Arm Holdings Q2 FYE25 Investor Presentation

Wednesday, 6th November 2024

Operator: Good day, and thank you for standing by. Welcome to the Arm second quarter fiscal year 2025 webcast and conference call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. 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, Head of Investor Relations. Please go ahead.

Introduction

Jeff Kvaal

Vice President, Head of Investor Relations, Arm Holdings

Welcome

Thank you very much. Welcome to our earnings conference call for the second quarter of fiscal 2025 ending 30th September 2024. On the call today are Rene Haas, the Chief Executive Officer of Arm, and Jason Child, Arm's Chief Financial Officer.

Forward-looking statements

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 about 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 these risks that we may highlight during the call, important risk factors that may affect our future results and performance are described in our registration statement on Form 20-F with the SEC. Arm assumes no obligation to update any forward-looking statements.

Non-GAAP financial measures

We will refer to non-GAAP financial measures during the discussion. Reconciliations of certain of these non-GAAP financial measures to their most directly comparable GAAP financial measures, as well as a discussion of certain projected non-GAAP financial measures that we are not able to reconcile without unreasonable efforts and supplemental information, can be found in our shareholder letter.

The shareholder letter and other earnings related materials are now available on our website at investors.arm.com.

And with that, I'll turn the call over to Rene. Rene?

Overview

Rene Haas

CEO, Arm Holdings

Q2 FYE25: Highlights

Thank you, Jeff, and good afternoon, everyone. It's been now about one year since our IPO, and I am very proud to tell you that in that year, we have exceeded all of our expectations on execution of our growth strategies. The demand for AI everywhere is increasing the demand

for Arm's compute platform. To-date, now since our history, over 300 billion Arm chips have been shipped.

Royalty Growth from Rising Complexity, Volume Expansion

Now in the past quarter, we had a good set of results and exceeding the high end of the guidance. We had record royalty revenue, up 23% year-on-year as adoption of v9 increases. We had continued strong licensing revenue, showing that our customers are continuing to invest in the future of AI and AI-everywhere world.

The long-term growth drivers for our business remains consistent. Every modern digital chip being designed needs a CPU, and the vast majority of these chips are being designed with Arm because of the unequaled software ecosystem.

Now, more specifically on royalty revenue growth, really being driven now by more value per chip. In the quarter, version 9 now represents 25% of royalty revenue compared to 10% a year ago. More importantly, in the past quarter, our royalty revenue for smartphones grew 40%. This is versus 4% unit growth in the past quarter, a significant delta.

We had new announcements, one of them being Apple's new iPhone 16 and iPhone 16 Pro on Armv9, and MediaTek announced their newest chipset, the Dimensity 9400 using Arm's v9 CSS for client, our first CSS shipping in the mobile sector. We've now doubled the number of CSS licenses in this past year.

AI on Arm: Energy Efficiency from the Data Centre to the Edge

It goes without saying that AI is everywhere. Arm is the only compute platform that can run AI from the edge to the cloud. AI is driving demand for our performance and power-efficient compute platform everywhere.

Some significant milestones. NVIDIA's Grace Blackwell shipments have started, integrating the NVIDIA GPU Blackwell with Arm CPU in Grace. We've had new shipments now from Microsoft Azure Cobalt and Google GCP Axion, both Armv9-based data centre now in general availability. Significant milestone.

In the past quarter, Arm and Meta worked together on optimizing Llama 3.2 using Arm's libraries, enabling faster on-device AI processing. In the automotive market, we're seeing a very strong pipeline for CSS now for both ADAS and IVI applications. And in general, demand for Edge AI products for CPU acceleration of v9 is very strong.

Unparalleled Software Ecosystem

We have the largest software ecosystem ever invented. Hardware is nothing without the software, and we have over 20 million software developers, the largest in the world. We're working closely with important ecosystem partners like GitHub, who just recently announced the integration of Arm Tools in the GitHub Copilot, a significant milestone for developers.

The future is very bright. AI will be everywhere, and it will run on Arm.

And with that, I will hand over to Jason.

Financials

Jason Child

CFO, Arm Holdings

Q2 FYE25: Highest ever revenue for Q2

Thank you, Rene. Q2 has continued our strong start for fiscal year 2025. Total revenue was $844 million, which was above the top end of our guided range.

Armv9 adoption driving royalty growth

Royalty revenue was $514 million, which grew 23% year-over-year and matched our highest royalty revenue quarter-to-date. Our Q2 royalty revenue growth was driven by continued Armv9 adoption and the start of CSS deployments.

As with last quarter, royalty revenue from smartphone significantly outperformed smartphone shipments. Smartphone royalties increased approximately 40% year-over-year compared with mid single-digit increase in the number of smartphones sold, mainly due to smartphone application processors being increasingly Armv9 based with a higher royalty rate.

In addition, we continue to gain share in automotive applications and with cloud service providers. However, this growth is partially offset by continued weakness in industrial, given the ongoing inventory correction in that part of the semiconductor industry, as indicated last quarter and widely reported by many of our semiconductor customers.

Q2 FYE25: From Revenues to Profits

Licensing revenue declined 15% year-over-year to $330 million, which was better than our expectations, which was for a 25% decline. License revenue varies quarter-to-quarter due to the normal fluctuations in timing and the size of multiple high-value license agreements and contributions from backlog.

Because of this, we recommend that you look at annualised contract value, or ACV, to best understand the underlying license growth rate. ACV in Q2 was up 13% year-over-year, which is consistent with recent quarters.

Remaining performance obligations, or RPO, was up 10% sequentially as we had a very strong bookings quarter. Some of this RPO will be recognised as revenue later this year.

Near-term guidance

Turning now to guidance. I will briefly touch on both third quarter and fiscal year ending 31st March 2025. This guidance reflects our current view of our end markets and our licensing pipeline.

For Q3, we expect revenue between $920 million and $970 million, which at the midpoint, represents revenue growth of 15% year-over-year. Investment in our next generation of technologies are on track, and we expect our non-GAAP operating expense to be around $525 million. We expect our non-GAAP EPS to be between $0.32 and $0.36.

Looking out to fiscal year 2025, we are reiterating our guidance for revenue, cost and profit. We expect revenue to be between $3.8 billion and $4.1 billion, which represents an 18% to 27% year-over-year increase. At the midpoint of our revenue guidance, this includes full-year royalty revenue growth in high teens. We expect that our revenue growth from smartphones

will continue to be driven by Armv9-based chips becoming a greater proportion of the mix, with CSS ramping over the next couple of quarters.

We also expect to continue to gain share in cloud and automotive. Feedback from our customers leads us to expect sequential growth in networking in both Q3 and Q4, while IoT is not expected to recover until next year.

Strong demand for our latest technologies will continue to drive license revenue for the rest of the year. We have kept the range for full-year revenue guidance the same as last quarter at plus or minus $150 million as we have some large licensing deals in play.

Although the timing of these deals and the shape of the revenue recognition is not yet clear, we do expect all these deals to close. We do expect non-GAAP operating expenses to be approximately $2.05 billion, which represents a 19% year-over-year increase and is unchanged from our prior guidance.

As we continue to invest in R&D to support future growth initiatives, we expect operating expenses to ramp consistently through the year. We expect our full year non-GAAP EPS guidance of between $1.45 and $1.65.

With that, I'll turn the call back to the operator for the Q&A portion of the call.

Q&A

Operator: Thank you. To ask a question, you will need to press star one and one on your telephone and wait for your name to be announced. In the interest of time, please limit yourself to one question only and rejoin the queue for any follow-ups. To withdraw your question, please press star one and one again. We will now go to our first question. One moment please. And your first question comes from the line of Andrew Gardiner from Citi. Please go ahead.

Andrew Gardiner (Citi): Thanks very much. Good afternoon, good evening. Rene, Jason, I was hoping you could shed a little light on a topic that you didn't touch on in your prepared remarks. There have been myriad press reports regarding your working relationship and litigation with Qualcomm. I believe the case is still due in court next month, and you have reportedly canceled Qualcomm's architectural license recently both, I think, as they plan to ship a greater volume of product based on the Nuvia designs and also ahead of the court case. Can you comment on the veracity of these reports?

And I suppose, specifically on numbers, are there any issue with your revenue recognition and operating expenses into the coming periods related to these actions? Do you have to reduce rev rec, will OPEX rise on increased legal costs? If you – I know it's tricky to talk about legal things, but if you can shed any light on that, I'm sure it would be helpful.

Rene Haas: Sure. Yeah, happy to. So look, I'll address what I can. As it is an ongoing litigation, there isn't a great deal I can say on it. But at a base level, contractual consent was required by Qualcomm to sign a Nuvia license, and that consent was not obtained. As a result of not obtaining that consent, they are in breach. And what we did was sent a notification letter regarding cancellation of the architectural license. And to be clear to your question, we have not canceled the license, but we have sent a notification to them.

Now, getting consent for an assignment is fundamental for our license agreements. And as a result, we need to ensure fairness and protect the Arm ecosystem who rely on these license agreements.

On the financials, I'll let Jason maybe chat on the OPEX, but regarding the revenue, our forecast and guidance has always taken into consideration that we may not prevail in this case, so we have essentially taken that forward look.

So Jason, I don't know if there's any comment you want to make on the expense side?

Jason Child: No, there isn't any change in, I think, some of the changes you pointed out, rev rec, expenses like that. No, there's no changes. Because at this point, as Rene said, and as I think we said actually back at IPO and consistent since then, is our forecast assumes that we're going to get paid existing ALA royalty rates. So until something changes, there won't be any increase or change in those rates.

Andrew Gardiner: Thank you, both.

Operator: Thank you. We will now take the next question. And your next question comes from the line of Harlan Sur from JP Morgan. Please go ahead.

Harlan Sur (JP Morgan): Good afternoon. Thanks for taking my question. So now that we're midway through your fiscal year, the upside in your business through the first half has been coming from licensing, right? This is, in my view, the best forward indicator of your pipeline, your growth prospects, and it looks like licensing for the full year will come in better versus your view even 90 days ago. So this quarter, backlog was up 10% sequentially, book-to-bill 1.7, so very strong. I assume you're driving more value uplift per renewal. It looks like you've seen some add-on licensing activity.

As you mentioned, Rene, CSS engagements are strong. Bookings were originally expected to be lower this year versus last year. But just given the strong design activity by your customers, requirements for more compute capability per programme, visibility on renewals for the remainder of the year, can the team grow its backlog for this fiscal year?

Rene Haas: Yeah. I would say, Harlan, a couple of things that we're observing in the marketplace. We've talked about the demand for Arm technology being quite strong given the ecosystem and the overall increased demand for Arm technology.

I think when we look at what's going on with AI – and when you think about AI, it's not just training in the data centre, but it's inference in the data center, it's inference across different parts of the overall value chain, the network, the automobile, the PC, the mobile phone, the wearable, which can be, kind of, what people would call the edge. We're seeing an increased demand for compute resources to run these agents and run these small language models or large language models on top of compute requirements that they already have.

So what that's driving is, I think, an increase for us, that we're seeing across the board, for R&D and innovation to capture this platform opportunity. So we're seeing pretty broad licensing demand across, candidly, all the markets and all the sectors. And you're right, it's stronger than we had, I think, originally communicated and anticipated. It's a very good forward indicator for the strength of the business and also for the strength of the royalties going forward.

In addition, as mentioned, we have doubled the number of CSS licenses now over the year. That's also been, I think, stronger than we anticipated. We did, as I mentioned in the opening remarks, announced MediaTek's first chip design using CSS. So I think it's a combination of increased compute demand, AI, and also the CSS.

I don't know, Jason, if there's anything you want to add on to that?

Jason Child: Yeah. In terms of the – I think you asked, Harlan, if there's a way to increase our backlog. I would say, certainly based on the strength that we've seen, yes. In fact, if you look at the license revenue, kind of, implied guidance, I think we're up about 40% – 45% higher this year than what was our plan back at IPO. So we have seen strength.

Now, our forecast now is we – I don't think there probably will be increased – significant increase to backlog. But again, hard to say. The large deals that we have coming later this year, there's some impact there. But then, of course, that's going to be offset by some – kind of, the amortisation or recognition of milestones that will be delivered in the next quarter or so.

So overall, I wouldn't count on that being the driver. I think the real focus is really the royalty growth and the 23% year-on-year growth that we saw in the quarter, which we're particularly excited about.

Harlan Sur: I appreciate the insights. Thank you.

Operator: Thank you. Your next question comes from the line of Ross Seymore from Deutsche Bank. Please go ahead.

Ross Seymore (Deutsche Bank): Hi, guys. Thanks for taking the question. I'm going to stick on the licensing side of things. Rene and Jason, you guys talked about, I think, signing six new ATAs and then I think more than doubled the CSS side of things. Is there a TAM that is larger now? I think originally you talked about ATAs having somewhere around 50 potential licensees. It seems like that number must be growing if you're upwards of 40 already. So how do we think about the potential future growth there? And if that has to slow eventually before it hands over to being such a good precursor for the royalty side of things in the future?

Rene Haas: Well, I think the way to maybe think about it is one of the opportunities we have with ATAs is to expand the portfolio and size, if you will. ATA's grant access to Arm technology, in a broad sense, in other words, a broad portfolio of IP and also a broad set of rights in terms of how many chips to build and tape out in a year.

We can scale that to different variations, i.e. smaller set of IP and/or reduce number of tape-outs, but still give additional value to end customers because they get a larger suite than they might on a single instance.

In theory, I think the majority of our customer base can move to some version of ATA. And the reason for that is customers love the concept because it addresses a number of things. They know they're going to use the Arm technology. Number two, having their engineers have access to the broad set of IP allows them to do a lot of experimentation and evaluation in a very easy way. And thirdly, they can now essentially fix their costs on an R&D go-forward cycle since they know they're going to be purchasing the IP anyway.

So what that ends up meaning for Arm is it's pretty much broader upside because less churn on deals because they candidly are more repeatable. And also, by having a broader set of IP available, what we find is engineers end up using more.

So to your question, I think the vast majority of our customer base can ultimately go to some version of ATA. And given the broad set of IP that's used in ATA, I think that's going to drive higher royalties in the future.

Jason Child: Yeah. Maybe just a couple of things to add. I think in the past, we had said that we thought probably about 80% of our – think[?] of our license revenue and license fees as probably ATA working well for them. I think we said in this last quarter, we're now, kind of, in the over-50% range. The one thing I think we've said in the past, but just to make sure it's clear, is with ATA, the annual costs or price increase is roughly 7% per year.

And then those contracts, on average, are somewhere around three-ish years. And so, even once everyone is an ATA, you're still going to have renewals, you're still going to have annual increases. And then, of course, as we deploy and release new technologies and expand the product offering, then of course you can also upsize as well.

So I don't – I think we're quite a ways from reaching the TAM, and there's multiple, kind of, points of growth to expand that TAM.

Ross Seymore: Thank you.

Operator: Thank you. Your next 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. A few questions on the royalty business. I think you have changed this year's contribution to, I think, high teens growth from low 20s and then mid 20s. And I imagine that's all the cycle, but if there's any other colour, I would appreciate that.

But the other, kind of, related question is v9 contribution to royalties, kind of, stalled at 25%. I thought the plan was to continue to expand that every quarter by 5 points. And since smartphone is, kind of, the biggest contributor of that, and your smartphone business is growing very nicely, like over two times the pace, I would have thought the conversion would go on. So I was just hoping you could give more colour on why did v9 conversion, kind of, stall in this quarter.

And then the overall royalty growth, what is the need to take it down?

Rene Haas: Yeah. So let me take the first part of that question, Vivek. I'll address both the v9 transition, and then I want to make an important point regarding how to think about pricing inside the v9 envelope, and then let Jason talk about the specifics.

But first off, the adoption of v9 is going very, very well. We're seeing very, very strong uptick of it in mobile. All of our NeoVerse products are v9, and we're now starting to see the transition of it in automotive and IoT. And I mentioned in the opening comments that we've now seen the first shipments from Apple that are v9. So we're very, very happy with the rate of adoption.

And I think if you looked at the royalty – the adoption rates on a quarter-to-quarter basis, it may not look linear, but it will definitely be increasing quarter over quarter over quarter when we start looking at it on a multi-quarter basis.

That being said, I think there's a very important distinction that I want to make regarding how to think about royalties during the time that the v9 architecture is ramping. In contrast to version7 and version8 which, by the way, by way of reference, those architectures tend to have a life of approximately 10 years in terms of their peak run rate.

During version 7 and version 8, once the royalty rates were fixed for that version, there was very little delta throughout the period, meaning that as those versions reached maturity in terms of saturation, the royalty growth would asymptote. That's not going to be the case with v9, and there's two primary reasons for that.

Reason one is that generation on generation, we introduced multiyear improvements in the technology and multiyear improvements in terms of the product. Meaning that when we deliver a product, let's say, for a phone that goes into production in 2025, and then we deliver the v9 version for a phone that goes into production in 2026, because the product is better, 15% better, let's say, on performance and power, we're able to drive better value-based pricing for that solution.

So during v9, even though the royalty rates are increasing from version 8 to version 9, we're going to see continued increases throughout the life of version 9 even as version 9 adoption increases.

Secondly, in version 9, we've also introduced CSS, which we've mentioned several times, it carries a higher royalty rate, in some cases, double, if not more, of what a standard version 9 core would be. So, as a result, as we see growth in version 9 adoption, we're going to see the royalty growth track higher than it has traditionally. And again, it's for those two factors. Number one, the value-based pricing that sees an increase because of the better economics delivered, and secondly, more of a transition to CSS.

With that, I'll let – Jason, if you have any comments. I think maybe we answered the extent of that question. Okay. Thank you.

Operator: Thank you. As a reminder, in the interest of time, please limit yourself to one question only and rejoin the queue for any follow-up questions. Your next question comes from the line of Srini Pajjuri from Raymond James. Please go ahead.

Srini Pajjuri (Raymond James): Thank you. My question is on the networking and data centre business. Rene, I think that accounted for about 10% of your mix in the last 12 months. Obviously, a lot of momentum on the data centre front, and then you have CSS products potentially ramping at some point in the next 12 months. So I'm just trying to understand how important of a driver that could be for the next 12 months, both from, I guess, a royalty standpoint and also from a licensing standpoint? Thank you.

Rene Haas: Yeah. So, I mean, let me talk about the macro, and I'll let Jason address the numbers piece. I think the adoption of NeoVerse in the network and data centre is going to mean very, very strong trajectory for Arm, not just in the 12 months, but over the next number of years.

Two components to that. We have – for general-purpose compute, we now obviously have had Graviton in production for many years. And with Microsoft Azure on Cobalt and Google GCP with Axion, general-purpose compute, they are now general availability, which means now instances can be purchased by end users. And based upon the type of deployment we've seen

with Graviton, we're very excited about the opportunity there, both with Azure and GCP on these chips.

So for general-purpose compute, we're expecting to see very, very good results, driven primarily by the fact that the power and efficiency is anywhere between 50% to 60% better than compared to x86.

In addition, we are seeing, as I mentioned in the opening, demand for NVIDIA's advanced training and inference chip, Grace Blackwell, which uses the Arm CPU Grace as part of that overall solution. One of the benefits of that solution being introduced in the data centre is that many of the base OS and workloads that are required for a general-purpose cluster are also used on this AI cluster, meaning there is a lot of leverage between using Arm in the data centre for general-purpose compute and using it for an AI training or inference center. There's a lot of software reuse.

So as a result, we believe that from an overall TCO standpoint, that will accelerate adoption of Arm to data centre, which we're very excited about. So I'll let Jason talk about the numbers and the mix.

Jason Child: Yeah, in terms of the data infrastructure and data centre market, we do expect networking to continue to be slow. But the data centre side, and specifically the cloud compute market, for all the reasons that Rene just mentioned, it has been strong. We do expect it to accelerate throughout the back half of the year as the deployments of both Cobalt and Axion continue to ramp, as well as some of the other custom silicon chips from other makers that are also continuing to ramp. So we do expect that to accelerate.

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 here. I just wanted to go back to licensing again, and really just trying to understand what contributed in particular to that better-than-expected licensing here. And maybe how does this relate to the RPO number? It looks as though it's down a couple of percentage points year-on-year. So how do we think about the growth going through the rest of this year? Do we still think we can track to a $1.7 billion number? And have we perhaps pulled forward some of the licensing deals into this quarter? Thanks.

Rene Haas: Thanks, Lee. So first, I would say, no, we don't foresee any, sort of, pull forwards. In terms of the upside, I think it was about $35 million higher than the guide, which I think we have guided to a 25% decrease. We actually had a 15% decrease. And again, a decrease is mostly because of a tough comp with a couple of really large deals that were lapped[?] a year ago.

In terms of the reduction year-on-year in RPO, well, we happen to have the all-time record a year ago, and we actually have the second highest quarter was this quarter, because it actually stepped up sequentially 10%. So it's actually a pretty nice increase.

And as you know, earlier this year, we had a fairly large amount of RPO that effectively amortised into revenue from a large deal signed last year. So overall, I think the RPO trend has been very, very healthy. But yes, I wouldn't expect that – I think the range that you indicated for end of the year is still probably a reasonable range.

And so, I think other than what we've included in the guidance on the deals that we expect to close in Q4, at this point, we don't have line of sight to any significant deals beyond those. Obviously, if something changes, we'll let you guys know.

Lee Simpson: Very clear. Thanks so much.

Rene Haas: Thanks, Lee.

Operator: Thank you. Your next question comes from the line of Janco Venter from Arete Research. Please go ahead.

Janco Venter (Arete Research): Thanks, guys, for giving me the question. I just want to get back to CSS – the announcement of MediaTek in smartphones. How do you see the adoption of CSS in smartphones trending through this year into next year? Could we see 50% of the market in the next few years?

Rene Haas: Yeah. Thank you for the question. I think so, because when we think about what the value proposition of CSS, it's really about reducing time to market and increasing overall confidence in the design and performance.

One of the hallmarks of the mobile phone market, as I'm sure you know, is the fact that the product cycle is rather relentless. They're on an annual cadence. It's not very forgiving in terms of when units need to be available, whether that's aligning with MWC or Single's Day in China.

So with a very relentless product cycle, combined with, these new smartphone chips are becoming more and more complex, these application processors. And then they're also being built in the most advanced geometries at the fabs, which have longer manufacturing cycle times. Anything you can do to improve the time it takes to design a chip is welcomed.

So when we introduced CSS, we had a bit of skepticism, whether it would be applicable for the mobile phone market, but what we've actually seen is very, very good adoption. So in summary, yes, can we get to 50% of the market? I believe so, because there's real value being delivered on a product that can move months off the development time in what typically is a very, very severe and relentless product cycle.

Janco Venter: Thank you.

Rene Haas: Thanks, Janco.

Operator: Thank you. Your next question comes from the line of Krish Sankar from TD Cowen. Please go ahead.

Krish Sankar (TD Cowen): Yeah. Hi. Thanks for taking my question. I had a quick question on China. It seems like the smartphone mix is shifting towards the [inaudible] in the Android market. Are you seeing any meaningful impact to your China royalties? And also, what is the penetration of v9 in China today? Thank you.

Rene Haas: Yeah. Thank you for the question. We are – we've definitely seen strength in the overall handset numbers in China due to the reasons that you had just mentioned. I think the local brands there, Xiaomi, Oppo, Vivo are all seeing very, very good growth. Our team just participated in an Oppo product launch last month.

So number one, growth has been strong there. I think there is an allegiance toward the local brands. And in the premium flagship market, as we get into the next year or so, that's all version 9, and that's also going to find its way into the midrange.

So China Android, yes, strong. And also, the vast majority of the products now are going to be moving to version 9. The high end already is all there.

Krish Sankar: Thank you.

Operator: Thank you. Your next question comes from the line of John DiFucci from Guggenheim Securities. Please go ahead.

John Difucci (Guggenheim Securities): Thank you for taking my question. Rene, thanks for that explanation you gave on the v9 mix and the related variables that are going to affect royalties going forward. That was really helpful to think about some of that. But shouldn't we expect to continue to see that v9 mix grow? And if not, what would cause it not to grow? Is it just, I don't know, a temporary macro issue? Or is this – AI, you guys are obviously benefiting. There are NVIDIA, there's some others out there, the cloud vendors, but we really haven't seen it, like, in a lot of other places. And I'm just curious, could there be, at least, people just stepping back and let's just catch up in our minds, like, to see how this is going? Or I don't know, my – just trying to figure out how to model this going forward. Like, what's, sort of, implied in guidance?

Rene Haas: Thank you for the question. No, it's actually going to be quite predictable. As we said, it was 10% a year ago, 25% now. I can guarantee you, it will not be 25% a year from now. It will be considerably higher than that. So if you step in and say, okay, well, what is really driving that? I think you're going to see more version 9 in PCs as more Windows and Arm products are introduced in the market, as more vendors introduce chips. That's a given, number one.

Number two, what you will see in the mobile phone space is a very classic waterfall of what existed in the flagship will find its way in the midrange, and what was in the midrange will find its way in the low end. That's a very natural evolution of products. It happens every single time. It's going to happen this time.

So a year from now, I would expect now that the majority of the mobile phones will be version 9. Everything we do in the data centre – everything we do in the data centre – is version 9. So what will really be the slowest of the products to come to market will be the automotive sector, and that's really driven by just the time lag it takes for those products to be introduced, particularly around IVI and ADAS. But we know the pipeline. We've got CSS activity in particular there.

So when we have this call a year from now, hopefully, [inaudible], and then we'll look at the numbers. But I'll guarantee you, we'll be way ahead of 25% for the reasons I gave.

John Difucci: That's really helpful.

Jason Child: John, just to add on modeling complexity of v9 penetration. So if you look specifically at the most recent quarter, where it was flat quarter-on-quarter, the primary reason why was because the mid-market had higher growth in the quarter in smartphones, the midmarket doesn't have v9 yet, it hasn't waterfalled yet to be v9. And so, as a result, it looked

like v9 stalled. It really has more to do with the, kind of, where the growth in the market turned out to be in this most recent quarter.

So over time, that stuff all shakes out, as Rene said, but you will have some maybe trends like we saw in this most – in this last quarter to this quarter that are somewhat unique, but I don't think are going to sustain.

Rene Haas: We tend to have Arm's products anywhere between a three- to five-year visibility on when they how up. And that's because the licenses have been done years ago. And we have very good line of sight with the chip vendors in terms of when they're going to introduce the products, and we have very good line of sight with the OEMs when they plan to take it.

So don't read too much in terms of this quarter-to-quarter thing. We have extremely good visibility in terms of where they're going to land, and the trend is only going forward.

John Difucci: Thank you very much, guys. That's very clear.

Operator: Thank you. We will now take our final question for today. And your final question comes from the line of Toshiya Hari from Goldman Sachs. Please go ahead.

Toshiya Hari (Goldman Sachs): Hi, guys. Thank you so much for squeezing me in. Rene, I was hoping to get your thoughts, your forward outlook on the PC and smartphone markets. AI PC so far have been relatively underwhelming relative to expectations at the beginning of the year or maybe at Computex. AI really hasn't catalysed a replacement cycle in smartphones either. I know you guys are not so dependent on units because you've got things like v9 and CSS growing your royalty rate. But given your visibility that you just spoke to in terms of what your customers are working on, when do you expect volumes across PCs and smartphones to grow? Is it a 2025 dynamic? Is it more of a 2026 dynamic? And I think at one of the conferences, you spoke to a 50% market share goal in PCs over the long run. Is that still the aspirational goal for you guys? Thank you.

Rene Haas: Yeah. Sure. Answering your last question first, absolutely, and I stand by that prediction. When we think about the Windows ecosystem, it's really all about filling out a broad lineup of SKUs. If you go into a retailer today, you'll see that there's thin and light machines, low-end machines, mid-price machines, gaming laptops, etc., etc.

I think what you're – what we're going to need to see, and we will see it because we have great line of sight in terms of people working on multiple chips in multiple areas, is a filling out of SKUs. So I think when you start to see thin and light devices at an entry price point based on Arm with a different chipset, you'll see growth. When you see a gaming laptop that has Arm inside, which by the way, will be compelling if and when that comes out, I think you'll see growth. So we're pretty confident in terms of the next couple of years in terms of growth in the PC market.

Now, whether that's related to 'AI demand', I think what's important is that these PCs are equipped with the horsepower required to run the AI applications. I think it's early days in terms of the definition of an AI PC relative to the value prop. But I wouldn't get so hung up on that. What we typically see with these types of cycles is that you've got more technology in there than you need to take advantage of the applications, and then it flips the other way around. So this is being largely future-proofed.

But broadly speaking, yes, we're pretty bullish about the demand, and I definitely stick to my prediction on growth of Windows on Arm.

Toshiya Hari: Great. Thank you so much.

Operator: Thank you. I will now hand the call back to Rene Haas, CEO, for closing remarks.

Rene Haas: Thank you. And thank you, everyone, for the questions and the interest in what we're doing. Again, to summarise, now our fifth conference call since we've been a public company, and we've been consistently beating the expectations of what we have told you that we were going to do the prior quarter.

I think more broadly though, what you're seeing with Arm and our strategies, as I said in the opening, really coming to life. We've talked many, many times about the resiliency of our business, the growth of v9, the increased royalty rates. And when you see a royalty growth in a market where units, for example, in smartphones are up 4%, and we're up 40%, that's a great proof point that the strategy we've put in place are working.

The future is incredibly bright. For all the questions that came up regarding automotive, the data centre, AI, smartphones, PCs, we're very fortunate to be able to talk about exciting opportunities in all those verticals, all of them that are using Arm, and all of them are going to grow in the future.

So thank you very much, and I appreciate all the questions and comments.

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

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