

ARM Holdings

Price 1,676p

Q2 2016 EPS came out 6% above consensus, no guidance given due to SoftBank acquisition

Fair Value 1410p (-16%)

TENDER TO THE OFFER

Bloomberg	ARM.LN
Reuters	ARM.L
12-month High / Low (p)	1,683 / 848.5
Market Cap (GBPm)	23,587
Ev (BG Estimates) (GBPm)	22,691
Avg. 6m daily volume (000)	5,037
3y EPS CAGR	17.9%

ARM Holdings has reported Q2 2016 results above consensus expectations and company guidance. Q2 sales came in at USD388m or GBP268m, down 3.2% sequentially, with normalised operating margin at 47.6%, and EPS at 8.6p. The figures were a mixed bag with sales 3% below the consensus forecast at GBP275m but adjusted EPS 6% higher than the consensus at 8.6p (cs. ests. 8.1p/BG ests. 8.2p). Given the offer made by SoftBank to acquire ARM, the group does not provide guidance.

ANALYSIS

- **Q2 2016 top-line growth was below expectations but EPS came out 6% above consensus.** The company reported Q2 2016 revenues of USD388m, or GBP268m down 3.2% seq. (+17.1% yoy), 3% below consensus expectations. Gross margin came in at 96.2%, slightly down compared to Q1 2016 (at 96.7%), and operating expenses came out at GBP131m (up from GBP133m in Q1 2016). As a result, normalised EBIT was 3% below the consensus figure at GBP127m (cons. GBP131m/BG ests. GBP135m), nevertheless EPS was 6% above at 8.6p (cons. 8.1p / BG ests. 8.2p). Normalised cash generation increased significantly to GBP128m in Q2 2016, down from GBP81m in Q1 2016 and the net cash position at the end of Q2 2016 was GBP805m compared with GBP1,006m at the end of Q1 2016.
- **Licencing sales grew by 7% yoy in dollar terms in Q2 and royalties by 12% but showed a decrease of 9% sequentially.** Q2 licencing revenues accounted for USD161m (up 7% yoy, and 9% seq.) of which USD147.6m from the processors business and USD13.7m from the physical IP activity. Overall, the royalties business was the most dynamic with yoy growth of +12% in dollar terms (but down 9% seq.). Royalty revenues grew to USD197m, of which USD178m from the processors business and USD20m from physical IP. Software & tools and services revenues came out at USD15m and USD14m respectively, compared with USD20m and USD14m achieved in Q1 2016.
- **Given the offer by SoftBank to acquire ARM, the group has not provided any revenue guidance for full-year 2016.**

VALUATION

- We are making no change to our estimates at this point and will wait for further details from today's conference call (see details below).
- Based on our estimates, ARM's shares are trading on 2016e P/E of 51.2x. Note that SoftBank proposed 1,700p per share cash to acquire ARM Holdings.

NEXT CATALYSTS

- Today: Q2 results conference call (10:30am CET, +44 (1) 452 555 566, ID: 52814520).

Reported Q2 2016 vs. consensus

[GBPm]	BG ests. 2Q16	Consensus 2Q16	2Q16 Actual	Actual vs. Cons.
Net revenue	278	275	268	-2.6%
% change (seq)	0.5%	-0.6%	-3.2%	-257bp
% change (yoy)	21.6%	20.2%	17.1%	-311bp
Gross Margin	96.2%	96.4%	96.2%	-25bp
Adj. EBIT	135	131	127	-2.7%
% of revenue	48.7%	47.6%	47.6%	-4bp
Dil. EPS (in p.)	8.2	8.1	8.6	6.4%

Sources: Thomson Reuters I.B.E.S.; Bryan Garnier & Co. ests.



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