

## Arm Holdings

# Well-ARMed to accelerate growth on v9 transition, AI adoption

Reiterate Rating: BUY | PO: 110.00 USD | Price: 77.01 USD

## Raise estimates and PO to \$110

Solid FQ3 with \$824mn sales up 14% YoY and 8% ahead of cons. FQ4 sales outlook \$875mn 12% ahead. Importantly, ARM's royalty revenues grew 12% YoY in DecQ, first YoY growth in 4 quarters, accelerating to 30% YoY growth in guided MarQ. The biggest driver is customer transition from older v8 architecture (3% royalty rate) to v9 (5%+). Per ARM only ~15% of current royalties are v9, suggesting multiple years of growth on just 2x higher content even if semi industry units remain stagnant – recall prior v7 to v8 transition took place in 3 years, and perhaps another 2x in royalties on high-end of v9 which includes higher value-add of total compute solution (TCS). Bears would cite lumpiness in licensing deals, China sales, and stock volatility (flagging upcoming lockup expiration post listing), but we think they miss the big picture around accelerating 30%+ annual royalty sales at highly accretive margins. Overall we raise CY24/25E pf-EPS by 18%/6% to \$1.30/\$1.91. We see path to \$3+ in pf-EPS power if EBIT margins get to 60%+ vs. our \$2.44 for CY26E at 54%. Raise PO to \$110 on 58x CY25E, higher than 44x, but still based on consistent 1-2x PEG ratio applied to 38% CY23-26E EPS CAGR. Reiterate Buy on attractive risk-reward.

## Likes: v9 transition in early stages

ARM's core growth drivers include: 1) expanding adoption of v9 and TCS that can 2x-4x royalty rates from 2% to 5-10%, and 2) share gains against INTC/AMD's x86 based PC and server CPUs. On v9, we note over the past year ~15% of all Android (non-iPhones) were in the premium \$300+ selling price category, per TechInsights. Most of those are now on v9, with adoption of AI and other security features penetrating into sub-\$300 over time. Second, we believe almost every hyperscale has (Amazon Graviton) or is working on its internal ARM-based server CPU (using MRVL, AVGO type partners), or looking to ARM solutions from NVDA (Grace Hopper) or other merchant suppliers (Ampere, Faraday). We believe this could help ARM expand share from <5% to 10-15% over time, a negative read-across to x86 based INTC and perhaps AMD.

## Risks: Premium multiple, lumpy licensing, lockup expiry

1) ARM's high trading multiple and small float (only 10% of shares public) could continue to enhance stock volatility. 2) Majority of ARM's upside last few quarters has come from harder-to-forecast and lumpy licensing rather than royalties. 3) 20-25% of ARM China exposure is accompanied by lumpy revenue recognition and potential geopolitical risks.

Estimates (Mar) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	0.65	0.64	1.21	1.42	1.94
GAAP EPS	0.54	0.51	0.18	0.73	1.28
EPS Change (YoY)	225.0%	-1.5%	89.1%	17.4%	36.6%
Consensus EPS (Bloomberg)			1.05	1.36	1.70
DPS	0	0	0	0	0
Valuation (Mar)					
P/E	118.5x	120.3x	63.6x	54.2x	39.7x
GAAP P/E	142.6x	151.0x	427.8x	105.5x	60.2x
EV / EBITDA*	85.6x	82.2x	50.9x	41.9x	31.4x
Free Cash Flow Yield*	0.5%	0.9%	0.8%	1.8%	2.7%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 12.

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07 February 2024

## Equity

### Key Changes

(US\$)	Previous	Current
Price Obj.	80.00	110.00
2024E Rev (m)	3,020.2	3,180.1
2025E Rev (m)	3,702.0	3,777.1
2026E Rev (m)	4,462.3	4,638.6
2024E EPS	1.05	1.21
2025E EPS	1.38	1.42
2026E EPS	1.71	1.94

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## Stock Data

Price	77.01 USD
Price Objective	110.00 USD
Date Established	7-Feb-2024
Investment Opinion	C-1-9
52-Week Range	46.50 USD - 79.94 USD
Mrkt Val (mn) / Shares Out (mn)	78,953 USD / 1,025.2
Free Float	0%
Average Daily Value (mn)	522.19 USD
BofA Ticker / Exchange	ARM / NAS
Bloomberg / Reuters	ARM US / ARM.OQ
ROE (2024E)	26.7%
Net Dbt to Eqty (Mar-2023A)	-38.4%

ARM: Arm Holdings; ATA: Arm Total Access;  
AFA: Arm Flexible Access; TCS: Total Compute Solution; INTC: Intel; AMD: Advanced Micro Devices; MRVL: Marvell; AVGO: Broadcom; NVDA: Nvidia; CPU: Central Processing Unit

# iQprofile<sup>SM</sup> Arm Holdings

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	12.2%	12.4%	20.9%	20.1%	21.6%
Return on Equity	17.5%	17.3%	26.7%	24.0%	24.9%
Operating Margin	27.0%	29.2%	43.0%	45.0%	50.3%
Free Cash Flow	424	675	640	1,440	2,120

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.7x	1.1x	0.6x	1.0x	1.1x
Asset Replacement Ratio	0.2x	0.4x	0.6x	0.6x	0.7x
Tax Rate	10.8%	20.3%	13.5%	15.5%	15.7%
Net Debt-to-Equity Ratio	-28.3%	-38.4%	-33.8%	-45.6%	-56.7%
Interest Cover	NA	NA	NA	NA	NA

## Income Statement Data (Mar)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	2,703	2,679	3,180	3,777	4,639
% Change	33.3%	-0.9%	18.7%	18.8%	22.8%
Gross Profit	2,572	2,573	3,027	3,625	4,468
% Change	36.7%	0%	17.7%	19.7%	23.2%
EBITDA	916	953	1,538	1,872	2,499
% Change	85.4%	4.0%	61.4%	21.7%	33.5%
Net Interest & Other Income	12	41	96	72	95
<b>Net Income (Adjusted)</b>	<b>666</b>	<b>658</b>	<b>1,256</b>	<b>1,492</b>	<b>2,049</b>
<b>% Change</b>	<b>225.0%</b>	<b>-1.3%</b>	<b>91.0%</b>	<b>18.8%</b>	<b>37.3%</b>

## Free Cash Flow Data (Mar)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	663	657	1,266	1,497	2,046
Depreciation & Amortization	185	170	170	172	167
Change in Working Capital	(188)	(130)	(719)	(199)	(85)
Deferred Taxation Charge	(76)	(34)	(13)	0	0
Other Adjustments, Net	(126)	76	40	66	111
Capital Expenditure	(34)	(64)	(105)	(96)	(118)
<b>Free Cash Flow</b>	<b>424</b>	<b>675</b>	<b>640</b>	<b>1,440</b>	<b>2,120</b>
<b>% Change</b>	<b>-62.4%</b>	<b>59.2%</b>	<b>-5.2%</b>	<b>125.0%</b>	<b>47.2%</b>
Share / Issue Repurchase	0	0	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	50	0	0	0	0

## Balance Sheet Data (Mar)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	1,004	1,554	1,816	3,224	5,312
Trade Receivables	1,124	999	848	1,045	1,097
Other Current Assets	964	984	1,307	1,310	1,343
Property, Plant & Equipment	188	185	243	340	458
Other Non-Current Assets	3,230	3,144	3,266	3,266	3,266
<b>Total Assets</b>	<b>6,510</b>	<b>6,866</b>	<b>7,481</b>	<b>9,185</b>	<b>11,476</b>
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	1,395	1,363	866	866	866
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	1,567	1,452	1,245	1,245	1,245
<b>Total Liabilities</b>	<b>2,962</b>	<b>2,815</b>	<b>2,111</b>	<b>2,111</b>	<b>2,111</b>
<b>Total Equity</b>	<b>3,548</b>	<b>4,051</b>	<b>5,370</b>	<b>7,074</b>	<b>9,365</b>
<b>Total Equity &amp; Liabilities</b>	<b>6,510</b>	<b>6,866</b>	<b>7,481</b>	<b>9,185</b>	<b>11,476</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 12.

## Company Sector

Semiconductors

## Company Description

Arm Holdings is a semiconductor developer that designs, produces, and licenses semiconductor intellectual property in exchange for licensing and royalty fees. Arm owns and develops the Arm instruction set architecture (ISA) for CPUs prevalent in many mobile, PC, data center, automotive, and security applications today. Arm is a subsidiary of Japan's SoftBank and is headquartered in Cambridge, UK with nearly 6,000 employees worldwide.

## Investment Rationale

We rate Arm Buy. Arm is well positioned to benefit from the rising complexity of designing semiconductor chips, as well as processor demand growth in smartphone, PC, server, and automotive end markets. Arm's proven architecture and established ecosystem should help expand processor market share and royalty rate over the next three years, outgrowing peers and the broader market.

## Stock Data

Average Daily Volume 7,348,751

## Quarterly Earnings Estimates

	2023	2024
Q1	0.23A	0.24A
Q2	0.17A	0.36A
Q3	0.22A	0.31A
Q4	0.02A	0.30E

# Summary of model changes

## Exhibit 1: Summary of model changes

We raise FY25E sales/EPS by 2%/3% each

	Sales (\$mn)			Non-GAAP EPS		
	OLD	NEW	Delta	OLD	NEW	Delta
1Q24	\$675	\$675	\$0	\$0.24	\$0.24	\$0.00
2Q24	\$806	\$806	\$0	\$0.36	\$0.36	\$0.00
3Q24	\$761	\$824	\$63	\$0.24	\$0.31	\$0.07
4Q24E	\$778	\$875	\$96	\$0.20	\$0.30	\$0.10
<b>FY2024E</b>	<b>\$3,020</b>	<b>\$3,180</b>	<b>\$160</b>	<b>\$1.05</b>	<b>\$1.21</b>	<b>\$0.17</b>
YoY %	12.7%	18.7%	5.3%	63.6%	90.0%	16.1%
1Q25E	\$775	\$831	\$56	\$0.24	\$0.29	\$0.05
2Q25E	\$882	\$925	\$43	\$0.32	\$0.36	\$0.03
3Q25E	\$882	\$919	\$37	\$0.33	\$0.34	\$0.02
4Q25E	\$1,164	\$1,103	(\$61)	\$0.49	\$0.43	(\$0.06)
<b>FY2025E</b>	<b>\$3,702</b>	<b>\$3,777</b>	<b>\$75</b>	<b>\$1.38</b>	<b>\$1.42</b>	<b>\$0.04</b>
YoY %	22.6%	18.8%	2.0%	32.2%	17.3%	3.0%
1Q26E	\$1,032	\$1,061	\$28	\$0.38	\$0.42	\$0.04
2Q26E	\$1,125	\$1,166	\$41	\$0.45	\$0.50	\$0.05
3Q26E	\$1,192	\$1,254	\$62	\$0.49	\$0.56	\$0.07
4Q26E	\$1,113	\$1,158	\$45	\$0.40	\$0.46	\$0.06
<b>FY2026E</b>	<b>\$4,462</b>	<b>\$4,639</b>	<b>\$176</b>	<b>\$1.71</b>	<b>\$1.94</b>	<b>\$0.22</b>
YoY %	20.5%	22.8%	4.0%	24.0%	36.0%	13.0%

Source: BofA Global Research estimates, company report, Bloomberg

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# DecQ reported vs expectations

## Exhibit 2: ARM DecQ vs expectations summary

ARM reported sales/EPS of \$824mn/\$0.31, above Street estimates

A v E	Dec-22	Sep-23	Dec-23						
			Guidance	Street	BofA	Reported	Delta vs Street	QoQ	YoY
<b>Revenue</b>	<b>\$724.0</b>	<b>\$806.0</b>	<b>\$760 (\$720-\$800)</b>	<b>\$763.2</b>	<b>\$760.6</b>	<b>\$824.0</b>	<b>8.0%</b>	<b>2.2%</b>	<b>13.8%</b>
Royalty Revenue	\$425.0	\$418.0		\$447.2	\$452.1	\$475.0	6.2%	13.6%	11.8%
License and other	\$299.0	\$388.0		\$314.1	\$308.5	\$354.0	12.7%	(8.8%)	18.4%
Gross Margin (GAAP)	96.0%	94.3%			95.8%	95.6%		134	(36)
<b>Gross Margin (Non-GAAP)</b>	<b>96.3%</b>	<b>96.8%</b>		<b>96.3%</b>	<b>96.7%</b>	<b>96.8%</b>	<b>50</b>	<b>7</b>	<b>57</b>
R&D (Non-GAAP)	\$270.0	\$283.0			\$294.0	\$280.0		(1.1%)	3.7%
SG&A (Non-GAAP)	\$138.0	\$116.0			\$166.0	\$157.0		35.3%	13.8%
Opex (GAAP)	451.0	916.0			\$629.9	\$654.0		(28.6%)	45.0%
Opex (Non-GAAP)	408.0	399.0	460.0	488.8	\$460.0	\$437.0	-10.6%	9.5%	7.1%
Operating Income (GAAP)	244.0	(156.0)			\$98.5	\$134.0		(185.9%)	(45.1%)
Operating Margin (GAAP)	33.7%	-19.4%			13.0%	16.3%		3562	(1744)
Operating Income (Non-GAAP)	289.0	381.0		274.4	\$275.5	\$361.0	31.6%	(5.2%)	24.9%
<b>Operating Margin (Non-GAAP)</b>	<b>39.9%</b>	<b>47.3%</b>		<b>36.0%</b>	<b>36.2%</b>	<b>43.8%</b>	<b>786</b>	<b>(346)</b>	<b>389</b>
Pretax Income (GAAP)	228.0	(119.0)			\$125.5	\$146.0		(222.7%)	(36.0%)
Pretax Income (Non-GAAP)	279.0	423.0			\$302.5	\$374.0		(11.6%)	34.1%
Tax rate (GAAP)	20.2%	7.6%			20.4%	40.4%		3285	2024
Tax rate (Non-GAAP)	19.4%	10.2%			15.2%	13.4%		320	(599)
Net Income (GAAP)	182.0	(110.0)			\$100.0	\$87.0		(179.1%)	(52.2%)
Net Income (Non-GAAP)	225.0	380.0			\$256.7	\$324.0		(14.7%)	44.0%
Diluted EPS (GAAP)	\$0.18	-\$0.11			\$0.10	\$0.08		(177.3%)	(53.2%)
<b>Diluted EPS (Non-GAAP)</b>	<b>\$0.22</b>	<b>\$0.36</b>	<b>\$0.245 (\$0.21-\$0.28)</b>	<b>\$0.25</b>	<b>\$0.24</b>	<b>\$0.31</b>	<b>25.6%</b>	<b>(15.2%)</b>	<b>41.1%</b>
Diluted Shares (Non-GAAP)	1027.9	1043.0			1067.978494	1049		0.6%	2.0%
Operating Cash Flow	411.0	227.0			\$477.7	\$310.0		36.6%	(24.6%)
Free Cash Flow	401.0	193.0			\$445.6	\$289.0		49.7%	(27.9%)
Free Cash Flow margin	55.4%	23.9%			58.6%	35.1%		1113	(2031)

Source: BofA Global Research estimates, company report, Bloomberg

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# MarQ guidance vs expectations

## Exhibit 3: ARM MarQ guidance vs expectations summary

ARM guided sales above Street by 12%

	Dec-23	BofA	Street	Mar-24E Guidance	New BofA	Delta vs Street	QoQ	YoY
<b>Revenue</b>	<b>\$824.0</b>	<b>\$778.4</b>	<b>\$778.5</b>	<b>\$875 (\$850-\$900)</b>	<b>\$874.9</b>	<b>12.4%</b>	<b>6.2%</b>	<b>5.3%</b>
Royalty Revenue	\$475.0	\$490.3	\$475.7		\$497.9	4.7%	4.8%	(13.6%)
License and other	\$354.0	\$288.1	\$300.3		\$377.0	25.5%	6.5%	48.1%
Gross Margin (GAAP)	95.6%	95.5%			95.5%		(18)	(27)
<b>Gross Margin (Non-GAAP)</b>	<b>96.8%</b>	<b>96.5%</b>	<b>96.2%</b>		<b>96.5%</b>	<b>30</b>	<b>(36)</b>	<b>(20)</b>
R&D (Non-GAAP)	\$280.0	\$331.0			\$315.0		12.5%	6.8%
SG&A (Non-GAAP)	\$157.0	\$196.0			\$175.0		11.5%	9.4%
Opex (GAAP)	654.0	715.1			710.2		8.6%	10.2%
Opex (Non-GAAP)	437.0	527.0	553.9	490.0	490.0	-11.5%	12.1%	7.7%
Operating Income (GAAP)	134.0	28.0			124.9		(6.8%)	(17.2%)
Operating Margin (GAAP)	16.3%	3.6%			14.3%		(198)	(387)
Operating Income (Non-GAAP)	361.0	224.0	224.6		354.1	57.7%	(1.9%)	1.7%
<b>Operating Margin (Non-GAAP)</b>	<b>43.8%</b>	<b>28.8%</b>	<b>28.8%</b>		<b>40.5%</b>	<b>1163</b>	<b>(334)</b>	<b>(144)</b>
Pretax Income (GAAP)	146.0	60.0			142.9		(2.1%)	(15.3%)
Pretax Income (Non-GAAP)	374.0	256.0			372.1		(0.5%)	1.6%
Tax rate (GAAP)	40.4%	24.6%			24.6%		(1581)	(416)
Tax rate (Non-GAAP)	13.4%	15.1%			15.1%		176	(37)
Net Income (GAAP)	87.0	45.2			107.8		23.9%	(10.4%)
Net Income (Non-GAAP)	324.0	217.3			315.8		(2.5%)	2.1%
Diluted EPS (GAAP)	\$0.08	\$0.04			\$0.10		23.9%	(10.2%)
<b>Diluted EPS (Non-GAAP)</b>	<b>\$0.31</b>	<b>\$0.20</b>	<b>\$0.21</b>	<b>\$0.30 (\$0.28-\$0.32)</b>	<b>\$0.30</b>	<b>46.9%</b>	<b>(2.5%)</b>	<b>2.3%</b>
Diluted Shares (Non-GAAP)	1048.9	1068			1049		0.0%	(0.2%)
Operating Cash Flow	310.0	\$247.5			\$295.5		(4.7%)	(32.5%)
Free Cash Flow	289.0	\$214.7			\$273.2		(5.4%)	(34.4%)
Free Cash Flow margin	35.1%	27.6%			31.2%		(384)	(1890)

Source: BofA Global Research estimates, company report, Bloomberg

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# Balance sheet, cash flow snapshot

## Exhibit 4: Summary Balance Sheet and Cash Flow snapshot

Net cash per share increased to \$2.29 per share in DecQ

	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	QoQ%	YoY%
<b>Total Cash</b>	<b>1772.0</b>	<b>2215.0</b>	<b>2048.6</b>	<b>2206.0</b>	<b>2401.0</b>	<b>8.8%</b>	<b>35.5%</b>
ST Debt	0.0	0.0	0.0	0.0	0.0		
LT Debt	0.0	0.0	0.0	0.0	0.0		
Total Debt	0.0	0.0	0.0	0.0	0.0		
<b>Net Cash</b>	<b>1772.0</b>	<b>2215.0</b>	<b>2048.6</b>	<b>2206.0</b>	<b>2401.0</b>	<b>8.8%</b>	<b>35.5%</b>
<b>Net Cash/Share</b>	<b>\$1.72</b>	<b>\$2.15</b>	<b>\$1.99</b>	<b>\$2.12</b>	<b>\$2.29</b>	<b>8.2%</b>	<b>32.8%</b>
Cash Flow from Ops	411.0	483.0	(88.0)	227.0	310.0	36.6%	-24.6%
Capex	10.0	16.0	27.3	34.0	21.0	-38.2%	110.0%
<b>Free cash flow</b>	<b>401.0</b>	<b>467.0</b>	<b>(115.3)</b>	<b>193.0</b>	<b>289.0</b>	<b>49.7%</b>	<b>-27.9%</b>

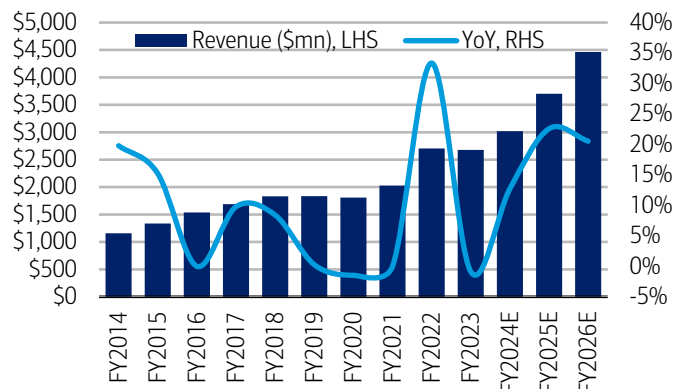
Source: BofA Global Research estimates, company reports

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# Key charts

## Exhibit 5: ARM annual revenue and YoY growth

Annual revenue should grow nearly 19% in FY24E

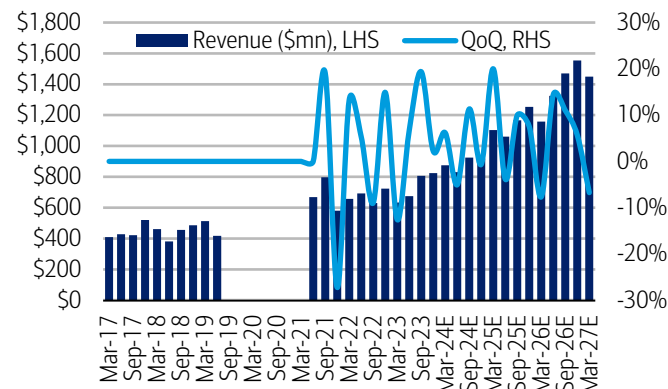


Source: BofA Global Research estimates, company reports

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## Exhibit 6: ARM quarterly revenue and YoY growth

Quarterly revenue should grow over time

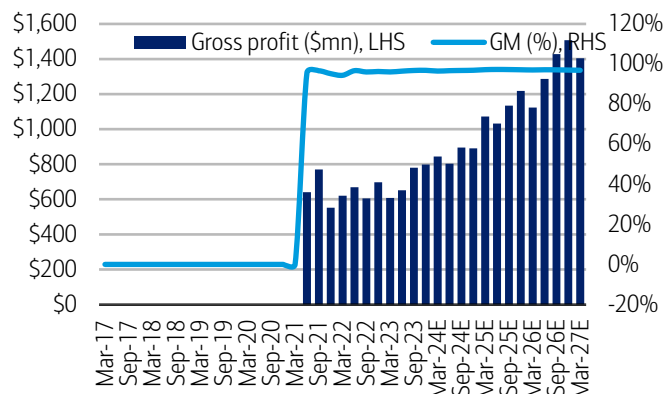


Source: BofA Global Research estimates, company reports

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## Exhibit 7: ARM quarterly gross profit and gross margin

Gross margin is >90% due to nature of software offerings

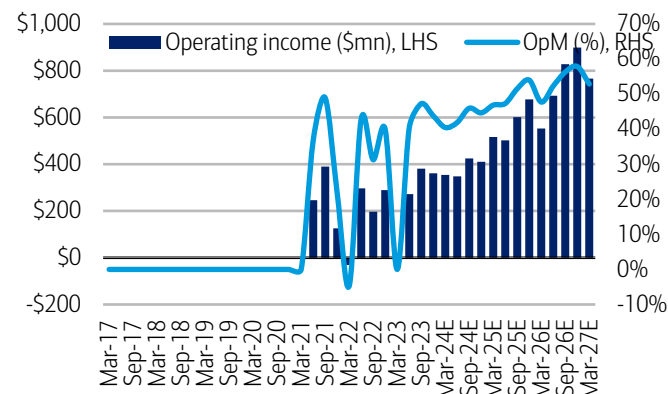


Source: BofA Global Research estimates, company reports

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## Exhibit 8: ARM quarterly operating income and operating margin

Operating margin should remain 40%+

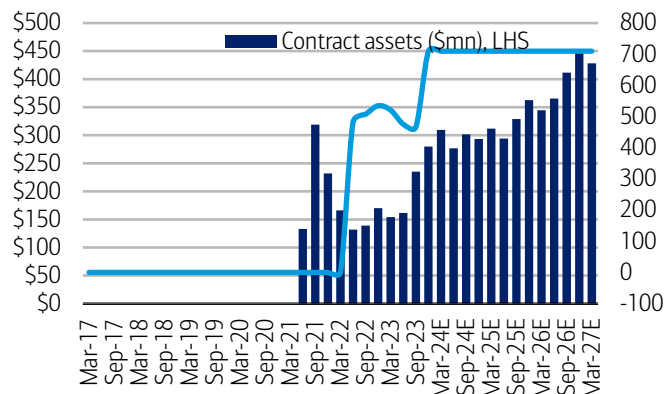


Source: BofA Global Research estimates, company reports

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**Exhibit 9: Contract assets and contract asset days**

Contract assets should increase over time

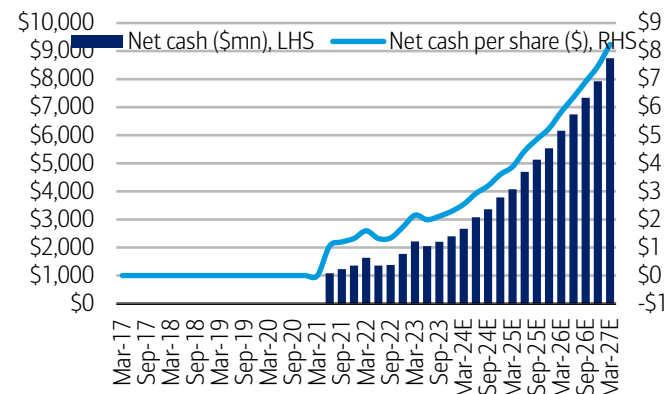


Source: BofA Global Research estimates, company reports

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**Exhibit 10: Net cash and net cash per share**

Net cash per share rose in DecQ

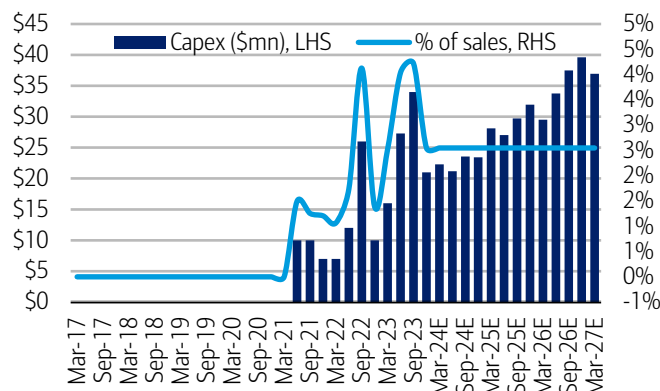


Source: BofA Global Research estimates, company reports

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**Exhibit 11: Capex and capex intensity (% of sales)**

Capex intensity is currently near 3% of sales

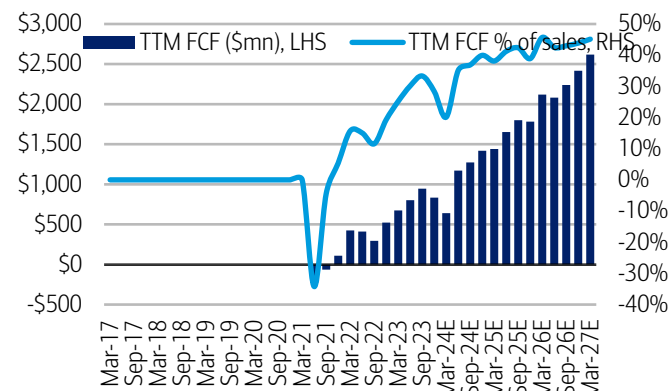


Source: BofA Global Research estimates, company reports

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**Exhibit 12: TTM FCF and TTM FCF as % of sales**

FCF margin should expand through FY27E



Source: BofA Global Research estimates, company reports

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**Exhibit 13: ARM – Income Statement**

Total revenue increased 2% QoQ and 14% YoY

<b>FY ends Mar</b>	<b>1Q24</b>	<b>2Q24</b>	<b>3Q24</b>	<b>4Q24E</b>	<b>1Q25E</b>	<b>2Q25E</b>	<b>3Q25E</b>	<b>4Q25E</b>	<b>1Q26E</b>	<b>2Q26E</b>	<b>3Q26E</b>	<b>4Q26E</b>	<b>FY2023</b>	<b>FY2024E</b>	<b>FY2025E</b>	<b>FY2026E</b>
<b>P&amp;L model (\$mn)</b>	<b>Jun-23</b>	<b>Sep-23</b>	<b>Dec-23</b>	<b>Mar-24E</b>	<b>Jun-24E</b>	<b>Sep-24E</b>	<b>Dec-24E</b>	<b>Mar-25E</b>	<b>Jun-25E</b>	<b>Sep-25E</b>	<b>Dec-25E</b>	<b>Mar-26E</b>	<b>Mar-23</b>	<b>Mar-24</b>	<b>Mar-25</b>	<b>Mar-26</b>
Royalty revenue	\$400	\$418	\$475	\$498	\$576	\$632	\$667	\$650	\$789	\$888	\$961	\$872	\$1,675	\$1,791	\$2,525	\$3,510
License and other revenue	\$275	\$388	\$354	\$377	\$254	\$293	\$252	\$453	\$272	\$279	\$293	\$286	\$1,004	\$1,394	\$1,252	\$1,129
<b>Total revenue</b>	<b>\$675</b>	<b>\$806</b>	<b>\$824</b>	<b>\$875</b>	<b>\$831</b>	<b>\$925</b>	<b>\$919</b>	<b>\$1,103</b>	<b>\$1,061</b>	<b>\$1,166</b>	<b>\$1,254</b>	<b>\$1,158</b>	<b>\$2,679</b>	<b>\$3,180</b>	<b>\$3,777</b>	<b>\$4,639</b>
QoQ	6.7%	19.4%	2.2%	6.2%	-5.0%	11.3%	-0.6%	20.0%	-3.8%	10.0%	7.5%	-7.7%				
YoY	-2.4%	27.9%	13.8%	38.2%	23.0%	14.7%	11.5%	26.0%	27.7%	26.1%	36.5%	5.0%	-0.9%	18.7%	18.8%	22.8%
Cost of goods sold	\$31	\$46	\$36	\$40	\$36	\$39	\$38	\$40	\$38	\$42	\$47	\$44	\$106	\$153	\$152	\$171
Gross profit (Non-GAAP)	\$651	\$780	\$798	\$844	\$803	\$895	\$890	\$1,072	\$1,032	\$1,134	\$1,218	\$1,124	\$2,579	\$3,073	\$3,660	\$4,507
Research & development (NG)	\$242	\$283	\$280	\$315	\$295	\$305	\$310	\$365	\$345	\$350	\$356	\$376	\$1,094	\$1,120	\$1,275	\$1,427
Selling, general & admin. (NG)	\$137	\$116	\$157	\$175	\$160	\$165	\$170	\$190	\$185	\$183	\$185	\$195	\$701	\$585	\$685	\$748
Operating expenses (Non-GAAP)	\$379	\$399	\$437	\$490	\$455	\$470	\$480	\$555	\$530	\$533	\$541	\$571	\$1,796	\$1,705	\$1,960	\$2,175
Operating income (Non-GAAP)	\$272	\$381	\$361	\$354	\$348	\$425	\$410	\$517	\$502	\$601	\$677	\$553	\$783	\$1,368	\$1,700	\$2,332
	\$1	\$1	\$1	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$5	\$3	\$0	\$0
Interest expense and other, net (NG)	\$23	\$42	\$13	\$18	\$18	\$18	\$18	\$18	\$22	\$26	\$26	\$21	\$41	\$96	\$72	\$95
Pretax income (Non-GAAP)	\$295	\$423	\$374	\$372	\$366	\$443	\$428	\$535	\$524	\$627	\$703	\$574	\$824	\$1,465	\$1,772	\$2,427
Net income (GAAP)	\$105	-\$110	\$87	\$108	\$120	\$189	\$174	\$287	\$284	\$355	\$406	\$312	\$524	\$190	\$771	\$1,357
Net income (Non-GAAP, ex. SBC)	\$246	\$380	\$324	\$316	\$309	\$374	\$362	\$452	\$442	\$529	\$592	\$483	\$657	\$1,266	\$1,497	\$2,046
GAAP Diluted EPS	\$0.10	-\$0.11	\$0.08	\$0.10	\$0.11	\$0.18	\$0.17	\$0.27	\$0.27	\$0.34	\$0.38	\$0.30	\$0.51	\$0.18	\$0.73	\$1.28
<b>Non-GAAP Diluted EPS (ex. SBC)</b>	<b>\$0.24</b>	<b>\$0.36</b>	<b>\$0.31</b>	<b>\$0.30</b>	<b>\$0.29</b>	<b>\$0.36</b>	<b>\$0.34</b>	<b>\$0.43</b>	<b>\$0.42</b>	<b>\$0.50</b>	<b>\$0.56</b>	<b>\$0.46</b>	<b>\$0.64</b>	<b>\$1.21</b>	<b>\$1.42</b>	<b>\$1.94</b>
Diluted shares (GAAP)	1029	1025	1049	1049	1051	1051	1051	1051	1056	1056	1056	1056	1028	1038	1051	1056
Diluted shares (Non-GAAP)	1029	1043	1049	1049	1051	1051	1051	1051	1056	1056	1056	1056	1028	1042	1051	1056
<b>Margin Analysis (Non-GAAP)</b>																
<b>Gross margin</b>	<b>96.4%</b>	<b>96.8%</b>	<b>96.8%</b>	<b>96.5%</b>	<b>96.7%</b>	<b>96.8%</b>	<b>96.9%</b>	<b>97.2%</b>	<b>97.3%</b>	<b>97.2%</b>	<b>97.1%</b>	<b>97.0%</b>	<b>96.3%</b>	<b>96.6%</b>	<b>96.9%</b>	<b>97.2%</b>
R&D	35.8%	35.1%	34.0%	36.0%	35.5%	33.0%	33.7%	33.1%	32.5%	30.0%	28.4%	32.5%	40.8%	35.2%	33.8%	30.8%
SG&A	20.3%	14.4%	19.1%	20.0%	19.3%	17.8%	18.5%	17.2%	17.4%	15.7%	14.8%	16.8%	26.2%	18.4%	18.1%	16.1%
Opex	56.1%	49.5%	53.0%	56.0%	54.8%	50.8%	52.2%	50.3%	50.0%	45.7%	43.1%	49.3%	67.0%	53.6%	51.9%	46.9%
<b>Operating margin</b>	<b>40.3%</b>	<b>47.3%</b>	<b>43.8%</b>	<b>40.5%</b>	<b>41.9%</b>	<b>46.0%</b>	<b>44.6%</b>	<b>46.9%</b>	<b>47.3%</b>	<b>51.5%</b>	<b>54.0%</b>	<b>47.7%</b>	<b>29.2%</b>	<b>43.0%</b>	<b>45.0%</b>	<b>50.3%</b>
Tax rate	16.6%	10.2%	13.4%	15.1%	15.5%	15.5%	15.5%	15.5%	15.6%	15.7%	15.8%	15.8%	20.3%	13.5%	15.5%	15.7%
Net income	36.5%	47.1%	39.3%	36.1%	37.2%	40.5%	39.4%	41.0%	41.7%	45.3%	47.2%	41.7%	24.5%	39.8%	39.6%	44.1%

Source: BofA Global Research estimates, company reports

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**Exhibit 14: ARM – Segment Model**

Infrastructure and automotive are the two fastest growth segments

<b>FY ends Mar</b>	<b>1Q24</b>	<b>2Q24</b>	<b>3Q24</b>	<b>4Q24E</b>	<b>1Q25E</b>	<b>2Q25E</b>	<b>3Q25E</b>	<b>4Q25E</b>	<b>1Q26E</b>	<b>2Q26E</b>	<b>3Q26E</b>	<b>4Q26E</b>	<b>FY2023</b>	<b>FY2024E</b>	<b>FY2025E</b>	<b>FY2026E</b>
<b>Segment Model (\$mn)</b>	<b>Jun-23</b>	<b>Sep-23</b>	<b>Dec-23</b>	<b>Mar-24E</b>	<b>Jun-24E</b>	<b>Sep-24E</b>	<b>Dec-24E</b>	<b>Mar-25E</b>	<b>Jun-25E</b>	<b>Sep-25E</b>	<b>Dec-25E</b>	<b>Mar-26E</b>	<b>Mar-23</b>	<b>Mar-24</b>	<b>Mar-25</b>	<b>Mar-26</b>
Royalty Revenue	\$400	\$418	\$475	\$498	\$576	\$632	\$667	\$650	\$789	\$888	\$961	\$872	\$1,675	\$1,791	\$2,525	\$3,510
Client	\$221	\$217	\$305	\$323	\$384	\$410	\$420	\$385	\$508	\$587	\$645	\$555	\$978	\$1,066	\$1,599	\$2,295
Infrastructure	\$51	\$58	\$65	\$68	\$83	\$111	\$127	\$141	\$156	\$168	\$176	\$181	\$186	\$242	\$463	\$681
Automotive	\$33	\$38	\$33	\$34	\$39	\$42	\$44	\$45	\$48	\$52	\$55	\$53	\$117	\$138	\$171	\$208
IoT	\$95	\$106	\$72	\$72	\$70	\$69	\$75	\$79	\$77	\$81	\$85	\$83	\$395	\$345	\$293	\$326
License and Other Revenue	\$275	\$388	\$354	\$377	\$254	\$293	\$252	\$453	\$272	\$279	\$293	\$286	\$1,004	\$1,394	\$1,252	\$1,129
<b>Total</b>	<b>\$675</b>	<b>\$806</b>	<b>\$829</b>	<b>\$875</b>	<b>\$831</b>	<b>\$925</b>	<b>\$919</b>	<b>\$1,103</b>	<b>\$1,061</b>	<b>\$1,166</b>	<b>\$1,254</b>	<b>\$1,158</b>	<b>\$2,679</b>	<b>\$3,185</b>	<b>\$3,777</b>	<b>\$4,639</b>
<b>QoQ%</b>																
Royalty Revenue	6.9%	4.6%	13.6%	4.8%	15.7%	9.7%	5.5%	-2.6%	21.4%	12.5%	8.3%	-9.3%				
Client	4.4%	-1.8%	40.6%	6.0%	18.7%	6.9%	2.5%	-8.5%	32.0%	15.5%	10.0%	-14.0%				
Infrastructure	9.9%	12.7%	13.0%	5.0%	22.0%	33.0%	15.0%	11.0%	10.0%	8.0%	5.0%	2.5%				
Automotive	13.4%	13.6%	-12.0%	4.0%	14.9%	7.0%	5.0%	1.5%	7.5%	8.0%	5.0%	-3.0%				
IoT	9.1%	11.7%	-32.1%	0.0%	-3.1%	-1.2%	8.8%	4.7%	-2.0%	5.0%	5.0%	-2.0%				
License and Other Revenue	6.3%	40.9%	-8.8%	6.5%	-32.5%	15.0%	-14.0%	80.0%	-40.0%	2.5%	5.0%	-2.3%				
<b>Total</b>	<b>6.7%</b>	<b>19.4%</b>	<b>2.9%</b>	<b>5.5%</b>	<b>-5.0%</b>	<b>11.3%</b>	<b>-0.6%</b>	<b>20.0%</b>	<b>-3.8%</b>	<b>10.0%</b>	<b>7.5%</b>	<b>-7.7%</b>				
<b>YoY%</b>																
Royalty Revenue	-7.9%	-5.4%	11.8%	33.1%	44.1%	51.2%	40.5%	30.5%	36.9%	40.4%	44.1%	34.2%	7.2%	6.9%	41.0%	39.0%
Client	-15.0%	-15.7%	22.7%	52.8%	73.7%	89.0%	37.9%	19.0%	32.3%	43.0%	53.5%	44.2%	-3.0%	9.1%	50.0%	43.5%
Infrastructure	4.7%	20.8%	51.5%	47.1%	63.3%	92.6%	95.9%	107.1%	86.8%	51.7%	38.5%	27.9%	58.4%	30.3%	91.4%	47.1%
Automotive	26.4%	20.4%	7.1%	17.9%	19.4%	12.5%	34.2%	31.0%	22.6%	23.7%	23.7%	18.2%	37.0%	17.7%	23.9%	22.0%
IoT	-4.3%	0.3%	-30.0%	-17.2%	-26.4%	-34.9%	4.3%	9.2%	10.4%	17.3%	13.2%	5.9%	12.4%	-12.6%	-15.2%	11.5%
License and Other Revenue	6.7%	106.4%	18.4%	45.6%	-7.6%	-24.6%	-28.9%	20.2%	6.8%	-4.8%	16.2%	-36.9%	-12.0%	38.9%	-10.2%	-9.8%
<b>Total</b>	<b>-2.4%</b>	<b>27.9%</b>	<b>14.5%</b>	<b>38.2%</b>	<b>23.0%</b>	<b>14.7%</b>	<b>10.8%</b>	<b>26.0%</b>	<b>27.7%</b>	<b>26.1%</b>	<b>36.5%</b>	<b>5.0%</b>	<b>-0.9%</b>	<b>18.9%</b>	<b>18.6%</b>	<b>22.8%</b>
<b>% of sales</b>																
Royalty Revenue	59.2%	51.9%	57.3%	56.9%	69.4%	68.4%	72.6%	58.9%	74.4%	76.1%	76.7%	75.3%	62.5%	56.2%	66.9%	75.7%
Client	32.7%	26.9%	36.8%	37.0%	46.2%	44.4%	45.8%	34.9%	47.9%	50.3%	51.5%	47.9%	36.5%	33.5%	42.3%	49.5%
Infrastructure	7.6%	7.1%	7.8%	7.8%	10.0%	12.0%	13.9%	12.8%	14.7%	14.4%	14.1%	15.6%	6.9%	7.6%	12.3%	14.7%
Automotive	4.9%	4.7%	4.0%	3.9%	4.7%	4.6%	4.8%	4.1%	4.6%	4.5%	4.4%	4.6%	4.4%	4.3%	4.5%	4.5%
IoT	14.1%	13.2%	8.7%	8.2%	8.4%	7.5%	8.2%	7.1%	7.3%	6.9%	6.8%	7.2%	14.7%	10.8%	7.7%	7.0%
License and Other Revenue	40.8%	48.1%	42.7%	43.1%	30.6%	31.6%	27.4%	41.1%	25.6%	23.9%	23.3%	24.7%	37.5%	43.8%	33.1%	24.3%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: BofA Global Research estimates, company reports

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**Exhibit 16: ARM – Balance Sheet**

Net cash per share increased QoQ

<b>FY ends Mar</b>	<b>1Q24</b>	<b>2Q24</b>	<b>3Q24</b>	<b>4Q24E</b>	<b>1Q25E</b>	<b>2Q25E</b>	<b>3Q25E</b>	<b>4Q25E</b>	<b>1Q26E</b>	<b>2Q26E</b>	<b>3Q26E</b>	<b>4Q26E</b>	<b>FY2023</b>	<b>FY2024E</b>	<b>FY2025E</b>	<b>FY2026E</b>
<b>Balance Sheet (\$mn)</b>	<b>Jun-23</b>	<b>Sep-23</b>	<b>Dec-23</b>	<b>Mar24E</b>	<b>Jun-24E</b>	<b>Sep-24E</b>	<b>Dec-24E</b>	<b>Mar25E</b>	<b>Jun-25E</b>	<b>Sep-25E</b>	<b>Dec-25E</b>	<b>Mar26E</b>	<b>Mar-23</b>	<b>Mar-24</b>	<b>Mar-25</b>	<b>Mar-26</b>
Cash and cash equivalents	\$1,248	\$1,406	\$1,551	\$1,816	\$2,225	\$2,512	\$2,937	\$3,224	\$3,845	\$4,280	\$4,687	\$5,312	\$1,554	\$1,816	\$3,224	\$5,312
Short-term investments	\$801	\$800	\$850	\$850	\$850	\$850	\$850	\$850	\$850	\$850	\$850	\$850	\$661	\$850	\$850	\$850
Accounts receivable, net	\$914	\$864	\$799	\$848	\$806	\$897	\$871	\$1,045	\$912	\$1,003	\$1,188	\$1,097	\$999	\$848	\$1,045	\$1,097
Contract assets	\$162	\$235	\$280	\$309	\$277	\$301	\$293	\$312	\$294	\$329	\$363	\$345	\$154	\$309	\$312	\$345
Prepaid expenses and other current assets	\$207	\$137	\$148	\$148	\$148	\$148	\$148	\$148	\$148	\$148	\$148	\$148	\$169	\$148	\$148	\$148
<b>Total current assets</b>	<b>\$3,331</b>	<b>\$3,442</b>	<b>\$3,628</b>	<b>\$3,972</b>	<b>\$4,305</b>	<b>\$4,708</b>	<b>\$5,099</b>	<b>\$5,579</b>	<b>\$6,049</b>	<b>\$6,609</b>	<b>\$7,236</b>	<b>\$7,752</b>	<b>\$3,537</b>	<b>\$3,972</b>	<b>\$5,579</b>	<b>\$7,752</b>
Property and equipment, net	\$193	\$205	\$221	\$243	\$264	\$288	\$311	\$340	\$367	\$396	\$428	\$458	\$185	\$243	\$340	\$458
Equity investments	\$739	\$725	\$748	\$748	\$748	\$748	\$748	\$748	\$748	\$748	\$748	\$748	\$723	\$748	\$748	\$748
Goodwill	\$1,620	\$1,615	\$1,628	\$1,628	\$1,628	\$1,628	\$1,628	\$1,628	\$1,628	\$1,628	\$1,628	\$1,628	\$1,620	\$1,628	\$1,628	\$1,628
Intangible assets, net	\$140	\$147	\$163	\$163	\$163	\$163	\$163	\$163	\$163	\$163	\$163	\$163	\$138	\$163	\$163	\$163
<b>Total assets</b>	<b>\$6,686</b>	<b>\$6,810</b>	<b>\$7,115</b>	<b>\$7,481</b>	<b>\$7,835</b>	<b>\$8,262</b>	<b>\$8,676</b>	<b>\$9,185</b>	<b>\$9,681</b>	<b>\$10,271</b>	<b>\$10,931</b>	<b>\$11,476</b>	<b>\$6,866</b>	<b>\$7,481</b>	<b>\$9,185</b>	<b>\$11,476</b>
Accrued compensation and benefits	\$148	\$159	\$211	\$211	\$211	\$211	\$211	\$211	\$211	\$211	\$211	\$211	\$589	\$211	\$211	\$211
Tax liabilities	\$162	\$107	\$127	\$127	\$127	\$127	\$127	\$127	\$127	\$127	\$127	\$127	\$162	\$127	\$127	\$127
Contract liabilities	\$307	\$288	\$223	\$223	\$223	\$223	\$223	\$223	\$223	\$223	\$223	\$223	\$293	\$223	\$223	\$223
Other current liabilities	\$293	\$217	\$279	\$279	\$279	\$279	\$279	\$279	\$279	\$279	\$279	\$279	\$293	\$279	\$279	\$279
<b>Total current liabilities</b>	<b>\$936</b>	<b>\$795</b>	<b>\$866</b>	<b>\$866</b>	<b>\$866</b>	<b>\$866</b>	<b>\$866</b>	<b>\$866</b>	<b>\$866</b>	<b>\$866</b>	<b>\$866</b>	<b>\$866</b>	<b>\$1,363</b>	<b>\$866</b>	<b>\$866</b>	<b>\$866</b>
Non-current accrued comp. and SBC	\$152	\$19	\$18	\$18	\$18	\$18	\$18	\$18	\$18	\$18	\$18	\$18	\$152	\$18	\$18	\$18
Deferred tax liabilities	\$262	\$241	\$237	\$237	\$237	\$237	\$237	\$237	\$237	\$237	\$237	\$237	\$262	\$237	\$237	\$237
Non-current contract liabilities	\$798	\$740	\$734	\$734	\$734	\$734	\$734	\$734	\$734	\$734	\$734	\$734	\$807	\$734	\$734	\$734
<b>Total liabilities</b>	<b>\$2,367</b>	<b>\$2,037</b>	<b>\$2,111</b>	<b>\$2,111</b>	<b>\$2,111</b>	<b>\$2,111</b>	<b>\$2,111</b>	<b>\$2,111</b>	<b>\$2,111</b>	<b>\$2,111</b>	<b>\$2,111</b>	<b>\$2,111</b>	<b>\$2,815</b>	<b>\$2,111</b>	<b>\$2,111</b>	<b>\$2,111</b>
Total stockholders' equity	\$4,319	\$4,773	\$5,004	\$5,370	\$5,724	\$6,151	\$6,565	\$7,074	\$7,570	\$8,160	\$8,820	\$9,365	\$4,051	\$5,370	\$7,074	\$9,365
<b>Liabilities and stockholders' equity</b>	<b>\$6,686</b>	<b>\$6,810</b>	<b>\$7,115</b>	<b>\$7,481</b>	<b>\$7,835</b>	<b>\$8,262</b>	<b>\$8,676</b>	<b>\$9,185</b>	<b>\$9,681</b>	<b>\$10,271</b>	<b>\$10,931</b>	<b>\$11,476</b>	<b>\$6,866</b>	<b>\$7,481</b>	<b>\$9,185</b>	<b>\$11,476</b>
<b>Cash and liquidity ratios</b>																
Total cash (incl. restricted cash)	\$2,049	\$2,206	\$2,401	\$2,666	\$3,075	\$3,362	\$3,787	\$4,074	\$4,695	\$5,130	\$5,537	\$6,162	\$2,215	\$2,666	\$4,074	\$6,162
Net cash	\$2,049	\$2,206	\$2,401	\$2,666	\$3,075	\$3,362	\$3,787	\$4,074	\$4,695	\$5,130	\$5,537	\$6,162	\$2,215	\$2,666	\$4,074	\$6,162
<b>Net cash per share</b>	<b>\$1.99</b>	<b>\$2.12</b>	<b>\$2.29</b>	<b>\$2.54</b>	<b>\$2.93</b>	<b>\$3.20</b>	<b>\$3.60</b>	<b>\$3.88</b>	<b>\$4.44</b>	<b>\$4.86</b>	<b>\$5.24</b>	<b>\$5.83</b>	<b>\$2.15</b>	<b>\$2.54</b>	<b>\$3.88</b>	<b>\$5.83</b>
<b>Cash conversion ratios</b>																
Days sales outstanding (DSO)*	123.1	97.5	88.2	88.2	88.2	88.2	86.2	86.2	78.2	78.2	86.2	86.2	143.6	0.0	130.0	111.4

Source: BofA Global Research estimates, company reports

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**Exhibit 17: ARM – Cash Flow Statement**

FCF per share reached 28c in DecQ

<b>FY ends Mar</b>	<b>1Q24</b>	<b>2Q24</b>	<b>3Q24</b>	<b>4Q24E</b>	<b>1Q25E</b>	<b>2Q25E</b>	<b>3Q25E</b>	<b>4Q25E</b>	<b>1Q26E</b>	<b>2Q26E</b>	<b>3Q26E</b>	<b>4Q26E</b>	<b>FY2023</b>	<b>FY2024E</b>	<b>FY2025E</b>	<b>FY2026E</b>
<b>Cash flow statement (\$mn)</b>	<b>Jun-23</b>	<b>Sep-23</b>	<b>Dec-23</b>	<b>Mar-24E</b>	<b>Jun-24E</b>	<b>Sep-24E</b>	<b>Dec-24E</b>	<b>Mar-25E</b>	<b>Jun-25E</b>	<b>Sep-25E</b>	<b>Dec-25E</b>	<b>Mar-26E</b>	<b>Mar-23</b>	<b>Mar-24</b>	<b>Mar-25</b>	<b>Mar-26</b>
Net income	\$138	-\$110	\$87	\$108	\$120	\$189	\$174	\$287	\$284	\$355	\$406	\$312	\$524	\$223	\$771	\$1,357
Depreciation and amortization	\$40	\$41	\$42	\$47	\$45	\$44	\$44	\$39	\$38	\$42	\$45	\$42	\$170	\$170	\$172	\$167
Deferred income taxes	\$0	-\$4	-\$9	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	-\$34	-\$13	\$0	\$0
Share-based compensation expense*	\$130	\$513	\$199	\$220	\$197	\$202	\$204	\$190	\$183	\$201	\$216	\$200	\$136	\$1,062	\$792	\$800
Accounts receivable, net	\$85	\$33	\$65	-\$49	\$43	-\$91	\$26	-\$174	\$133	-\$91	-\$186	\$91	\$125	\$134	-\$197	-\$52
Contract assets	-\$8	-\$55	-\$67	-\$29	\$33	-\$25	\$8	-\$18	\$17	-\$35	-\$34	\$18	-\$2	-\$159	-\$2	-\$33
Accrued compensation and benefits*	-\$441	\$5	\$59	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	-\$195	-\$377	\$0	\$0
Contract liabilities	\$5	-\$96	-\$76	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	-\$37	-\$167	\$0	\$0
Tax liabilities	\$0	-\$76	\$18	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$35	-\$58	\$0	\$0
<b>Net cash provided by operating activities</b>	<b>-\$88</b>	<b>\$227</b>	<b>\$310</b>	<b>\$296</b>	<b>\$438</b>	<b>\$319</b>	<b>\$457</b>	<b>\$323</b>	<b>\$656</b>	<b>\$472</b>	<b>\$448</b>	<b>\$662</b>	<b>\$739</b>	<b>\$745</b>	<b>\$1,536</b>	<b>\$2,238</b>
Purchase of short-term investments	-\$266	-\$125	-\$155	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	-\$1,111	-\$546	\$0	\$0
Proceeds from maturities of ST investments	\$126	\$126	\$105	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$1,081	\$357	\$0	\$0
Purchases of equity investments	-\$16	\$0	-\$21	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	-\$15	-\$37	\$0	\$0
Purchases of intangible assets	-\$12	-\$13	-\$30	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	-\$29	-\$55	\$0	\$0
Purchases of property and equipment	-\$27	-\$34	-\$21	-\$22	-\$21	-\$24	-\$23	-\$28	-\$27	-\$30	-\$32	-\$30	-\$64	-\$105	-\$96	-\$118
<b>Net cash used for investing activities</b>	<b>-\$194</b>	<b>-\$46</b>	<b>-\$123</b>	<b>-\$22</b>	<b>-\$21</b>	<b>-\$24</b>	<b>-\$23</b>	<b>-\$28</b>	<b>-\$27</b>	<b>-\$30</b>	<b>-\$32</b>	<b>-\$30</b>	<b>-\$138</b>	<b>-\$386</b>	<b>-\$96</b>	<b>-\$118</b>
Share repurchase	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Cash dividends declared and paid to shareholders	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Payment of intangible asset obligations	-\$12	-\$11	-\$8	-\$8	-\$8	-\$8	-\$8	-\$8	-\$8	-\$8	-\$8	-\$8	-\$40	-\$39	-\$32	-\$32
Proceeds from equity offering	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Proceeds from short-term debt borrowing	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Proceeds from debt issuance, net of costs	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>Net cash used for financing activities</b>	<b>-\$24</b>	<b>-\$24</b>	<b>-\$48</b>	<b>-\$8</b>	<b>-\$8</b>	<b>-\$8</b>	<b>-\$8</b>	<b>-\$8</b>	<b>-\$8</b>	<b>-\$8</b>	<b>-\$8</b>	<b>-\$8</b>	<b>-\$42</b>	<b>-\$104</b>	<b>-\$32</b>	<b>-\$32</b>
Effect of exchange rate	\$0	\$1	\$6	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	-\$9	\$7	\$0	\$0
Net change in cash and equivalents	-\$306	\$158	\$145	\$265	\$408	\$287	\$425	\$287	\$621	\$435	\$408	\$625	\$550	\$262	\$1,408	\$2,088
Free Cash Flow (FCF)	-\$115	\$193	\$289	\$273	\$416	\$295	\$433	\$295	\$629	\$443	\$416	\$633	\$675	\$640	\$1,440	\$2,120
<b>FCF/share</b>	<b>-\$0.11</b>	<b>\$0.19</b>	<b>\$0.28</b>	<b>\$0.26</b>	<b>\$0.40</b>	<b>\$0.28</b>	<b>\$0.41</b>	<b>\$0.28</b>	<b>\$0.60</b>	<b>\$0.42</b>	<b>\$0.39</b>	<b>\$0.60</b>	<b>\$0.66</b>	<b>\$0.61</b>	<b>\$1.37</b>	<b>\$2.01</b>
FCF	-\$0.17	\$0.24	\$0.35	\$0.31	\$0.50	\$0.32	\$0.47	\$0.27	\$0.59	\$0.38	\$0.33	\$0.55	\$0.25	\$0.20	\$0.38	\$0.46
TTM FCF	\$0.30	\$0.33	\$0.28	\$0.20	\$0.35	\$0.37	\$0.40	\$0.38	\$0.41	\$0.42	\$0.39	\$0.46	\$0.00	\$0.00	\$0.00	\$0.00
TTM FCF/Share	\$0.78	\$0.91	\$0.79	\$0.61	\$1.11	\$1.21	\$1.35	\$1.37	\$1.56	\$1.70	\$1.69	\$2.01	\$0.00	\$0.00	\$0.00	\$0.00

Source: BofA Global Research estimates, company reports

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## Price objective basis & risk

### Arm Holdings (ARM)

We assign a \$110 PO, which is based on 58x our CY25E non-GAAP EPS. This is above peers trading at 30x-36x but is still within 1-2x PEG framework and is justified, in our view, given Arm's superior growth profile.

Downside risks: 1) historically cyclical nature of semiconductor units, 2) high exposure to mature smartphone market, 3) competition against established x86 in the data center, 4) emerging competition from RISC-V in low-end consumer markets, 5) rising geopolitical tensions and deterioration of Arm China relationship, 6) ongoing Qualcomm/Nuvia litigation, 7) small trading float

## Analyst Certification

I, Vivek Arya, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Semiconductors and Semiconductor Capital Equipment Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Advanced Micro Devices, Inc	AMD	AMD US	Vivek Arya
	Analog Devices Inc.	ADI	ADI US	Vivek Arya
	Applied Materials, Inc.	AMAT	AMAT US	Vivek Arya
	Arm Holdings	ARM	ARM US	Vivek Arya
	Broadcom Inc	AVGO	AVGO US	Vivek Arya
	Cadence	CDNS	CDNS US	Vivek Arya
	Camtek	CAMT	CAMT US	Vivek Arya
	KLA Corporation	KLAC	KLAC US	Vivek Arya
	Lam Research Corp.	LRCX	LRCX US	Vivek Arya
	M/A-Com	MTSI	MTSI US	Vivek Arya
	Marvell Technology Group Ltd.	MRVL	MRVL US	Vivek Arya
	Microchip	MCHP	MCHP US	Vivek Arya
	Micron Technology, Inc	MU	MU US	Vivek Arya
	Nova	NVMI	NVMI US	Vivek Arya
	NVIDIA Corporation	NVDA	NVDA US	Vivek Arya
	NXP Semiconductors NV	NXPI	NXPI US	Vivek Arya
	onsemi	ON	ON US	Vivek Arya
	Synopsys	SNPS	SNPS US	Vivek Arya
<b>NEUTRAL</b>				
	Advanced Energy Industries	AEIS	AEIS US	Duksan Jang
	Allegro MicroSystems	ALGM	ALGM US	Blake Friedman
	Axcelis Technologies	ACLS	ACLS US	Duksan Jang
	Coherent Corp	COHR	COHR US	Vivek Arya
	GlobalFoundries	GFS	GFS US	Vivek Arya
	Intel	INTC	INTC US	Vivek Arya
	Lattice Semiconductor	LSCC	LSCC US	Blake Friedman
	Texas Instruments Inc.	TXN	TXN US	Vivek Arya
<b>UNDERPERFORM</b>				
	Ambarella	AMBA	AMBA US	Vivek Arya
	Credo Technology	CRDO	CRDO US	Vivek Arya
	Lumentum Holdings	LITE	LITE US	Vivek Arya
	Qorvo Inc.	QRVO	QRVO US	Vivek Arya
	Skyworks Solutions, Inc.	SWKS	SWKS US	Vivek Arya
	Teradyne	TER	TER US	Vivek Arya
	Wolfspeed Inc	WOLF	WOLF US	Vivek Arya



## iQmethod<sup>SM</sup> Measures Definitions

### Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

### Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

### Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

### Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

### Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

### Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

### Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

### Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

iQmethod<sup>SM</sup> is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

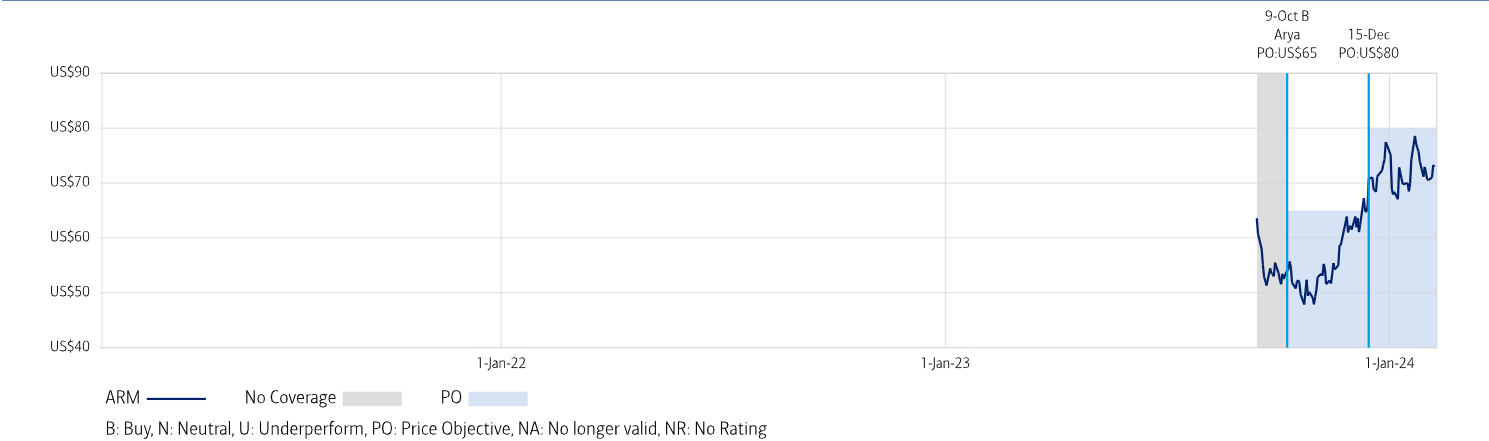
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# Disclosures

## Important Disclosures

### Arm Holdings (ARM) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. VOLATILITY RISK RATINGS, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. INVESTMENT RATINGS reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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