Arm First Quarter Fiscal Year 2025

Wednesday, 31st July 2024

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Operator: Good day, and thank you for standing by. Welcome to the Arm First Quarter Fiscal Year 2025 webcast and conference call. At this time, all participants are in a listen only mode. After the speaker's presentation, there'll be a question and answer session. To ask a question during the session, you'll need to press star one and one on your telephone. You'll then hear an automated message advising your hand is raised. Please limit yourself to one question only and rejoin the queue for any follow-up questions. To withdraw your question, please press star one and one again. Please be advised that today's conference is being recorded. I would now like to hand the conference over to your first speaker today, Jeff Kvaal, Vice-President of Investor Relations. Please go ahead, sir.

Introduction and disclaimer

Jeff Kvaal

V-P Investor Relations

Thank you and welcome to our earnings conference call for the first quarter of the fiscal year ending March 31st, 2025. On the call today are Rene Haas, Chief Executive Officer of Arm, and Jason Child, Arm's Chief Financial Officer.

During the call Arm will discuss forecasts, targets, and other forward-looking information regarding the company and its financial results. While these statements represent our best current judgment of future results and performance as of today, our actual results are subject to many risks and uncertainties that could cause actual results to differ materially. In addition to any risks that we highlight during the call, important risk factors that may affect our future results and performance are described in our registration statement on Form 20F filed with the SEC on May 29th, 2024. Arm assumes no obligation to update any forward looking statements which speak only as of the date they're made.

We will refer to non-GAAP financial measures during the discussion. Reconciliation of certain of these non-GAAP financial measures to their most directly comparable GAAP financial measures, as well as the discussion of certain projected non-GAAP financial measures that we are not able to reconcile without unreasonable efforts or supplemental financial information can be found in our shareholder letter. The shareholder letter and other earnings related materials are available on our website at investors.arm.com. And with that, I'll turn the call over to Rene. Rene?

Highlights of the quarter

Rene Haas

CEO

Thank you, Jeff. And good afternoon everyone. I'm pleased to be able to give you an update on our most recent quarter. We had our fourth straight quarter of record results, 39% year on year revenue, that exceeded the high end of the guidance. That was record license

revenue up 70% year on year, as companies continue to invest in Arm for AI everywhere. We also had strong royalty revenue up 17% year on year as the v9 adoption increases.

Now, our long-term growth drivers remain consistent. Every chip being designed today requires a CPU, and these are being designed with Arm in mind, with our strong tie into all the world's software. Now, that has driven significant royalty revenue growth, more value per chip, v9 up to 25% net royalty revenue overall. That's up 20% from the previous quarter.

More importantly, our smartphone royalty revenue is up 50% year on year. That's against a single digit increase in units.

Now we are seeing AI everywhere, which is driving demand for Arm's performant and power efficient compute platform. We had recent announcements in the last quarter of Google's Axion processor for the cloud, AWS Graviton4 general availability. We were very excited to see the announcement of the brand new Windows on Arm PCs that run Copilot, true AI PCs. And we also announced the Arm Ethos-U85 for Edge AI.

One of the significant strategies that we've been investing in has been compute subsystems. With our recent launch of CSS for client, we now have active CSS engagements in the major markets of mobile, laptop, cloud, and automotive. We are seeing demand for this technology everywhere, and this is all driven by the largest software ecosystem on the planet.

Now, hardware, of course, is nothing without the software, and that's what has made Arm the most ubiquitous processor in history. We now have over 20 million software developers, the largest in the world, and we've added Kleidi AI software libraries, which will make it easier for developers to benefit from Arm compute platform.

The future is very bright and will be built on Arm going forward. We are extremely pleased over the last four quarters, and again, if I look back to where we were a year ago and talking about whether Arm could be a growth company going forward, to have four quarters of consistent growth after being a public company, I could not be more proud. And with that, I'll hand it over to Jason.

Financial review

Jason Child

CFO

Thank you, Rene. Q1 was a great start for fiscal year '25. We grew revenue 39% year over year to $939 million. This was our highest ever quarterly revenue and was above the midpoint of our guided range. Licensee revenue rose 72% year over year, and royalty revenue was up 17%. We also delivered a non-GAAP operating margin of 48%.

License revenue

As always, license revenue is lumpy. We recommend that you look at annualized contract value, or ACV, to check the underlying growth rate. ACV in Q1 was up 14% year over year, consistent with recent quarters. Remaining performance obligations, or RPO, was up 29% year on year and down sequentially as we recognized revenue from achieving key delivery milestones from contracts signed in prior quarters.

Royalty revenue

Our Q1 royalty revenue growth was driven by continued Armv9 adoption and the recovery in the smartphone market. Royalty revenue from smartphones increased more than 50% year over year compared with a mid-single digit increase in the number of smartphones sold. In addition, we continue to gain share in automotive and cloud service providers, and this is partially offset by continued weakness in IoT and networking equipment, given an ongoing inventory correction in the broader industrial market, as has been widely reported by many of our semiconductor peers.

Guidance for fiscal 2024

Turning to guidance, I'll briefly touch on both second quarter and the fiscal year ending March 31st, 2025. This guidance reflects our current view of our end markets. For Q2, we expect revenue between $780 and $830 million, which at the midpoint represents steady revenue year over year. As previously guided, we expect Q2 revenue to be the low point of the year due to the timing of revenue recognition from licensing. However, we also expect Q2 to be one of our highest bookings quarters of the years. We expect year-over-year royalty revenue growth to accelerate to the low 20% range in Q2.

Investments in our compute platforms are on track, and we expect our non-GAAP operating expenses to be around $500 million. We expect non-GAAP EPS to be between $0.23 and $0.27, which is unchanged from our prior forecast.

Guidance for fiscal 2025

Looking out to fiscal year '25, we are reiterating our revenue guidance. We expect revenues to be between $3.8 and $4.1 billion, which represents an 18% to 27% year-over-year increase. At the mid-point of our revenue guidance, this includes full year royalty revenue growth in the low 20% range. This is slightly below our prior expectation of the mid 20% range.

Feedback from our customers suggest that inventory issues in the industrial IoT and networking seem to be more persistent than originally suggested. We expect the drivers of our healthy royalty revenue growth this year to be continued with v9 adoption, share gains in cloud and automotive, and the initial ramp of chips based on our compute subsystems in the second half.

We are increasingly optimistic about licensing revenue for the year. At the midpoint of our revenue guidance, we anticipate growth in the low to mid 20% range. We expect Q2 to be the smallest and Q4 to be the largest quarters of the year.

We reiterate our outlook for ACV growth in the low double digits for the year, which reflects durable demand for Arm's latest IP. We have high visibility through a combination of backlogs, renewals, and the pipeline of new licenses. As a reminder, licensing is a leading indicator of future royalty revenue opportunities. Licenses signed now will generate royalty revenues in two to three years' time.

We expect non-GAAP operating expenses to be approximately $2.05 billion, which represents a 19% year-over-year increase. As we continue to invest in R&D to support future growth initiatives, we expect operating expenses to ramp consistently throughout the year. We reiterate our full year non-GAAP EPS guidance of between $1.45 and $1.65. With that, I'll turn the call back to Jeff.

Jeff Kvaal

Thank you, Jason. We'll now move forward with the Q&A portion of the program. Sharon.

Q&A

Operator: Thank you. To ask a question, you'll need to press star one and one on your telephone and wait for your name to be announced. Please limit yourself to one question only and rejoin the queue for any follow-up questions. To withdraw your question please press star one and one again. We will now go to your first question. One moment please. And your first question comes from the line of Vivek Arya from Bank of America Securities. Please go ahead.

Vivek Arya (Bank of America Securities): Thanks for taking my question. Rene, I was hoping you could help us draw a line between the licensing upside of today to the royalty upside of tomorrow. When, you know, when I look back to during the IPO process, what you suggested for licensing, you have far exceeded that. But when do you think we will see that reflected in royalty upside in some commensurate manner? What is the right way to kind of help look at this conversion factor between licensing and royalties over time? Thank you.

Rene Haas: Yeah, thank you for the question. We are super pleased about the growth in the licensing business. The way to think about that growth is really around continued investment in R&D. That is essentially customers who are looking to design their next generation SOCs using Arm. What we are seeing, particularly with all things AI, is an increase in licensing momentum. And maybe one way to think about that is the AI workloads that some of these chips need to run, at the time these chips were conceived, some of the models that they're being tasked to run were never even invented yet, which kind of goes back to your timeline question. From the time that we license a piece of IP to a customer, and from the time that they put that into a chip and that chip goes into an end system and then ultimately into the customer's hands, can be anywhere between three and four years and in some cases even longer. I would say the mobile industry, the smartphones is probably the fastest at around three years-ish. But when you start looking at other markets like the data center and/or automotive, it can be longer than that.

So the way to think about all this increased licensing activity, I think is a very, very good predictor of further royalty growth. Increasingly we are licensing more and more v9 obviously, but also more and more of these compute subsystems. And both v9 over V8, and then compute subsystems over v9, carry significantly higher royalty rates. So all of this is a very good projection for the future.

Vivek Arya: Thank you.

Operator: Thank you. Your next question comes from the line of Lee Simpson from Morgan Stanley. Please go ahead.

Lee Simpson (Morgan Stanley) Great. Thanks for fitting me in. Rene, it's noticeable here that you've had a raft of good product releases recently. You know, we've had the new Cortex X925 CPU, we've had Immortalis cores, so there's quite a lot of activity going on here, a lot for you to be licensing. But I think somewhat unnoticed is there's quite a few CPU extensions that you've been putting out to market as well. So I'm really just trying to understand, do we see more momentum in these CPU extensions? Do we see more of these coming out? Which

markets would they address and how does this drive some of that royalty growth that you've been talking about over the medium term? Thanks.

Rene Haas: Yeah. Thank you for the question. The way to think about the CPU product line and the GPU product line for that matter, in addition to some of the fabric that goes with it, we're introducing these products annually for the smartphone market and PC market in particular, those are annual beats. For the data center market, more like every couple years. And similar to that on the automotive side. And all of that is driving a pretty significant growth and demand cycle for Arm technology.

One of the things that we see, to your question of extensions, if I understand it correctly, is really around taking advantage of more and more of the v9 features. There's a lot inside Version 9 with security. There's a lot in terms of Version 9 in terms of confidential compute. We're seeing increased demand for that across all areas, particularly in the data center. And when we think about the data center growth, one of the benefits we're also getting that's driving increased licensing activity is the fact that these AI data centers are largely custom. Meaning that the blades, the racks, the interconnect, everything associated with building an AI data center is different each time, which leads its way to customization, which is good for Arm because these custom chips require Arm. And at the same time, the AI data centers, the power required by them is unprecedented relative to conventional data centers, and that's also good for Arm. And so the areas that I just mentioned around security and confidential compute, particularly these AI data centers, become hard requirements.

Lee Simpson: That's great. Thank you.

Operator: Thank you. Your next question comes from the line of Matt Ramsey, TD Cowen, please go ahead.

Matt Ramsay (TD Cowen): Thank you very much. Good afternoon, everybody. Rene, Jason, I had a couple of questions, maybe I'll just ask them at the same time for expediency. But the first one, the licensing business has continued to be really strong for Arm and I think certainly stronger recently than you guys had even forecast through the IPO process and whatnot. And maybe some of the, I don't know, upselling to make AI-capable devices in certain markets has been part of that. And obviously you talked about some of the platform licenses and whatnot and data center. But there's no doubt some correction going on in certain parts of the semiconductor industry, we've seen that across a number of your licensees in broader based markets. So I just wonder if you could maybe give some commentary about what you're seeing in the licensing pipeline juxtaposed against some weakness in some parts of the semis' industry.

And then I guess the second part, I know you guys don't plan to report royalties or comment on them based on segments or lines of business on a quarterly basis, but you did call out 50% year-over-year growth in smartphone royalties against the total royalty pie growing 17%. So maybe you could talk about the puts and takes in some of the other non-smartphone sectors of the royalty numbers that you just printed. Thanks guys.

Rene Haas: Sure. Thank you, Matt. I'll take the first part of your question and then I'll let Jason address the second part. It's a great question relative to how to think about industry correction, inventory, sell-through as a function of investment in R&D. And in cycles in the past, sometimes you might see the investment in future design be impacted by just what you

described. I would say in the current moment of time, that is not the case. What we are not observing is any slowdown in licensing as it applies to anything going on in the end market.

And I think what really drives that is when you think about these AI workloads and what's required to go drive them, keep in mind that if a designer is designing an SOC and they're now having to run an AI workload or a small language model at the edge of a device, that is in addition to all of the things that the SOC and the system has to do anyway. So what that is driving is a demand for more compute, more compute capability, more CPU cores, more subsystems, all of the above relative to new SOC starts.

So we're not observing anything slowing down. And in fact, as you can see by the numbers and your commentary relative to what we talked about 12 months ago during the IPO, it's probably picked up. And I think one of the reasons that we're seeing the end benefit of that from a revenue standpoint is these are all running off existing platforms that are Arm based. And one of the things that we continuously say about what drives Arm demand is this virtuous cycle of the largest number of platforms from a software development standpoint are Arm based. So the more software that's available to run on Arm, the more companies that are trying to build chips that go into these end products, end up making them Arm based.

So we face very little competition, quite frankly, when their people are considering what is the CPU to use on the new design. And as a result, the availability of additional hardware just makes it easy for the software developers to choose which hardware to continue to develop on because it ends up all being on Arm.

So long-winded way of saying that on this cycle not observing any slowdown in terms of R&D investment, even though there might be some slowdown in terms of end-market consumption, as you state. I'll turn it over to Jason to answer the second part of your question.

Jason Child: Thanks, Matt. So on royalties, we're going to provide a – in the company slides, we're going to update that, that'll be sent out right when the call ends. But we'll provide an update as we promised, the annual kind of update on what is the mix of our royalties, and then what is the kind of update in TAM and kind of market shares.

Just at a high level, I'll provide maybe a little bit of an update at kind of some of the key headlines. So first, as we said during the prepared remarks, we did see the mobile phone or smartphone royalty revenues grow by over 50%. And so, you know, certainly very, very strong growth, as you said, versus the unit growth. In terms of the clients overall for the full year, we saw that grow, you know, somewhere kind of in the 20%-ish range when you factor all the different businesses together.

And again, we'll provide more color across some of the various sectors where there was maybe some slowdown specifically in PCs last year. It was a slow year, obviously we expect that to change this year, but last year was pretty slow.

For the cloud compute market, we actually saw the strongest growth we've ever seen at, I'd say north of 75% growth year on year. And that's certainly driven by all the projects, you know, that we've talked about throughout this last year. Certainly strong growth within AWS, but now with some of the projects coming online with both Cobalt for Microsoft and Axion from Google, we expect to see that number continue to accelerate.

On the auto side, we saw that somewhere in the kind of – somewhere around 20%-ish year-on-year growth. And again, that's a little bit different than what you're seeing in some of the other auto semiconductor companies for the most part, you know, really our exposure is primarily on ADAS and IVI, which are kind of the stronger growth parts of that market.

And then on IoT, networking, industrial as mentioned, those categories have been, you know, kind of – we've seen persisting weakness in those categories. So we've seen negative growth in those categories. Expecting to see things start to pick up maybe a little bit, at least sequentially, this quarter. But last year definitely they were in the negative territory. But again, we'll provide a supplement with more detail. And so if you have other questions after seeing those details we'll certainly be able to answer questions after that comes out.

Matt Ramsay: Thanks guys. I really appreciate it.

Operator: Thank you. Your next question comes from the line of Mark Lipacis from Evercore. Please go ahead.

Mark Lipacis (Evercore): Great. Thanks for taking my question. I had a question on the compute side of the business. Maybe a two part question if I may. On the... In compute on the CPU side of the data center, I think for us, it's more easy to track because there's more obvious deployments there. But I would say on the parallel processing side or the accelerator side, it's not as easy for us to track, and I was wondering if you could give us a sense of where you are in the penetration of that part of the market. And if you could comment about, you know, how that part of the business compares to the CPU side.

And then along these lines, if we consider the model, my understanding is that you have more core counts per CPU that drives ASP higher, and that helps. And I'm wondering does that same dynamic apply on the accelerator side? Thank you.

Rene Haas: Yeah, thank you for the question. So when you think about the AI data center, and particularly around the accelerator and the CPU that ties into it, you know, clearly the lion's share of the market today with accelerators belongs to NVIDIA. NVIDIA, their numbers, you know, speak for themselves. But relative to the penetration of Arm in the data center, they had announced Grace Hopper about a year and a half ago, which was the Arm-based design, which integrates an Arm-based CPU to a Hopper GPU. The next advanced platform that they announced, Grace Blackwell, which is going to be shipping soon, they've just now started initial volumes of that. They – we expect with that design to have the volumes be higher than it was on Grace Hopper. We think that Grace Blackwell, just given the performance and power will be a very, very good chip for us in the in the AI data center, partnering with NVIDIA.

When we think about other accelerators that would connect to an Arm CPU, right now most of those accelerators are custom that are being done in-house, and it's still early days in terms of that kind of volume. But back to my earlier comment, relative to the AI data centers, and I think Grace Blackwell is a very good example of that, Grace Blackwell is a custom chip that goes into a custom blade, into a custom rack, into a custom system. It is a full system design with incredible complexity and also very unique in terms of its power savings. We expect to see a similar trend with other accelerators that use Arm because the ultimate benefit of using Arm for an AI data center is the customization, i.e., being able to build something that's very, very custom in terms of the interconnect, custom in terms of memory, custom in terms of the

overall network, and at the same time will be the most power efficient CPU architecture out there.

So, early days still is the short answer in terms of being able to count what the units are in terms of CPU and AI data center. But it's going to be growing rapidly, we expect, and the most obvious indicator of that is Grace Blackwell.

Mark Lipacis: Thank you.

Operator: Thank you. Your next question comes from the line of Mehdi Hosseini from Susquehanna International Group. Please go ahead.

Mehdi Hosseini (Susquehanna International Group): Yes. Thanks for taking my question. I want to go back to the commentary on the smartphone. To what extent are you baking in your royalty? Any kind of inventory correction in the smartphone? And then this is looking forward. And then back to licensing, are you still expecting a significant pickup in the Q4 fiscal year, as you were highlighting in the last earning conference call?

Jason Child: This is Jason, I'll take those questions. So on the smartphone side this last quarter, you know, I think as Rene highlighted, we basically grew the royalties by about 50% year on year, while units only grew in the mid-single digits. Our expectations for this year are that you're going to see pretty similar unit growth but we expect to be outpacing, just like we did in Q1, for the rest of the year because of the V8 to v9 transition. In fact, in smartphones we're actually about, from a v9 perspective, about 50% of royalties – royalty dollars are now v9 dollars. So we've actually – we're ahead on our V8 to v9 transition in mobile.

Now, we've also said previously that compute subsystems will start to come online at the second half of this year, but specifically in mobile, you'll see it starting in Q4. It'll be pretty small, but next year it'll become, I would say, more material. So overall, we expect our mobile royalty growth to significantly outpace unit growth for this year, next year, and I would say even for the next few years, especially because we see the CSS kind of ramp to be not unlike the V8 to v9 ramp, which is, it's probably somewhere around a four-year period for the adoption, you know, to mature and therefore to provide incremental growth tailwinds during that full timeframe.

On the licensing side, yes, we do have – we do still have the strongest licensing growth from a total revenue perspective expected to be in Q4. You know, we have a fairly wide range, mostly because, you know, we have a large pipeline of deals, as Rene said, the pipeline has been strong. It's actually been – it's actually, you know, incrementally, it's actually slightly stronger now than it was even 90 days ago. Which is why even with a little bit of royalty softness, we're actually leaning in ahead a little bit on royalty – or on license. Now, those deals do, you know, typically these large license deals, you know, there are renewals and there are some incremental new deals. Those new deals in particular typically have a six to nine-month kind of cycle. And so it will take us a while to get a better sense on the shape and sizing, which is why we have a relatively large range still for guidance. And in particular, it's really on the license side where that range is most applicable.

So high confidence based on the pipeline and the visibility and the discussions that we've had. We will update you throughout the quarters as we get more insight and can be a little more refined.

Mehdi Hosseini: Great. Thanks for details.

Jason Child: Thank you.

Operator: Thank you. As a reminder, please limit yourself to one question only and rejoin the queue for any follow-up. We'll now go to the next question. And your next question comes from the line of Vijay Rakesh from Mizuho. Please go ahead.

Vijay Rakesh (Mizuho): Yeah. Hi guys. Just a quick question on the handset side. I know you mentioned that you're seeing a ramp with handset CSS on v9. As you look at the handset ecosystem, are you seeing China handset OEMs start to license you for the accelerator cores or AI cores? Because I think we are seeing the chip [inaudible] start to explore. So just wondering if you're seeing the handset OEMs start to build their own cores, and if so, when you start to see licensing royalties on those? Thanks.

Rene Haas: Yeah. We don't call out specific licensing deals in China because we do that through Arm China, who is our design partner. But what I can say is that the macro trends that we see across the world, i.e., growth in data center, growth in the automotive, demand for CSS in automotive, demand for CSS, demand for CSS in smartphone, that all applies to China as well. There's nothing unique to what the China market wants to do relative to the rest of the world. And that's really because, and I can't overemphasize this enough, China runs off the same global software ecosystem that everyone else does. It's all running either Mac iOS, Mac OS, stock Android, Windows, all that runs on Arm. So Arm China is how we quote the revenue in through China. So we don't call our partners specifically, but from macro level behaviors are the same.

Operator: Thank you. Your next question comes from the line of Charles Shi from Needham & Company. Please go ahead.

Charles Shi (Needham & Company): Hi, good afternoon, Rene, Jason. Just want to get a – use this opportunity to ask you about your comments you made at Computex in terms of the 50% PC market share in five years. Just.. to provide a little bit of context to why I still want to ask you this question, my understanding, we already have Arm-based PCs already, right? That the Mac is one, Chromebook another. Some of your peers, I mean the X86 peers, seem to disagree with what you said about that 50% market share in five years. And they basically argue whether you have a good AI PC or not, really it's not ISA dependent. And wonder if – what's your response here? And can you provide us a little bit more thoughts on why this time is different, why Arm can really take the market share up to 50% in short period of time? Thanks.

Rene Haas: Yeah, sure. No, thank you for the question. Yeah, I would be a little worried if they agreed with my comment that we're going to take 50% in five years. So the base of the question is why is this time different? I think, you know, first off, you commented yourself relative to the other operating systems having now Arm-based solutions. One of them, Apple's operating system and their environment has moved over 100%. And that is obviously a pretty significant indication of the value proposition that they get.

I think what's changed this time in the Windows ecosystem, there's a number of things that have changed. First is that the products that are out today are using the most advanced Arm technology. They are optimized with Microsoft for the most effective battery life on the planet.

If you look at, for example, Dell's XPS product line as an example, they're touting over 19 hours of battery life for the Arm-based solution, well in excess of what you see from the competition. Additionally, some of the earlier Arm-based PCs for Windows were using technology that, a, was designed for phones and b, was three or four years old and had not been updated or upgraded. That's all changed as well to have these products be AI PC compliant.

And lastly, ultimately what you need to get to that kind of market share are a broadening of the supplier base. You also need the top to bottom SKUs to be addressed from the entry all the way to the top end. We're very confident from everything we're hearing in the ecosystem, that that is all going to be filled out over the next number of years. So when you combine a supply base that has multiple vendors, also incredible battery life, and then no-compromise performance, I don't see really any reason why what happened in the Mac ecosystem can't happen in the Windows ecosystem. So the Mac ecosystem is virtually 100%. So when we think of 50%, that doesn't seem too lofty for me in five years.

Operator: Thank you. We will now take the next question. And it comes on the line of David O'Connor from BNP Paribas. Please go ahead.

David O'Connor (BNP Paribas): Great, good afternoon and thanks for taking my questions. Just one on my side maybe for Jason on the royalty seasonality. You know, just looking there at the second half, Jason, and particularly when you consider you've kind of a big customer coming with v9 adoption in the fiscal Q3 and then a mobile CSS client kind of kicking in in fiscal Q4, can you help us out how to model that kind of second half in terms of royalties so you get the kind of weightings that are correct? Thank you.

Jason Child: Yeah. So the, you know, there's two things going on. There's the V8 to v9 adoption, there's CSS, but then there's also seasonality. But then lastly, what are we comping from a year ago since we had a, you know, kind of a recovering industry? And so certainly, you know, the bottom was a year ago, last quarter and now we're starting to comp stronger and stronger periods. From a royalty growth, as I said, for full year we're expecting kind of low 20%-ish range year on year down from the 25% that we had previously expected. When you look at the kind of growth on a quarterly basis, we expect it to be roughly – I'd say roughly 10% per quarter from this Q1 to Q2, then again, Q2 to Q3, and then Q3 to Q4. And that'll get you to kind of roughly in that low 20% year-on-year growth rate.

Operator: Thank you.

David O'Connor: Very helpful. Thank you.

Operator: Thank you. Your next question comes from the line of Andrew Gardiner from Citi. Please go ahead.

Andrew Gardiner (Citi): Thanks very much for taking the question. I just had another one on the licensing side. I mean, you've mentioned, guys, that it's a lumpy business. Certainly is, but, you know, fortunately in practically every quarter since the IPO, it's been lumpy in one direction; to the upside. What in the current quarter, you know, has driven that upside relative to your visibility? Was it companies taking more Arm content? Did you have more bookings that were able to turn quickly? CSS? Or, you know, was there pull forward from deals that you might have expected to recognize revenue on in future periods? I'm just trying to understand sort of where the upside is coming from.

And also, Jason, on the last call, you'd given us sort of the bookings outlook for the year, saying that it had been such a strong year last year that you expected about 60% of that level in fiscal '25. I think you touched on it in your prepared comments, but I apologize, I missed it. What's the expectation for that after the strong first quarter? Thank you.

Jason Child: Thanks for the question. So overall from – really from last quarter, we are, you know, we do see a little bit stronger licensing to account for that slight reduction that we're expecting in royalties. That reduction in royalties is about $75-ish million for the year. So the increase then that we would expect to see on licensing is the same amount. So not a significant difference from what we had last quarter. So in terms of what we saw last quarter versus this quarter, for the most part, you know, we still have strong visibility into our renewals, specifically of some ATAs, which are, you know, the biggest drivers of license, bookings, and revenue.

We do have some, I would say some newer deals on newer technologies. Those were the ones that are a little harder to forecast, and that's why, you know, depending on what the final shape and size of those deals look like, will help us figure out which part of the guidance range we'll fall into. And so that, you know, as time progresses throughout the year, we'll get, you know, we'll get more clarity on those aspects.

But, you know, in terms of the fundamentals, as Rene said, it really, you know, from the partner side, the demand for Arm designs continues to stay just as durable and as strong, maybe even stronger than it was 90 days ago. So those are all the key drivers and pieces.

The one thing I would say about the comment you said about positive to the upside, you're right, except for this – in this next quarter, you're going to see it go to negative. Because we are now starting to comp some of those strong over-performance quarters that we had last year. So you are going to see negative 20-ish percent year on year because of what we were comping a year ago. You'll see it get back to, you know, kind of more flattish in Q3, slightly positive, and then you'll see strong growth again in Q4. Now, it'll all shake out to be somewhere in kind of the mid 20% year-on-year range, and that's why each quarter is going to look very, very different. But on average, it's going to be not that far from what the ACV growth of roughly 14% looks like.

And that's why I would, you know, I kind of like the ACV growth because of the fact that it's cutting through rev-rec and treating everything ratable. It's a better kind of indicator of what the longer term growth rate looks like. And so that's how I – that's how I think about it.

Andrew Gardiner: Thanks very much.

Operator: Thank you. We'll now take our final question for today, and your final question comes from Chris Caso from Wolfe Research. Please go ahead.

Chris Caso (Wolfe Research): Yes, thank you. The question is just some help on the slope of the Arm v9 ramp outside of handsets. And you talked about v9, I think penetration was 25% of the total business, obviously a lot higher within handsets. You know, how should we expect those higher v9 royalties to be layering in to the non-handset part of the business over time?

Jason Child: Yeah. Well, as you're forecasting the overall business, I would expect you've seen roughly 500 basis points of, you know, total royalty mix moving to v9. I would expect that same, you know, it's now been what? Three or four quarters in a row that we've seen

that, I would expect that to be the continued trajectory. Our forecast showed that it should be pretty close to that. It might move around a little bit, and when it does we'll let you know. That's how it works overall.

In terms of, you know, by category, you know, certainly mobile is well ahead for a variety of reasons, as Rene said, typically the timeframe to license to tape out is faster. They were some of the early adopters on v9, so they will be ahead of others. You should expect probably, it's really... I'd say probably the category behind them would probably be infrastructure as the next most, I guess furthest along. Behind them auto, and then really lastly, probably IoT.

But overall, you know, I – forecast by category, which we also do, I find isn't really that – doesn't give you a much better of an answer than using that roughly 500 basis points in total. Because that seems to be – that's closest to how our models have worked and we think they will continue to work going forward.

Chris Caso: Got it. Thank you.

Operator: Thank you. This concludes the question and answer session for today. I will now hand the call back to Rene Haas for closing remarks.

Rene Haas: Thank you. And again, thank you everyone for the great questions. In summary again, four quarters as a public company, four quarters of record revenue. I do, again, harken back to when we were doing our IPO roadshow and testing the waters, that Arm being such a quiet company for so many years, we had a lot of education we had to do regarding Arm being a growth company. I'm so pleased that a year later that not only have we shown four quarters of record growth, but I'm even more excited about the future. When it comes from either CSSs or the growth with AI or what seems to be an insatiable need for compute, the world's platforms are all going to be built on Arm and I could not be more excited about the future. Thank you everyone.

Operator: Thank you. This concludes today's conference call. Thank you for participating. You may now disconnect. Speakers please stand by.

[END OF TRANSCRIPT]