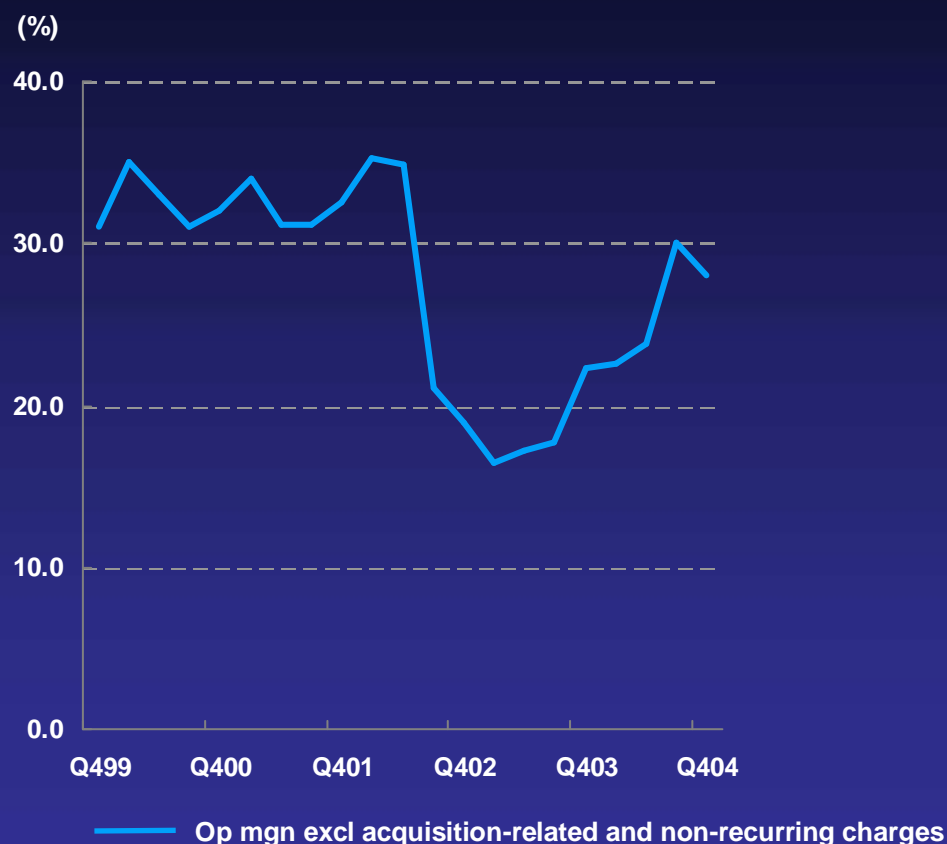
# Development Systems

- Sales in Q404
  - 44% (28%) USA
  - 32% (35%) Asia
  - 24% (37%) Europe
- 14% of total revenues
- 42% revenues through distribution





# Operating Margin



	Q204	Q304	Q404
R&D (%)	33.4%	33.0%	31.4%
R&D (£MM)	12.4	13.0	13.0
SG&A (%)	36.0%	29.8%	31.6%
SG&A (£MM)	13.3	11.8	13.1
Op Mgn (%)	23.8%	30.0%	28.0%

Values as percentage of sales

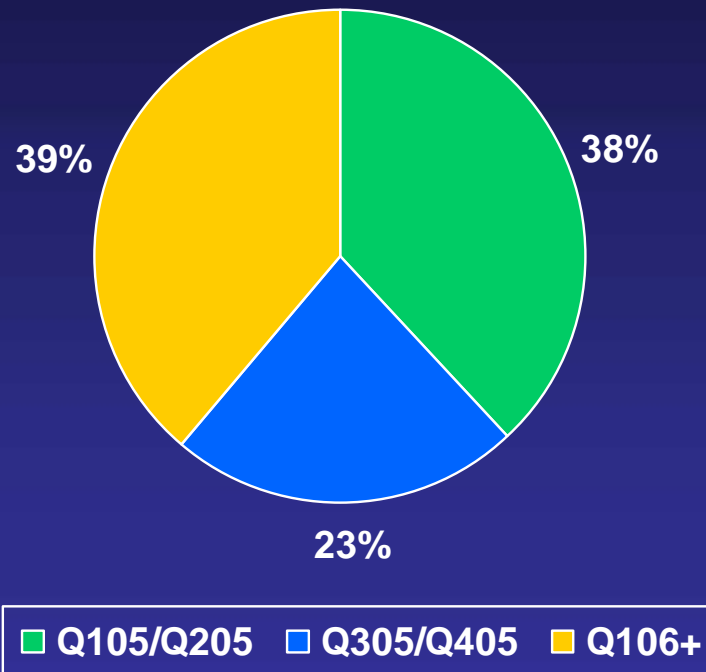
Figures exclude non-recurring and acquisition-related charges of £8.2m in Q4 04 and £0.4m in Q3 04



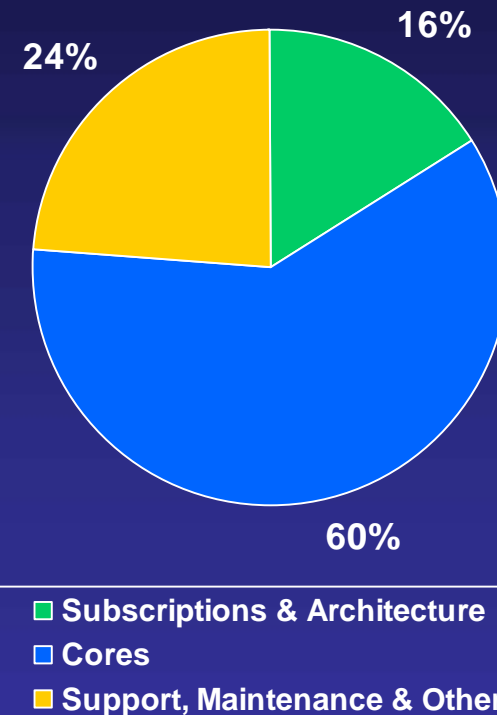
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# Backlog – ARM stand-alone

## Backlog by Maturity Profile



## Backlog Composition



# Outlook

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- Little or no growth expected in overall semiconductor industry in 2005
- Results exposed to further dollar weakness
  - Dollar revenues > 90%
  - Dollar cost base circa 45%
- Both ARM and Artisan underlying businesses expected to grow by at least 20% year on year
  - Good backlog
  - Healthy sales pipeline
  - Royalty revenue momentum
- Merger integration well advanced
  - Enlarged group positioned to access combination benefits



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# Q&A

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