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Arm Holdings Plc (ARM)

Q2 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and thank you for standing by. Welcome to the Arm Second Quarter Fiscal Year 2026 Webcast and Conference Call.

At this time, all participants are in a listen-only mode. After the speakers' presentation, there'll be a question-and-answer session. [Operator Instructions] 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, VP, Investor Relations. Please go ahead.

Jeffrey Thomas Kvaal

Vice President-Investor Relations, Arm Holdings Plc

Thank you, Sharon, and welcome everyone to our earnings conference call for the second quarter of fiscal 2026. On the call are Rene Haas, Arm's Chief Executive Officer; 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 about future results and performance, our actual results are subjected to many risks and uncertainties that could cause results to differ materially. In addition to any risks that we highlight during this call, important risk factors that may affect our future

results and performance are described in our registration statement on Form 20-F filed with the SEC. Arm assumes no obligation to update any forward-looking statements.

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 can be found in our shareholder letter, as can a discussion of projected non-GAAP financial measures that we are not able to reconcile without unreasonable efforts and supplemental financial information. Our earnings related materials are on our website at investors.arm.com.

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

Rene Anthony Andrada Haas

Chief Executive Officer & Director, Arm Holdings Plc

Thank you, Jeff, and welcome, everyone.

We continued fiscal year 2026 with strong momentum fueled by accelerating demand for AI compute from milliwatts in the smallest of edge devices to megawatts in the world's largest hyperscale data centers. Artificial intelligence is reshaping every layer of technology, and Arm is the only compute platform delivering AI everywhere.

Q2 was our best second quarter ever with revenue of $1.14 billion, up 34% year-on-year, marking our third consecutive billion-dollar quarter. Royalty revenue reached a record $620 million, up 21% year-on-year, driven by growth in all major markets, including data center, smartphones, automotive and IoT. Unprecedented compute demand has led to our data center Neoverse royalties to more than double year-on-year. Licensing revenue rose 56% to $515 million as companies continue choosing Arm to build their next-generation AI products. Our strong results lifted non-GAAP EPS above the high end of guidance.

During the quarter, we announced a strategic partnership with Meta to scale AI efficiency across every layer of compute from AI-enabled wearables to AI data centers on a consistent compute platform. This partnership combines Arm's leadership in energy-efficient compute with Meta's innovation in AI infrastructure and open technologies to deliver richer, more efficient AI experiences to billions of people worldwide.

In the data center, access to power has now become the bottleneck, and this has accelerated adoption of Arm's Neoverse compute platform, which has now surpassed 1 billion CPUs deployed. Our compute forms the foundation of custom silicon from leading partners including NVIDIA Grace, AWS Graviton, Google Axion and Microsoft Cobalt. For example, Google's Arm-based Axion chip delivers up to 65% better price performance while using 60% less energy, and as a result, Google is migrating the majority of their internal workloads to run on Arm.

Customers are increasingly deploying Arm Neoverse CPUs alongside their AI accelerators to orchestrate massive clusters, highlighting the versatility and scalability of our platform. The addition of five new Stargate sites this quarter further expands visibility into future AI capacity and reinforces Arm's central role in the hyperscale build-out.

As AI chip design becomes more complex, our compute subsystems or CSS are helping customers accelerate their development cycles and reduce execution risk. Demand for CSS continues to exceed expectations. During the quarter, we signed three new CSS licenses, one each in smartphone, tablets and data centers, bringing our total to 19 CSS licenses across 11 companies.

We also expanded our collaboration with Samsung, which is leveraging CSS for its Exynos family of chipsets driving up to 40% AI performance over previous non-CSS generation. As a result, the top four Android phone vendors are now shipping CSS-powered devices. CSS has quickly become the starting point for customers building next-generation silicon offering faster time to market and delivering higher royalty rates for Arm.

In the quarter, we also launched Lumex CSS, our most advanced mobile compute platform to date. Lumex enables rich on-device AI experiences such as real-time translation, image enhancement and personal assistants. Flagship devices from partners like OPPO and vivo are expected to ramp later this year, bringing console-quality performance and new AI capabilities directly to mobile devices. At the edge, AI is transforming how people interact with the devices in their hands, homes and vehicles.

Google launched the Pixel 10 smartphone featuring the new Arm-based Tensor G5 chip, which runs Gemini models up to 2.6 times faster and twice as efficiently as prior generations. NVIDIA began shipping its Arm-based DGX Spark system for AI developers, a compact desktop supercomputer for local model training, fine tuning and inference.

In automotive, a flagship electric vehicle built on Arm's platform introduced advanced park assist, voice control and safety features featuring Arm's Automotive Enhanced technologies. Tesla's next-generation Arm-based AI5 chip delivers up to 40 times faster AI performance, enabling the next wave of intelligent vehicles and autonomous machines.

Our leadership in AI is amplified by our unmatched software developer ecosystem, now more than 22 million strong, representing over 80% of the world's developer base. This ecosystem is a powerful growth engine for Arm. Every new Arm-based device brings more developers, which drives more software innovation, which in turn fuels greater demand for our compute platform across every market we serve.

As mentioned in our last call, we are continuing to explore the possibility of moving beyond our current platform into additional compute subsystems, chiplets or complex SOCs. As a result, we continue accelerating investment in our R&D as we're seeing increased demand from our customers [ph] far more from Arm (00:07:08). AI is shaping how the world computes and Arm, as a foundation, making it possible. From milliwatts to megawatts, we deliver the performance, efficiency and scalability to meet this moment and the years ahead.

And with that, I'll hand it over to Jason.

Jason E. Child

Executive Vice President & Chief Financial Officer, Arm Holdings Plc

Thank you, Rene.

We have delivered another strong quarter. Total revenue grew 34% year-on-year to $1.14 billion, a record for Q2. It exceeded the midpoint of our guidance range by $75 million and marked our third consecutive quarter above $1 billion.

Royalty revenue exceeded our expectations, growing 21% year-on-year to a record of $620 million versus our guidance of mid-teens. The biggest growth contributors were smartphones with higher royalty rates per chip, and in data center where we continued to see share gains from custom hyperscaler chips. Royalty revenue from smartphones grew in order of magnitude faster than the market, as multiple OEMs ramp smartphones based on Armv9 and CSS chips. Data center royalties doubled year-on-year, given the continued deployment of Arm-based chips by hyperscaler companies. Automotive and IoT, both continued to grow year-on-year and contributed to our

strong royalty performance. Overall royalty growth rates continue to reflect Arm's increasing royalty rates and rising market share.

Turning now to license. License and other revenue was $515 million, up 56% year-on-year. Growth was driven by strong demand for next-generation architectures and deeper strategic engagements with key customers. We've further expanded our license and services agreement with SoftBank. We also signed four ATA and three CSS deals. These agreements reflect the continued investment by our customers in next-generation Arm technology.

As always, licensing revenue varies quarter to quarter due to the timing and size of high-value deals. So, we continue to focus on annualized contract value or ACV as a key indicator of the underlying licensing trend. ACV grew 28% year-on-year, maintaining strong momentum following the 28% year-on-year growth we reported in Q1. This is well above our usual run rate of low-teens growth and is also above our long-term expectation of mid-to-high single-digit growth for license revenue.

Turning to operating expenses and profits. Non-GAAP operating expenses were $648 million, up 31% year-on-year on strong R&D investment and slightly-below guidance. These investments in R&D reflect ongoing engineering head count expansion to support customer demand for more Arm technology, including continued innovation in next-generation architectures, compute subsystems and, possibly, chiplets or complete SOCs.

For example, over the past four years, we've invested heavily in developing the technology that makes up the Lumex compute subsystems for smartphones, which we announced in September. This project took around 1,000 man years with a team size peaking over 450 engineers and required around hundreds of millions of dollars in investment. Lumex CSS has attracted strong market interest and we're already seeing royalty revenue from an early licensee.

Non-GAAP operating income was $467 million, up 43% year-on-year. This resulted in a non-GAAP operating margin of 41.1% and an improvement from 38.6% a year ago. Non-GAAP EPS was $0.39, $0.06 above the midpoint of our guidance range driven by both higher revenue and slightly lower OpEx.

Turning now to guidance. Our guidance reflects our current view of our end markets and our licensing pipeline. For Q3, we expect revenue of $1.225 billion plus or minus $50 million. At the midpoint, this represents revenue growth of about 25% year-on-year. We expect royalties to be up just over 20% year-on-year and licensing to be up 25% to 30% year-on-year. We expect our non-GAAP operating expense to be approximately $720 million and our non-GAAP EPS to be $0.41 plus or minus $0.04. A higher revenue allows us to both accelerate R&D investment and pass through upside to EPS.

We are seeing strong demand from our customers for Arm technology, which gives us confidence in our long-term growth trajectory and our strategy to enable AI everywhere in the cloud, at the edge and in physical devices. And we will continue investing aggressively in R&D to capture these opportunities and ensure that AI runs on Arm.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] We will now go to the first question, and your first question today comes from the line of Sebastien Naji from William Blair. Please go ahead.

Sebastien Naji
Analyst, William Blair & Co. LLC

Q

Yeah. Good afternoon and congrats on the nice results. Rene, I wanted to ask about the AI opportunity. There's been a seemingly non-stop stream of new data center deals announced over the last quarter calling for [ph] tens of (00:12:52) gigawatts of additional computing capacity to be stood up. How do you feel about Arm's strategic positioning with respect to these AI deals? And what do you view as the opportunity across the build-out?

Rene Anthony Andrada Haas
Chief Executive Officer & Director, Arm Holdings Plc

A

Thank you for the question, Sebastien. As a board member of SoftBank and also given our heavy involvement there with Stargate and regular dialogue with OpenAI, I believe I have a unique perspective in terms of visibility in terms of this market. One thing that's become quite evident is that power has become the bottleneck for everyone. And power not only means access to energy, but everything underneath it in terms of infrastructure build-out, turbines, transformers, everything associated with generating power. So, in that environment, everyone wants to move to the most efficient compute platform as possible.

Arm is about 50% more efficient than competitive solutions. We've seen that across the board in benchmarks, but also more importantly in real-life performance. And that's why we see NVIDIA, Amazon, Google, Microsoft, Tesla, all using Arm-based technology. We've seen unprecedented demand for compute and all the incremental compute that we've seen announced literally has all been based on Arm. So, that's driving huge growth opportunity for us. And it's one of the indicators as to why we've seen such growth in our Neoverse business, more than doubling year-over-year.

Sebastien Naji
Analyst, William Blair & Co. LLC

Q

Great. Thank you.

Operator: Thank you. Your next question comes from the line of Joe Quatrochi from Wells Fargo. Please go ahead.

Joe Quatrochi
Analyst, Wells Fargo Securities LLC

Q

Yeah. Thanks for taking the question. I noticed in the filing, you announced your intention to acquire DreamBig Semiconductor. Curious, just kind of what's behind that and how does that kind of fold into your plans to potentially expand beyond your current kind of operating platform?

Rene Anthony Andrada Haas
Chief Executive Officer & Director, Arm Holdings Plc

A

Yeah. Thank you for the question. So, DreamBig is a great company. They've got a lot of interesting intellectual property, particularly around the Ethernet area and RDMA controllers, which are very, very key for scale-up and scale-out networking. So, when we look at the demand for what's going on inside a data center and particularly in the area of high-speed communications, that type of technology will be very helpful for us to broaden our offering to end customers. So, we're very excited about the company, and DreamBig has got some fantastic engineers.

Operator: Thank you. Your next question comes from the line of Jim Schneider from Goldman Sachs. Please go ahead.

James Edward Schneider
Analyst, Goldman Sachs & Co. LLC

Q

Good afternoon. Thanks for taking my question. I noticed in your disclosures that you saw a material step-up in related-party revenue. So, I was wondering if you could maybe talk a little bit about – and there's also been many announcements related to Stargate and SoftBank since the last earnings call. So, can you maybe give us any kind of color you can on the nature of that relationship and how things are changing in terms of design activities? Thank you.

Rene Anthony Andrada Haas
Chief Executive Officer & Director, Arm Holdings Plc

A

So, one of the ways to think about Stargate, and particularly given the relationship between Arm and SoftBank, is a huge opportunity for Arm to partner with SoftBank and SoftBank partners to provide technology into all those solutions. So, without getting into too many of the specifics, but at a high level, if you think about what's associated with building out these data centers, you have the compute, obviously, you have the networking, you have everything associated with power distribution, you have potential technology that gets into the power mechanism of the data center and then everything associated with even potential assembly of the data center.

So, as a result of all the work that SoftBank and the SoftBank family of companies are doing, it provides huge opportunity for Arm to provide solutions into that space. So, that at a high level is the way to think about how the SoftBank family works together on these designs.

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

Ross Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

Hi, guys. Thanks for letting me ask you a question. Wanted to go back to the OpEx side of things. I know it's a little bit below your guide in the second quarter, but the third quarter looks like it's going to step up again. Kind of a bigger picture one, you mentioned about exploring different sorts of go-to-market methodologies, chiplets, et cetera. When do you expect to give us more color on when that's going to go from exploration to return on investment or the actual strategy? How should we monitor that and expect to get more information from you?

Rene Anthony Andrada Haas
Chief Executive Officer & Director, Arm Holdings Plc

A

Yeah. Thank you for asking. The best detail I can give you is that there's nothing I can talk to you about today in terms of timeline about products or technologies. When the time comes for us to announce it, you'll be the first to know in terms of what we're doing.

Right now, the best commentary I can give is that everything associated with those solutions does require significant level of R&D. Now, as you've seen on the guidance going forward, our revenue go forward is higher than our OpEx increase which is something we've been very careful to manage. So, we feel comfortable about that.

At the same time, what we're looking at in terms of the opportunity for compute and more importantly compute using Arm has never been greater. So, as a result, we want to make sure we're in the best position possible to capture it. We're looking at all possibilities in terms of how to do that. And when we're ready to talk about what that is, we will certainly advise.

Jason E. Child
Executive Vice President & Chief Financial Officer, Arm Holdings Plc

A

Yeah, the only thing I would add is I think last quarter, we said as soon as – the way we think about when we announce something, if it were to be something related to full SOCs, it would be once there's tape-out, once there's samples back and once there's actually non-cancelable customer orders, and we achieve all three of those milestones, that's when we'd probably talk about something because this would be a new business and something we haven't done before. So, whenever those milestones are achieved, that's when you should expect to hear from us.

Ross Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

Thank you.

Operator: Thank you. Your next question comes from the line of Vivek Arya from Bank of America. Please go ahead.

Vivek Arya
Analyst, BofA Securities, Inc.

Q

Thanks for taking my question. I just wanted to clarify, how much was the SoftBank contribution in Q2 versus what you thought? And then, what is baked in for Q3 and, hopefully, if you have the number for Q4? And the real question is, how long can this quarterly rate persist? And if you do move into physical chips or chiplets or any other products as part of Stargate, does it start to cannibalize this licensing stream? Thank you.

Jason E. Child
Executive Vice President & Chief Financial Officer, Arm Holdings Plc

A

Yeah. So, thanks for the question. In terms of the impact, it was about a $50 million increase from last quarter. So, last quarter, I think we were about $126 million, that actually went up $52 million. So, now about $178 million. And that's a good run rate to assume going forward. The only way it would change is if we have any additional deals. And again, these are license plus design services. So, think of it as being licenses to our IP to work with SoftBank on exploring solutions. But then, think of the design services being, effectively, kind of a funded R&D model. And so, that's a lower-margin revenue, of course.

So, these – in terms of how long these revenue streams will occur, we're not at liberty to say0 yet. But I would say, as Rene said, at some point, probably in the next year or so, you'll hear us talk about what products those might be. But, obviously, that's not just up to us. It's when SoftBank's ready to talk about what these products could look like and what the revenue profile et cetera is. And so, when that would occur, it's likely to assume that

there would be somewhat different revenue source, whether it's royalties, or gross revenue from selling a chip, if in fact it's a full SOC, those are all things that are still to be worked out. And, yeah, I would think of that as being, to some extent, cannibalistic of whatever the current license and design services.

But then, of course, if there is a product, you could also assume there could be successive generations of products after that, in which case you could stack royalty between license and design services, but then, of course, there could also be royalties or whatever the revenue relates to whatever the product that ships and market is.

So, I would think of it as very much durable revenue in that, I think, if SoftBank wasn't a related party, we would just be booking license and design services and it wouldn't be related party, but the numbers would be pretty similar. And so, the fact that it's a related party, I think, is probably what makes it look somewhat unique. But the reality is we also – as Rene already mentioned, this is not really just between us and SoftBank, they also have contracts with many others, OpenAI, other Stargate partners as well. So, I'd think of this as all being part of a larger effort.

Vivek Arya
Analyst, BofA Securities, Inc.

Q

Thank you.

Operator: Thank you. Your next question comes from the line of Timm Schulze-Melander from Rothschild & Co Redburn. Please go ahead.

Timm Schulze-Melander
Analyst, Rothschild & Co Redburn

Q

Yeah, great. Thank you for taking my questions. I had two, please. Just following on on the Stargate theme and the sites, can you maybe just talk about the shape of what that revenue opportunity looks like on a sort of one, three and five-year view, just kind of when it's going to start having an influence on the revenue, the annual revenue or quarterly revenue, of the business?

And then, my second question was just to make sure – I wasn't sure I caught it right. You talked about the Lumex CSS. I think that's a product that you launched in September. But I think you also said that you already have royalty revenues associated with that. If you could just maybe expand on that a little bit, that would be really helpful. Thank you.

Rene Anthony Andrada Haas
Chief Executive Officer & Director, Arm Holdings Plc

A

Sure. Sure. I'll take the first part of that question. I'll let Jason take the second half. Without giving you kind of a go-forward forecast of one, three, five years, maybe a way to think about it is, back in January of this year, OpenAI with Oracle and SoftBank announced Stargate which was a $500 billion project to build out data centers over the next number of years. When we go back to where we are now, 11 months later, I would say the demand picture for compute is greater than it was at that time. So, this is a bit of why you're seeing all kinds of different accelerated announcements around spend, et cetera, et cetera. So, if nothing else, I think the opportunity for compute has only grown since we made that Stargate announcement. And to be clear, that announcement is around a joint partnership with OpenAI and SoftBank being equity partners in this investment for compute.

So, we are quite bullish in terms of this overall demand for compute. Right now, what is in the way of realizing that potential is all of the infrastructure required around the power. But from everything that we can tell from people we talk to inside the ecosystem, the demand for compute to train these new models, reinforcement learning to make them great and then inference to serve them, the demand opportunity is stronger than when we announced that 11 months ago. So, this is why we're accelerating all the investments that we talked about to take advantage of that opportunity.

On the Lumex CSS royalty question, I'll let Jason answer that one.

Jason E. Child
Executive Vice President & Chief Financial Officer, Arm Holdings Plc
A

Yeah. So, I would say the licensee that's already – actually, that we're already seeing royalties from, that is, I'd say, earlier than expected. And the way – because we just launched this in September, the way it's happened so quickly is this actually – we're not able to say which partner it is, but it is a partner where this is not their first CSS. This is their second CSS. So, as a result, there was already kind of close partnership on the first generation. And so, then when we launched the next generation, because the teams had already been working pretty close to each other, it allowed that second generation to be adopted very quickly and for royalties to come really just within a couple of months after the technology was delivered.

So, kind of unusual, a little ahead of what we had expected, but it very much speaks to exactly why CSS has been more successful even than we thought when we launched it two years ago. It's really about speeding up time to market. And this is an excellent example of that occurring.

Timm Schulze-Melander
Analyst, Rothschild & Co Redburn
Q

Great. Thank you.

Jason E. Child
Executive Vice President & Chief Financial Officer, Arm Holdings Plc
A

Thank you.

Operator: Thank you. Your next question comes from the line of Harlan Sur from JPMorgan. Please go ahead.

Harlan Sur
Analyst, JPMorgan Securities LLC
Q

Hey, good afternoon. Thanks for taking my question. Rene, you talked about Neoverse royalties growing 2x year-over-year with all these cloud-based CPUs ramping. And then on top of that, with these high-performance AI clusters, right, they're using more DPUs or SmartNICs that are also using Arm cores, on the networking side, data center switching and routing chips have multiple Arm cores embedded in them for things like telemetry, load balancing, overall system management. So, bottom line is that there's significant Arm compute going into all aspects of the data center, right? And we're also even seeing Arm taking over x86 in the service provider networking markets as well.

So, last fiscal year, cloud and networking accounted for about 10% of royalty revenues, where midway through this fiscal year, maybe you guys could just true us up, I assume this mix has increased. Is it approaching 15%, 20% of total royalty revenues [ph] for the team (00:27:32)? Any color here would be great.

Rene Anthony Andrada Haas
Chief Executive Officer & Director, Arm Holdings Plc
A

Yeah, I'll let Jason address the numbers, but thank you for being a great salesman and describing our penetration across domains. You're 100% right. There's Arm technology in virtually every set of the networking stack. The BlueField technology at Mellanox, DPU based, that's Arm, significant, it's technology that goes into the switches around Tomahawk and Arista are all using Arm technology.

So, we are definitely seeing an acceleration of all that. And at the same time, I think the power efficiency piece is probably the biggest accelerant, I think, we're going to see just in terms of being able to offload as much as everything you can onto the more power efficient domain of the compute platform.

So, I'll let Jason comment on royalties, scheme in terms of where that's going directionally.

Jason E. Child
Executive Vice President & Chief Financial Officer, Arm Holdings Plc
A

Hey, Harlan. So, on the royalties, yeah, I mean, it ended the year at around 10-ish percent. And so, we're certainly, with the growth rate in infrastructure being double, I'd say all the other categories and overall average royalty, you should expect it to continue to increase. We'll provide a full update at the end of the year. But your trajectory of somewhere in the 15% to 20% range is not a bad assumption and probably a reasonable expectation for where we expect to trend throughout the year.

Rene Anthony Andrada Haas
Chief Executive Officer & Director, Arm Holdings Plc
A

So, I would say it's probably [ph] going faster (00:29:06) than we expected a year ago.

Jason E. Child
Executive Vice President & Chief Financial Officer, Arm Holdings Plc
A

That's right.

Harlan Sur
Analyst, JPMorgan Securities LLC
Q

Great. Great. Thank you.

Jason E. Child
Executive Vice President & Chief Financial Officer, Arm Holdings Plc
A

Thank you.

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

Krish Sankar
Analyst, TD Cowen
Q

Yeah, hi. Thanks for the question. I have a question for Rene. Clearly, you kind of highlighted how you have strength in smartphones and also increasing market share in data center. I'm kind of curious, when you look over the next [ph] few (00:29:34) years, how do you see chip demand and token generation playing out and its

implication for Arm, especially as you move into more of an inference world where edge devices may play a bigger role?

Rene Anthony Andrada Haas
Chief Executive Officer & Director, Arm Holdings Plc

A

I think, from some accounts of people who I talk to will say that today on some of these data centers, these build-outs of multi-hundred megawatts, that still and again, depending on how you define training versus inference and reinforcement learning, majority of compute is being used for training still, that clearly will flip, well, at some point, it has to, we think, and then that demand starts to move to inference. What we're seeing is all kinds of demand for different architectures and compute type of solutions to run inference not in the cloud. Obviously, you're going to not rely 100% on something on the edge. But today, it's the reverse. It's about 100% on the cloud, and we think that is going to change. We are seeing already lots of demand for the CPUs and Lumex that have these scalable matrix extensions and these are the extensions that allow you to run AI workloads at higher performance. That's only going to continue. And I think for Arm, that is a enormous trend for us on two levels.

Number one, huge trend for us because the further you move away from the cloud on to battery-level devices, that's a domain that Arm can play in, in the sense of the software workload running exclusively there. But at the same time, customers would love a scalable software solution between the cloud and the edge. And that's a lot of what's behind the announcement that we made with Meta in October. This is around working in such a way with Meta where whether they're running something in the cloud or running in the edge for developers, they're able to [ph] port (00:31:40) models in such a way that it's as efficient as possible no matter where you're running.

So, this is all, I think, a good thing for us, because more tokens means more compute, more compute means more compute needed at the edge, and more compute at the edge is really good for us because that's a – I think we're in a very, very unique position to address that.

Krish Sankar
Analyst, TD Cowen

Q

Thanks a lot, and appreciate it.

Operator: Thank you. We will now take our final question for today. And the final question comes from the line of Lee Simpson, Morgan Stanley. Please go ahead.

Lee Simpson
Analyst, Morgan Stanley & Co. International Plc

Q

Great. Thanks for fitting me in. And well done, everyone. A great quarter. I see China is maybe 22% of sales this Q. And I was just wondering what is driving that. Is it more licensing or royalties for strength in the quarter? And maybe just as you look at your licensing pipeline for the rest of the year, have you seen more reason to be confident in the growth this year for licensing, especially as you look to Q4, which as I believe we said before, there's potential for good renewal deals this year? Thanks.

Jason E. Child
Executive Vice President & Chief Financial Officer, Arm Holdings Plc

A

Thanks for the question, Lee. In terms of the China performance, yeah, it definitely has done well. And I would just overall say the demand in China looks to be as strong as we've ever seen. We did have one of our largest license deals actually come out of China. And so, I would say license was slightly more of a – I'd say, more of the over-performance came from license. Royalties are also growing strong in China as well. But license was a little

bit of a bigger driver this quarter. And our pipeline indicates that we have a pretty strong license pipeline for the remainder of the year.

In terms of overall license revenue, hard to say, as we get into Q4, there are some large deals, as we always have in terms of timing. Right now, we're just guiding on Q3, but next quarter, we'll definitely have much more clarity around what deals are going to be able to land in Q4 and whether there's any pull-forwards, push-outs or whatnot. But, as a reminder, we don't – the deal cycles on large license deals are usually six to nine months and we don't really lose deals. It's really just about what exactly are the market needs for our customers and when do they need it. And given the current CapEx kind of forecasts and all the AI cycle that continue to be as strong as they've been for the last couple of years, have a lot of confidence, but we'll give you a little more detail next quarter on what's going to land in Q4.

Lee Simpson
Analyst, Morgan Stanley & Co. International Plc

Q

That's great. Thanks, Jason.

Jason E. Child
Executive Vice President & Chief Financial Officer, Arm Holdings Plc

A

Thank you, Lee.

Operator: Thank you. That was our final question for today. I will now hand the call back to Rene for closing remarks.

Rene Anthony Andrada Haas
Chief Executive Officer & Director, Arm Holdings Plc

Thank you, and thank everyone for the questions.

As we stated, we could not be more happy with the results last quarter. Royalties at a record, 34% growth year-on-year, just terrific results. But more importantly, when we think about the opportunity for Arm going forward, the future has never been brighter, because if we look at what's going on with artificial intelligence, artificial intelligence is driving unprecedented demand for compute. And given the unprecedented demand for compute, we are seeing all kinds of constraints on power and infrastructure to deliver that compute, which means that the compute that's being delivered for AI needs to be as efficient as possible. That's also a great place for Arm. And then as more and more of this AI compute moves from the cloud to edge devices and requires the most efficient compute on the planet, that's a great place for Arm too.

So, we are extremely excited about the future going forward. We continue to invest to ensure that we can take advantage of that opportunity. And on behalf of everyone inside Arm who made this quarter happen and to our partners and customers, thank you so much and thank you for all the questions.

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