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1 Introduction

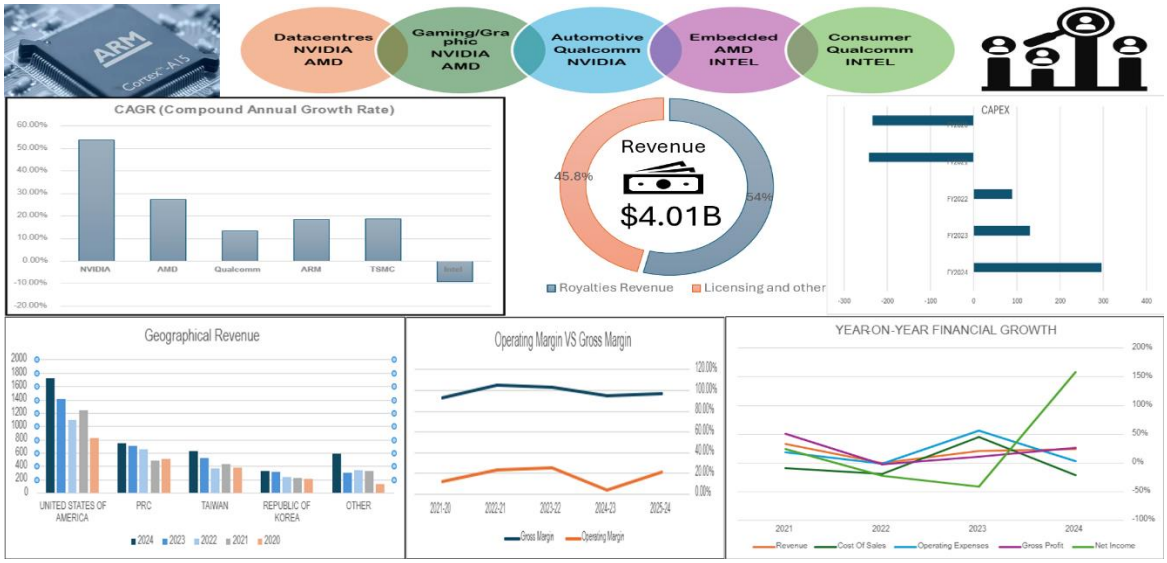
ARM Holdings is a UK-based semiconductor intellectual property company which has an important role in the global digital economy. It provides the core technology for semiconductor and electronic components manufacturers. The business operates on IP based model, which means that the company licenses processor designs and related technologies to semiconductor manufacturers all over the world. This strong position enables ARM to be part of all the various end markets which includes smartphones, consumer electronics, automotive systems, cloud infrastructure and increasingly AI to risk-free fabrication. The company is focused on developing top-notch, energy efficient processor design and the ecosystem support process of enablement, design services, and software tool provisioning. The company gets paid through licensing fees and recurring income from royalties which are determined by the number of chips that licensee has shipped. Upstream placement of ARM in the semiconductor value chain enables it to access the attractive profit pools while also escaping capital intensiveness, balance-sheet risk, and the cyclicality of manufacturing-led semiconductor firms.

1.1 Revenue

ARM has shown steady growth in the past five years with a revenue boost from about USD 2 billion to more than USD 4 billion. ARM's business with mobile and embedded systems has not only survived but even flourished due to the company's continuous development of new and better ARM-based architectures, and the licensing of such developments has also taken off with the advent of AI and data centre workloads. Revenue mix trends report the ongoing improvement in quality and long-term visibility. The company has been greatly benefiting from the growth of its royalty revenues, which are being largely supported by rising chip volumes and improved pricing from advanced architectures like Armv9. Even though royalty recognition is lagging two to three years behind chip shipments, the current trends in deployment are indicative of revenues getting stronger in the future. Licensing and other revenues are increased, as a result of the higher-value Total Access agreements and subscription-based licensing models. Still these revenues naturally are more volatile, because they depend on a small number of big contracts and renewal cycles that occur from time to time.

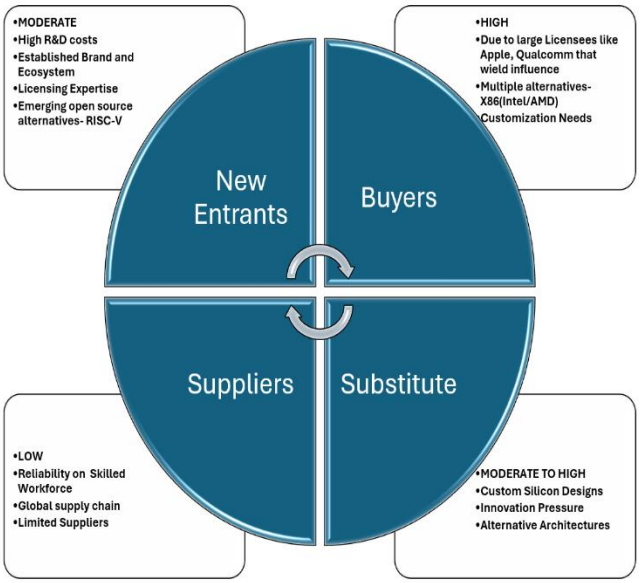
1.2 Profitability and Cost Structure

Through the asset-light model, ARM has achieved exceptional profitability at the gross margin level and consistently over 90% which is the highest among all companies. This is due to the fact that the Indian Patent (IP) revenues are scalable and ARM does not bear any manufacturing costs. ARM is thus, different from red-hot technology companies that are engaged in heavy manufacturing and has been able to survive and even thrive during industry downturns such as the recent COVID-19 pandemic. The operating profit has been more erratic. Operating margins experienced a sharp decline from 26.6% in FY2022 to 2.37% in FY2023 before recovering to about 20% in FY2024. The deliberate increase in operating expenses, particularly in research and development (R&D), was the reason for this compression. R&D spending jumped from USD 1.133 billion in FY2023 to USD 1.979 billion in FY2024, which is an annual increase of nearly 75% and it shows the company's commitment to investment in AI architectures, system-level IP, and engineering capabilities. This is a sign of intentional short-term margin pressure for the sake of longer-term revenue and pricing power.



Use of Cash, Investment and Financial Volatility Compared to fabrication-based companies, capital expenditure is still low in volume and is in-line with ARM's IP-driven model. However, the rising investment in human capital, infrastructure, and ecosystem tools is a sign of a strategic move towards higher-valued AI and data-centre markets. The net income throughout the period has shown volatility and it has been affected by non-operational factors such as SoftBank-related accounting effects, the failed acquisition of NVIDIA, and increased share-based compensation.

1.3 Value Chain and Analysis



ARM's value chain is a very unique one. The main activities like architecture design, R&D, IP management, and the licensing strategy are all kept in-house since they are knowledge-intensive and crucial for the company's competitive advantage. On the other hand, manufacturing, assembly, and shipping are completely done by the licensees. This setup allows ARM to concentrate on creating value instead of executing it, which results in very low fixed costs and very high capital-output ratio. Likewise, legal services, IP protection, and talent management are considered supporting activities; however, they are also kept in-house because of their strategic significance. Among the Semiconductor Value System, ARMM is situated at the upper stream where the profit pools are the largest. IP design and architecture produce much higher margins than the fabrication process, which is capital-intensive and cyclical. The licensing model of ARM allows it to grab value from the whole ecosystem without being liable to the manufacturing risks, thus, its remarkable profitability (Porter, 1985).

1.4 ARM – Disruptive Innovator and paradigm shift

ARM can be regarded as a classic instance of disruptive innovation. At the very beginning, the performance of RISC processors was considerably lower than that of x86 chips, and thus they could not be used for PCs and servers. However, they captured the new performance factors—low power consumption, small size, and cost effectiveness—so that ARM had easily gained access to the neglected markets of embedded systems and mobile phones. Besides, ARM has gradually improved performance while keeping efficiency advantage; this has led to a significant rise in the power/watt ratio, which is now the standard in mobile computers, cloud data centres, and AI applications. The shift of Apple's Macs from Intel x86 to ARM chips was an example of this trend. The company also has an impact on the chip market by coming up with a new licensing model based on the scalability of IP that has ultimately resulted in the redefinition of value distribution throughout the industry.

2 Strategies, Implementation and Result

The strategic actions of Arm not only illustrate a cohesive logic of value capture but also imply an increase in the strategic tension. The licensing and royalty-based model has undoubtedly been effective in both bringing about revenue growth and supporting the network effects based on the platform, which is in line with Porter’s perspective on strong entry barriers. The IPO gave a boost to visibility and access to the market, but the following fluctuations imply increased exposure to execution risk rather than structural weakness. On the other hand, the in-house chip development move is a step that breaks Arm’s long-standing neutrality and increases the risk of platform oversight which goes hand in hand with RBV concerns about the trade-off between appropriation and ecosystem trust. The price initiatives are under the threat of economic limits because of the power of buyers and the existence of open

alternatives, while the move to sell in markets other than smartphones has significantly increased the revenue resilience and decreased the concentration risk.

2.1 Expand royalty/licensing leadership & scale into high-growth compute markets

Management has repeatedly emphasized that Arm's main strategic move was to leverage its CPU technological know-how through a combination of licensing and royalties, which would provide the customers with more flexibility to ensure their wins in the market and develop the ecosystem further. Licensing and recurring royalties, as per the annual reports and IPO prospectus, are the main long-term growth drivers for Arm, and along with them, the company counts the advanced IP to penetrate the higher-growth markets of data centres, automotive, and IoT. Licensing agreements were also expanded and more customers were enrolled in Arm Total Access and Flexible Access programs, which all contributed to the ecosystem lock-in process becoming quicker. Besides, Arm took the road of promoting high-value products like Armv9 and Compute Subsystems that were all R&D supported by the increased investment. Furthermore, Arm's visibility and strategic credibility were boosted by the completion of the Nasdaq IPO in 2023. All these measures tremendously paid off, with the revenue of FY2025 of $4.0 billion which is about 24% more than in FY2024, and this was the result of the increase in licensing and royalties while profits being stable. Despite the stock price going up quickly after the IPO, the following volatility shows the emergence of strategic risks along with the operational success**.**

2.2 Expand beyond pure IP licensing (into chips & pricing power)

In order to create a licensing-led model that is more comprehensive and to get greater value out of it, Arm took major steps that were not without risk. Management was considering to increase the royalty and licensing economic rates in order to generate more money from the mature smartphone market and the new computing segments. The company also turned its focus on the chip development which was done entirely in-house, this included the chip technology and even more complex systems that are based on the Compute Subsystems. This was a gradual movement away from pure IP licensing. Another step was that Arm made stronger partnerships and invested in AI-focused ecosystems to ensure its long-term relevance in data-centre and AI markets. These actions produced mixed outcomes; they improved positioning in high-growth sectors and long-term optionality, but at the same time, they raised concerns of investors and customers about conflicts with licensees and dilution of margins. Moreover, the market reactions, such as the decline in share prices following weaker guidance, indicate a greater risk of execution which means the strategy is more inclined to business-model risk than Arm’s historically asset-light licensing approach.

2.3 Strengthen ecosystem & diversify end-markets

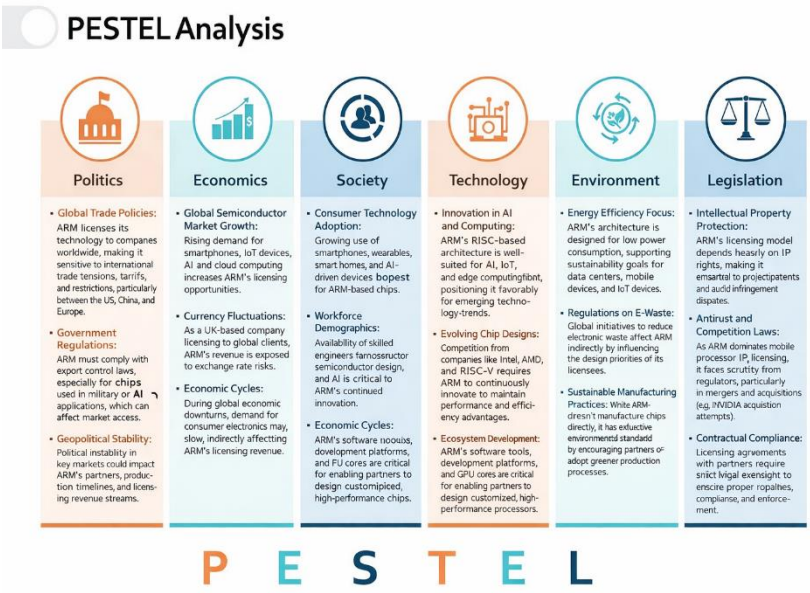
Resource	Value ?	Rarity ?	Imitability ?	Organization ?	Competitive Advantage
RISC Architecture IP	Yes	Yes	Yes	Yes	Sustained
Extensive Licensing System	Yes	Yes	Yes	Yes	Sustained
Brand and Reputation	Yes	Yes	*Moderate*	Yes	Temporary to sustained
Skilled Engineering Workforce	Yes	Yes	*Moderate*	Yes	Temporary
R&D Capabilities	Yes	*Moderate*	*Moderate*	Yes	Temporary
Neutral Licensing Model	Yes	Yes	*Moderate*	Yes	Sustained

Management has repeatedly taken the same road, which is to make the Arm ecosystem stronger and at the same time, branch out to other markets, especially data centres, automotive, IoT and embedded computing. Arm has unrolled its licensing with new customized offerings, like Compute Subsystems and more expensive IPs, to be able to do this and at the same time, making its developer and partner ecosystem through expanded tooling, software support, and community engagement to drive adoption and retention investments. The company has also invested more in R&D to support AI and advanced computing. All these things have led to results that could be seen: royalty revenues coming from different sources thus less reliance on smartphones; licensing deals made with higher value that contributed to the rise of the license revenue; and a total of 310 billion Arm-based chips in cumulative shipments which further strengthened the ecosystem by scale. In general, this strategy successfully increased Arm's revenue base and also strengthened its competitive position through the mastery of the ecosystem.

3. Economic Environment: United Kingdom–Centred Scenario

The UK is the home of Arm Holdings, and the country's macroeconomic conditions, industrial policy, and market environment heavily influence the company's strategy. Arm's asset-light, IP-licensing model is directly supported by the UK, which has a high-income, service-based economy, strong legal system, advanced financial markets, and robust intellectual property protection. Furthermore, the UK's trade policies provide Arm with the opportunity to operate internationally despite the fact that there is not much domestic semiconductor manufacturing. To sum up, the environment in the UK is more conducive to the knowledge-intensive, upstream firms like Arm than to the capital-intensive chip manufacturers.

3.1 UK Macroeconomic Conditions and Cost of Capital



Starting from 2022, higher interest rates, inflation-affected demand, and stagnant productivity growth have been the major challenges to the UK's economy. Each of these factors has had different impacts at different points in the semiconductor value chain. The case of higher interest rates is that they cause the cost of financing to go up in most cases, thus, depending on the strength of your business, they can either leave you flourishing or struggling. In this scenario, they have made it tough for capital-intensive companies to compete, but Arm has stood firm because of its low-fixed-assets base that keeps it almost unscathed and thus indirectly supports its positioning at the value chain top. Arm's position is only reinforced by the fact that the customers are less inclined to integrate CPU design under financial strains. On the contrary, the same economic situation results in the opposite effect for Arm in the case of customers facing pressure on their margins as they become more aware of the costs that Arm licenses and royalties impose on them hence limiting the ability of Arm to command higher prices. Therefore, the macroeconomic factors in the UK are on one hand giving Arm a structural advantage while at the same time placing economic constraints on its pricing power.

3.2 UK Industrial Policy, Strategic Neutrality, and Platform Risk

UK industrial policy focuses on innovation, R&D support, and participation in global technology ecosystems instead of developing large-scale domestic semiconductor fabrication capacity. This move helps Arm maintain its strategic neutrality. Arm is able to win the trust of global licensees and, hence, the entire ecosystem, as it is considered a neutral supplier, unlike companies that are part of the US or Chinese industrial policy-making and are actively working to promote their interests. On the other hand, the same policy environment indirectly, but surely, weakens Arm's long-term power as a platform. Governments in the UK and their allies are increasingly supporting open standards, interoperability, and supply-chain resilience, all of which contribute to the lowering of switching costs for the customers. From the perspective of platform economics, this is what reduces the strength of network effects that have historically been protecting Arm's licensing model. The risk has no immediate reflection in financial performance, but it is a structural economic constraint on Arm's ability to rely on proprietary platform dominance alone.

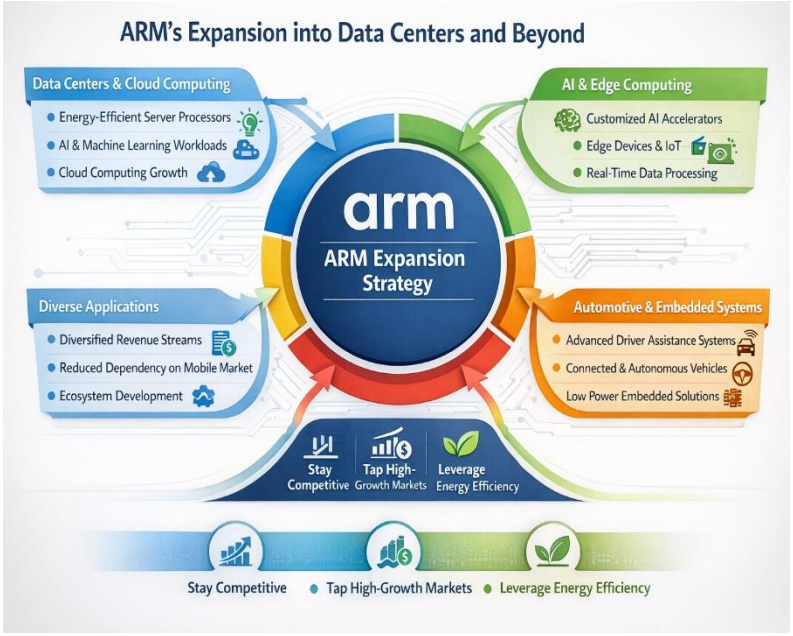
3.3 UK Position in the Global AI Investment Cycle

The economic strategy of the UK gives priority to AI, software, and technologies that improve productivity over heavy manufacturing. This is almost identical to the idea of Arm whose technology is revolving around CPU architectures with reduced power consumption specifically used for AI inference, edge computing, and data centres. As a result, the global investment cycle in AI not only boosts the demand for designs that consist of Arm technology but also does not necessitate large domestic investments. Looking at it from the resource-based perspective, Arm's human resource, research, and technological know-how in the area of architecture in the UK are still very valuable and hard to copy. However, these benefits are dynamic rather than static. Continuous economic returns rely on the firm's capacity to keep redirecting its intellectual property to AI and high-performance workloads; otherwise, it would soon lose the value of its existing resource pool as the alternatives would be less costly and more matured.

3.4 Economic Threat from Open Architectures

The increasing acceptance of RISC-V is indicative of broader economic factors that are relevant to the UK situation, such as decreasing costs, technological independence, and lesser dependencies on proprietary platforms. Although Arm is still leading in numerous high-end and energy-efficient applications, UK policy is aimed at competition and openness which limits the long-term royalty extraction from the economy. This means that Arm has to use more than just price increases for its growth in the future and it will have to rely more on ecosystem management, developer support and the offering of value-added IP in order to sustain its returns.

Recent Activities



The proposed merger between ARM and NVIDIA is a game changer for the semiconductor industry. With Arm's domination in low-power CPU designs, NVIDIA would be capable of combining CPUs with GPUs and AI accelerators, thus, making its presence stronger in such areas as AI, data centres, edge computing and automotive platforms. Yet, the merger has created a storm over Arm's non-discriminatory licensing approach, where partners like Apple, Qualcomm and Samsung are worried about not being treated fairly and the ecosystem getting divided which might lead to the adoption of RISC-V gaining ground. The merger could fast track the development of AI and energy-efficient computing, but it would also pressurize the competitors Intel and AMD more while facing strict regulatory and geopolitical scrutiny because of the global trade, security, and licensing issues. In recent months, we see that Arm's power among the semiconductor companies is increasing: SoftBank's acquisition of Ampere Computing for $6.5 billion mirrors a push in the direction of data-centre and server chips, while AI-based smartphone functionalities have increased Arm's sales compared to its rivals like Qualcomm. The U.S. tariff uncertainty has made investors take a wait-and-see approach, which is evident from the conservative guidance and the oscillation of the stock market. From a strategic viewpoint, the venture into full-chip design by Arm possibly clashing with its licensees signifies a move away from the company's traditional licensing model, resulting in mixed reactions from investors who see a balance between the thrill of AI opportunities and concerns over valuation and regulation.

Conclusion

Arm's performance over the last five years has demonstrated the company's ability to execute its strategy effectively and benefit from the industry overall. Its asset-light business model not only satisfies Porter's trade off but is also aligned with the resource based view, thus allowing the company to achieve high revenue growth, healthy margins, and a leading position in AI and data-centre markets. Arm has really been able to rely on its strengths by turning architectural leadership into economic value. Still, fragmentation of the world and policies that favour open architectures are long-term structural threats while the UK base gives only limited protection. The triumph of the future will depend not so much on technology but on the management of the platform wealth creation through innovation while maintaining ecosystem stability that is going to need skilled yet determined management to keep a competitive edge.

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