

ARM Holdings

Price 1,189p

Softbank to acquire ARM Holding for GBP24.3bn or 1,700p per share

Fair Value 1340p (+13%)

TENDER TO THE OFFER

Bloomberg	ARM.LN
Reuters	ARM.L
12-month High / Low (p)	1,189 / 848.5
Market Cap (GBPm)	16,733
Ev (BG Estimates) (GBPm)	15,758
Avg. 6m daily volume (000)	4,085
3y EPS CAGR	15.2%

Today, ARM confirmed its acquisition by SoftBank in a deal worth GBP24.3bn. This represents a value per share of 1,700p, a premium of 43% compared to last ARM share closing price last Friday. Given SoftBank's track record, it is a credible buyer in our view. As a result, this target price implies very high multiples with 2016e EV/Sales of 20.0x and 2016e P/E ratio of 47.8x to be compared to historical P/E of about 40.0x on ARM. Finally, we note that the deal is not subject in to any anti-trust regulation.

	1 M	3 M	6 M	31/12/15
Absolute perf.	22.0%	20.1%	27.4%	14.4%
Semiconductors	9.9%	5.4%	19.9%	3.1%
DJ Stoxx 600	4.4%	-1.4%	2.4%	-7.6%

ANALYSIS

- Today, ARM announced that SoftBank will pay 1,700p per share to acquire the U.K. chip designer.** In our view, the Japanese telecom group is looking for a way to take benefit of the next wave of growth driven by the Internet of Things. The SoftBank offer of 1,700p value ARM Holding or GBP24.3bn, represents a premium of 43% compared to Friday closing price of 1,189p. As a result, this price implies very high multiples with 2016e EV/Sales of 20.0x and 2016e P/E ratio of 47.8x to be compared to historical P/E of about 40.0x on ARM. The deal is said to be financed through cash available and long-term loan facility between Softbank and Mizuho Bank.
- A credible buyer benefiting from low GDP.** This would not be the first big deal by Softbank and this is what makes this rumour credible. The Japanese group has been famous for its acquisition of the Japanese branch of Vodafone. This acquisition transformed SoftBank in a leader telecom operator in Japan (#3). Other notable operations were the USD20m investment in the Chinese ecommerce company, Alibaba or the small stakes in few start-up such as Didi Chuxing and Uber. Overall, the group acquisition amounted for more than USD80m according to Dealogic data.
- ARM's management favourable and no major shareholder to stop the deal.** In the press release, the management of ARM said they will recommend that ARM shareholders vote to approve the deal. Currently, the main shareholders of ARM are Blackrock, Baillie Gifford, Thornburg Investment and Fidelity, holding about 5% of share each. Except few large institutional investors, ARM's shareholder structure is mainly free float. Overall, the acquisition seems to be in a good configuration. Finally, the Acquisition is said not to be subject to any anti-trust or regulatory conditions.
- The impact on the Semiconductor industry should be limited as Softbank already confirmed it will keep ARM current structure.** We always said that it would not make sense for a Semiconductor player to acquire ARM as the group allows the industry to mutualise development cost of complex chip design and architecture. This is not what happened today, SoftBank must be seen more as an investor than an industry player. The Japanese group already confirmed that ARM will remain an independent business. In addition to that, SoftBank already said it will support the management team and it will also keep group's headquarter in the UK.

YEnd Dec. (GBPm)	2015	2016e	2017e	2018e
Sales	968.3	1,152	1,291	1,437
% change		18.9%	12.1%	11.3%
EBITDA	542	630	729	823
EBIT	499.8	576.9	668.9	756.1
% change		15.4%	15.9%	13.0%
Net income	429.0	497.3	580.6	654.9
% change		15.9%	16.8%	12.8%

	2015	2016e	2017e	2018e
Operating margin	51.6	50.1	51.8	52.6
Net margin	44.3	43.2	45.0	45.6
ROE	18.9	18.3	18.5	17.8
ROCE	34.9	39.9	46.6	52.4
Gearing	-36.0	-45.6	-53.6	-60.4

(p)	2015	2016e	2017e	2018e
EPS	30.20	35.09	40.97	46.21
% change	-	16.2%	16.8%	12.8%
P/E	39.4x	33.9x	29.0x	25.7x
FCF yield (%)	0.0%	0.0%	0.0%	0.0%
Dividends (p)	7.60	11.24	13.94	14.49
Div yield (%)	0.6%	0.9%	1.2%	1.2%
EV/Sales	16.6x	13.7x	11.9x	10.4x
EV/EBITDA	29.7x	25.0x	21.1x	18.1x
EV/EBIT	32.2x	27.3x	23.0x	19.7x



VALUATION

- Based on our estimates, ARM's shares are trading on 2016e P/E of 33.9x, 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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