

ARM FQ4 2024 EARNINGS

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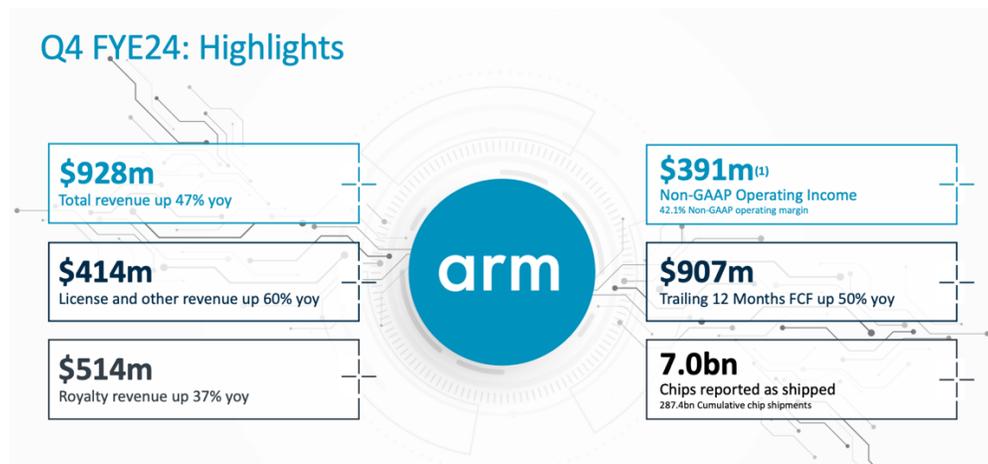
CONTEXT

Arm reported record revenues for its fiscal Q4 2024, increasing revenue during the quarter by 47% year-over-year, driven by significant gains in royalties and licensing.

Arm's growth was fueled by the rapid adoption of the v9 architecture and a strategic increase in R&D investment, mainly targeted towards harnessing opportunities in AI technologies.

FINANCIAL PERFORMANCE

During its fiscal Q4, Arm demonstrated remarkable financial performance, showing strong growth across key revenue streams.



The highlights of Arm's financial performance during the quarter include:

- Revenue Growth:** Arm's revenue grew 47% year-over-year to \$928 million.
- Royalty Revenue:** Royalty revenue, a significant indicator of market adoption and usage of Arm's IP, increased by 37% year-over-year. This growth was primarily driven by the accelerated adoption of the Armv9 architecture, which

has been well-received across multiple sectors, including smartphones and infrastructure.

3. **Licensing Revenue:** Licensing revenue saw an impressive jump of 60% year-over-year. This increase is attributed to heightened R&D investments to capture opportunities in AI and related markets.
4. **Operating Margin:** Arm also reported a strong non-GAAP operating margin of 42% for the quarter.
5. **Remaining Performance Obligations (RPO):** The company grew its RPO by 45% year-over-year to nearly \$2.5 billion.

NON-FISCAL HIGHLIGHTS

On its earnings conference call, Arm highlighted significant non-financial milestones that show the company's strategic advancements and technological innovations:

Guidance

	Q1 FYE 25	FYE 25
Revenue (\$m)	\$875m - \$925m	\$3,800m - \$4,100m
Non-GAAP Operating Expense (\$m) ¹	~\$475m	~\$2,050m
Non-GAAP fully diluted earnings per share (\$)¹	\$0.32 - \$0.36	\$1.45 - \$1.65

1. **Technology Adoption and Expansion:**

- **Armv9 Architecture:** The adoption of Armv9 architecture accelerated, significantly contributing to the increased royalty revenue. This newer-generation technology is becoming a standard across various segments, enhancing Arm's market presence.
- **Google's Axion Processor:** Arm secured a significant win when Google announced its Axion processor, which is based on an Arm custom chip for data centers. This demonstrates Arm's growing influence in the hyperscale data center market.

2. **Diversification into New Sectors:**

- **Autonomous Solutions for Automotive:** Arm introduced its first autonomous solutions enhanced for the automotive sector, featuring

the v9 performance with additional automotive-specific capabilities like functional safety.

- **IoT Innovations:** Arm's launch of the Ethos-U85, touted as the lowest power transformer for IoT-based designs, highlights its commitment to innovation in the IoT space, broadening its reach and applicability.

3. **Compute Subsystems Strategy:**

- Arm reported a strong response to its compute subsystems (CSS) strategy, seeing strong demand for the integrated solutions.

4. **Strategic Partnerships and Customer Engagements:**

- Discussions with key partners about the first automotive CSS and the ramp-up of Microsoft's Cobalt chip based on Arm's Neoverse are examples of deepening customer engagements and expanding strategic partnerships.

5. **AI and Software Integration:**

- Arm emphasized the critical role of its CPUs in supporting AI workloads across the cloud and edge, with technologies like GPT and Llama relying on Arm's processing capabilities.

GUIDANCE & OUTLOOK

Arm offered an optimistic outlook and guidance for the upcoming fiscal year, reflecting strong confidence in continued growth driven by technological advancements and market expansions:

1. **Revenue Projections:**

- For the first quarter of the fiscal year ending March 31, 2025, Arm expects revenue to be between \$875 million and \$925 million, a 30% to 37% year-over-year increase.
- Revenue is projected to range between \$3.8 billion and \$4.1 billion for the full fiscal year 2025, growing 17% to 27% year over year.

2. **Operating Expenses and Profitability:**

- Non-GAAP operating expenses for fiscal year 2025 are expected to be \$2.05 billion, marking a 19% year-over-year increase. This increase is planned to support further investment in research and development, fueling future growth initiatives.

- Non-GAAP EPS for the year is anticipated to be between \$1.45 and \$1.65, reflecting the expected profitability amidst the company's aggressive growth strategies.

3. **Segment-Specific Growth:**

- **Royalty Revenue:** Arm forecasts continued strong performance in royalty revenue, expecting year-over-year growth in the mid-20% range. This growth is projected to be driven by the ongoing adoption of the Armv9 architecture and market share gains in sectors like cloud computing and automotive.
- **Licensing Revenue:** Licensing and other revenues are expected to show slight sequential growth driven by backlog revenue realization. However, licensing revenue is acknowledged to be variable from period to period due to the nature of revenue recognition in this segment.

4. **Strategic Focus Areas:**

- **Investment in AI and Data Centers:** The guidance reflects Arm's strategic focus on leveraging its technological leadership to capture the growing opportunities in artificial intelligence and data center applications.
- **Compute Subsystems:** With the compute subsystems strategy being oversubscribed, Arm anticipates significant growth in this area, catering to diverse end markets and enhancing system integration and performance for clients.

5. **Long-Term Revenue Growth:**

- Beyond fiscal year 2025, Arm expects to maintain a minimum annual revenue growth of 20% for the fiscal years ending in 2026 and 2027. A robust pipeline of new licenses, ongoing agreements, and the development and shipping of royalty-bearing chips supports this expectation.

Arm's guidance is optimistic about the future, with significant investments in innovation and market expansion poised to drive substantial growth.

ANALYSIS

Arm's strategic diversification efforts are bearing fruit, evidenced by key wins such as Google's selection of an Arm-based custom chip for its Axion cloud processor, validating Arm's technological prowess while reinforcing its strategic footprint in the high-growth hyperscaler market. Additionally, the introduction of autonomous

solutions in the automotive sector and advancements in IoT with the Ethos-U85 processor show Arm's success in pushing into new applications and markets.

Arm's guidance is bullish, projecting revenues between \$3.8 billion and \$4.1 billion for FY 2025. This reflects anticipated growth of up to 27% year-over-year, fueled by continued v9 adoption and further penetration into the cloud and automotive sectors. The forecast also suggests sustained momentum, with an expectation to maintain at least 20% annual revenue growth in the subsequent years, underlining the enduring demand for Arm's technology and its strategic positioning within the semiconductor industry.

Arm isn't just navigating an evolving market landscape but actively shaping it through strategic innovations and expansion. The company's strong financial performance and optimistic future guidance reflect its potential to remain a disruptive force in the semiconductor industry, driven by its pivotal role in the ongoing transformations within tech ecosystems, from mobile devices to data centers.



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