

18th May 2016

TMT

ARM Holdings

Price 928.00p

ARM acquires Apical for USD350m cash and seeks to accelerate opportunities in imaging

Fair Value 1340p (+44%)

BUY

Bloomberg	ARM.LN
Reuters	ARM.L
12-month High / Low (p)	1,168 / 848.5
Market Cap (GBPm)	13,063
Avg. 6m daily volume (000)	3,736

	1 M	3 M	6 M	31/12/15
Absolute perf.	-6.3%	-0.2%	-12.0%	-10.7%
Semiconductors	-6.4%	4.2%	-10.4%	-8.5%
DJ Stoxx 600	-2.4%	1.8%	-11.9%	-8.5%

	2015	2016e	2017e	2018e
P/E	30.7x	26.4x	22.7x	20.1x
Div yield (%)	0.8%	1.2%	1.5%	1.6%

ANALYSIS

- **Today, ARM announces the acquisition of Apical, a UK company specialised in imaging and computer vision.** We believe the aim of this acquisition is to reinforce ARM's IP portfolio to better serve high-growth markets such as the automotive, industrial sector and IoT. It should also help the group to add content into historic market of smartphone since Apical's technology is said to be used in more than 1.5bn smartphones and 300m of other devices. As a result, this acquisition targets three Apical's technology: 1/ Spirit, a computer vision technology (allowing converting raw sensor data or video into a machine-readable representation of an image) which will complement the current ARM Mali offering (graphic, display, video), 2/ Assertive Display which enables better screen performance and is currently being used by large OEM (Huawei, LG and Samsung), and 3/ Assertive Camera which enhance camera module performance and targets the smartphone and the automotive markets.
- **A USD350m deal.** The deal is worth USD350m (c. GBP242m) and will be paid cash. We note that the net cash position of ARM was GBP812m by the end of March. It worth noting that the two companies used to work together on next gen image computing products. At first take, this acquisition make sense since it will reinforce ARM's portfolio while technological overlaps appears to be very limited and Apical's technologies seem to fit in ARM's Mali offering. We mainly sees opportunities in the field of automotive and especially the fashionable driverless features. Finally, Apical is said to be a strong growing business however no details are made public.

VALUATION

- **Based on our estimates, ARM's shares are trading on 2016e P/E of 26.4x, well below its 5y historical average of 39.3x.**

NEXT CATALYSTS

- 27th July 2016: Q2 results

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Distribution of stock ratings

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NEUTRAL ratings 0%

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