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Arm Holdings Plc (ARM)

Q3 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and thank you for standing by. Welcome to the Arm Third 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 turn the conference over to your first speaker today, Jeff Kvaal, Head of Investor Relations. Please go ahead.

Jeffrey Thomas Kvaal

Vice President, Head of Investor Relations, Arm Holdings Plc

Thank you very much, and welcome to our third quarter of fiscal 2026 earnings call. 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 forecast, targets and other forward-looking information about the company and its financial results. While these statements represent our best current judgment about future results, our business is subjected to many risks and uncertainties that could cause actual results to differ materially. In addition to any risks that we highlight during this call, important risk factors that may affect our future results performance are described in a 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 this discussion. Reconciliations of certain of these non-GAAP financial measures to the most directly comparable GAAP measures can be found in our Shareholder Letter, as can a discussion of certain projected non-GAAP financial measures that we are not able to reconcile without unreasonable effort and supplemental financial information. Our earnings materials are available at investors.arm.com.

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

Rene Anthony Andrada Haas

Chief Executive Officer & Director, Arm Holdings Plc

Thank you, Jeff and welcome everyone. Arm delivered a record third quarter. Revenue grew 26% year-on-year to $1.24 billion. Our fourth consecutive $1 billion quarter. Royalties increased 27% to a record $737 million, driven by record units with strength across AI and general purpose data center. Our data center royalty revenue has grown more than 100% year-on-year, and we expect in a few years our data center business to be our largest business, larger than mobile.

Licensing revenue was $505 million, up 25% year-on-year as more leading companies signed high value licenses for next-generation technologies. That performance lifted our non-GAAP EPS to $0.43 even as we continue to increase R&D investment. Our performance this quarter reinforces the strength of the Arm platform and our continued commitment to investing in innovation across a broad spectrum of compute technologies. The fundamentals of the Arm business have never been stronger. AI is changing how compute is built and where it runs across cloud infrastructure, edge devices, and physical systems. The industry requires platforms to deliver high performance, energy efficiency and flexibility across a broad range of power envelopes and use cases. Only Arm's compute platform can address these demands, supporting AI workloads ranging from milliwatts to gigawatts.

To align with how our customers deploy AI, we've organized ourselves around three business units: edge AI, physical AI, and cloud AI. Edge AI comprises the smartphone and IoT businesses. Physical AI includes automotive and robotics, and cloud AI encompasses data center and networking. A key driver of our royalty momentum is compute subsystems or CSS. We launched CSS nearly two-and-a-half years ago and demand continues to exceed expectations. This quarter, we signed two additional CSS licenses for edge AI tablets and smartphones, bringing us to 21 CSS licenses across 12 companies. Five customers are now shipping CSS based chips, including two shipping a second generation platform, and the top four Android smartphone vendors are shipping CSS power devices. CSS helps customer get to market faster by lowering integration risk and complexity. As demand scales, it increases the value that Arm delivers per chip, creating a significant tailwind to royalties.

In cloud AI, the shift towards inference is reshaping data center design, and increasingly that inference is agent-based. These workloads are persistent, always-on and power constrained. This is a fundamental change in how AI systems operate. This is because agent-based AI requires coordination across many agents running continuously, and that the CPU can only do coordination. As this model scales, customers need CPU chips with higher core counts and better power efficiency to operate continuously within tight power and cost constraints. This trend directly benefits Arm. Arm-based CPU chips deliver industry-leading performance per watt, enabling customers to scale core counts and run always-on AI workloads. We are now seeing this trend play out in the market where Neoverse CPUs have surpassed 1 billion cores deployed and Arm share amongst the top hyperscalers is expected to reach 50%.

Leading hyperscalers are launching new products with increased core counts to address this opportunity. AWS launched its fifth-generation Graviton processor with 192 cores, doubling the core count from Graviton4 and delivering 25% higher performance and up to 33% lower latency versus Graviton4. NVIDIA's next-generation Vera CPU features 88 Arm-based cores, up from 72 cores and a great CPU generation. Microsoft introduced Cobalt 200, built on the higher performance Arm Neoverse CSS V3 with 132 cores, up from 128 cores in Cobalt 100, which was based on the prior Neoverse N2 platform. And Google previewed its second Arm-based server processor with Axion-powered N4A instances delivering up to 2x better price performance and 80% better performance per watt than the comparable x86 offerings. Google has now migrated over 30,000 applications to the Arm instruction set.

We are also seeing more integrated platform designs to improve system efficiency, often translating to more AI output or more tokens per watt within the same power envelope. AWS integrates Graviton with Arm-based Nitro DPUs and Trainium accelerators, and NVIDIA pairs GPUs with Arm-based Grace CPUs and Arm-based Bluefield DPUs with its transition to Vera delivering a 6x increase in DPU compute capability over the prior generation. Together, these trends make it clear that as AI inference becomes more agent-based, the importance of CPUs is only increasing. And as a result, Arm's role at the center of the modern data center architecture continues to grow rapidly. Outside the data center, AI is now moving to everyday devices. The edge and physical AI markets are opening up new growth opportunities. These systems operate in real time under strict power, safety and reliability constraints, where efficient and predictable general purpose compute is essential.

Arm's strength, power efficiency, predictable latency, and always-on operation are best suited to on-device agents that continually monitor inputs, prioritize tests, and invoke models when needed to preserve battery life. Our common software foundation across devices, vehicles, and robotics lets customers scale deployments without rebuilding software stacks. We now see that momentum in customer innovation. Rivian announced its third-generation Autonomy Computer based on the Arm-based Rivian Autonomy Processor. The first production vehicle based on a custom Arm chip and the first to deploy Armv9 in a production car. Tesla's upcoming Optimus

humanoid robot is also powered by a custom Arm-based AI processor and platform from leading silicon providers like NVIDIA's Jetson Thor and Qualcomm's Dragonwing platforms are scaling Arm-based solutions across robotics and autonomous systems.

To close, AI is moving to every environment in every power envelope. Arm provides the foundation for that shift, a platform that spans milliwatts to gigawatts, and a developer ecosystem over 22 million developers, more than 80% of the global total. We are now seeing the results of strategies we put in place years ago, focusing on the data center, power efficiency, and compute subsystems. As a result, as more and more applications move to agentic AI, Arm will be the compute platform connecting cloud, edge, and physical AI use cases.

And with that, I'll now 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 26% year-on-year to a record $1.24 billion, marking our fourth consecutive quarter above $1 billion. Royalty revenue exceeded our expectations, growing 27% year-on-year to a record $737 million. The biggest growth contributors for smartphones with higher royalty rates per chip and in the data center, where our revenues continue to grow triple-digits year-on-year, s we see ongoing share gains from custom hyperscaler chips. Royalty revenue from edge AI devices such as smartphones continues to grow much faster than the market. All the major Android OEMs are now ramping smartphones with chips based on both Armv9 and CSS.

In cloud AI, data center royalty revenue continues to double year-on-year, with the ramp of Arm-based chips by all major hyperscaler companies. We are getting a further benefit as the build out of these new AI data centers are driving increased deployment of networking chips, particularly DPUs and SmartNICs where Arm has a very high market share. In physical AI, the automotive market grew double-digits year-on-year and contributed to our strong royalty performance. Overall royalty revenue growth continues to reflect Arm's increasing royalty for chips and rising market share.

Turning now to licensing. License and other revenue was $505 million, up 25% year-on-year. Growth was driven by strong demand for next-generation architectures and deeper strategic engagements with key customers. We signed two new Arm ATA or Arm Total Access agreements during the quarter and two new CSS licenses, both with leading smartphone handset OEMs. These agreements reflect the continued investment by our customers in our next-generation Arm technology. Of the $505 million of license revenue, our agreement with SoftBank for Technology Licensing and Design Services contributed $200 million.

SoftBank has become an increasingly important customer as they build out their AI compute strategy, including their recent acquisitions such as Ampere and Graphcore. We believe that the revenues we are receiving from SoftBank are durable, as they relate to current generations. That will continue as SoftBank executes on its roadmap. As always, licensing revenue varies quarter-to-quarter due to the timing and size of high value deals. So, we will 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 Q2 and Q1. This continues to be 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 $716 million, up 37% year-on-year due to strong R&D investment. These investments in R&D reflect ongoing engineering head count expansion to support customer demand for more Arm technology, including innovation in next-generation architectures,

compute subsystems, and into our exploration into chiplets and complete SoCs. Non-GAAP operating income was $505 million, up 14% year-on-year. This resulted in non-GAAP operating margin of about 41%. Non-GAAP EPS was $0.43, close to the high end of our guidance range, driven by both higher revenue and slightly lower OpEx than expected.

Turning now to guidance. Our guidance reflects our current view of our end markets and our licensing pipeline. For Q4, we expect revenue of $1.47 billion, plus or minus $50 million. At the midpoint, this represents revenue growth of about 18% year-on-year. We expect royalties to be up low-teens year-on-year and licensing to be up high-teens year-on-year. We expect our non-GAAP operating expense to be approximately $745 million, and our non-GAAP EPS to be $0.58 plus or minus $0.04. The strength of customer demand we are seeing today, combined with a growing base of long duration contracts at structurally higher royalty rates, provides increasing confidence in our future revenue profile. This confidence allows us today to invest in next-generation architectures, compute subsystems, and silicon that are needed to enable higher performance, greater efficiency and more AI use cases. We believe this virtuous cycle of customer demand and ambitious investment positions Arm for sustained growth over the long-term.

Just before we get into the Q&A portion of the call, as you will have seen, Arm is hosting an event on March 24th and I'm sure there will be interest about what we are planning to announce. There will be a million ways of asking what we may or may not be announcing. Please be patient as we won't be providing any details ahead of the event.

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 take the first question. One moment please. And your first question today 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 questions. Rene, you touched upon in the prepared remarks, but it was kind of curious if you could just maybe give us a little more detail on just how you view Arm's role and the role of the CPU in AI and cloud data centers. And just how does that change as we start to see more proliferation of AI agents?

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

A

Yeah, thank you for the question. There is a number of shifts taking place in the data center, as I mentioned in the opening remarks. First off, as the shift moves away from exclusively training to predominantly inference, that is a workload that launches a number of different solution paths. One of them that we're seeing is around agentic AI and the agents that are actually talking to other agents or having to control workflows such as service tickets or other work streams, those are very, very well suited for CPUs, because CPUs are very, very power efficient, always-on, very, very fast latency. And what we are seeing is already an increased deployment of CPUs to address that problem.

Now it's just not CPUs that are good for that problem. It's the number of CPUs you have. And obviously, given the power constraints inside the data center, the efficiency of those CPUs. So, for all those reasons, that's a very

positive tailwind for Arm. And in particular, we're seeing those proof points now as I mentioned, where the latest generation of CPU chips from the hyperscaler providers and also NVIDIA have increased the number of cores. And we think that only continues.

Joe Quatrochi
Analyst, Wells Fargo Securities LLC

Q

Thanks for that. And just as a follow-up, one for Jason, I know you're not giving fiscal 2027 commentary today. But this, how do we think about the puts and takes that is just royalty revenue growth and the risks that are associated with the potential like demand destruction that we're seeing, in consumer electronics potentially from memory?

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

A

Yeah. Yeah. That's a – it's a great question and something we spend a lot of time looking at. So, in particular, I think MediaTek last night talked about something like around a 15% reduction in unit volume for next year, and that's pretty consistent with what we've heard from other smartphone and handset providers around what they think the memory supply chain constraints could provide. So, we've done our own kind of analysis of it. And what's interesting is we're hearing from our various partners that they're really trying to make sure that they protect the high end of the market. So, the premium and flagship portion of the market, which is great for us because that's where all of our CSS and Armv9 royalties are, so the highest by a significant margin.

And then on the very bottom end of the segment, that's where most of the supply chain constraints will probably be felt. For us, that's Armv8 and even older generations that are dramatically smaller royalties. So, I think if you were to say what if there's a 20% reduction in volumes next year, for us, that would translate to probably somewhere around a 2% or 4% at worst impact on smartphone royalties. If you then project that across the whole business, it'd be a 1%, maybe 2% negative impact on total royalties. The good news is, because as Rene mentioned, the cloud AI or infrastructure business has been continuing to grow ahead of our expectations. It's actually growing at a level that's more than compensating for those kind of risks on the memory and mobile side. So, I think we have a very good set up for next year and not too concerned about at least the royalty revenue impacts that we might see from these unit volume and supply chain constraints.

Joe Quatrochi
Analyst, Wells Fargo Securities LLC

Q

Helpful. Thank you.

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

A

You bet.

Operator: Thank you. Your next question today comes from the line of Simon Leopold from Raymond James. Please go ahead.

Simon Leopold
Analyst, Raymond James & Associates, Inc.

Q

Great. Thank you. Appreciate you taking the question. First one is, I'm hoping you're able to shed some light on this. But wondering, what your thoughts on are whether or not SoftBank will potentially need to sell some of the

Arm stock that it holds to finance some of the investments you talked about making and how we should think about the implications for your shares. Then I've got a quick follow-up.

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

A

Sure. Yeah. Thank you for the question. You know that's one that we read a lot about. And there's a lot of speculation on chat boards and whatnot about that. I can tell you from talking to Masa about this and I would quote him directly. He is not interested in selling one share of Arm stock. And that doesn't mean two shares or three shares. That means any shares. He's very long on the company. He's very, very bullish, as am I, about our long-term prospects. And he has no interest in selling. There's been a lot of writing about it. But I can tell you from a direct conversation and direct conversations, plural, that I've had with them, that's just not the case.

Simon Leopold
Analyst, Raymond James & Associates, Inc.

Q

And then just as a follow-up, you've provided a forecast for some deceleration in the royalty revenue growth. I'm just wondering, if you could elaborate on the trend. Is it more difficult comps or is there something else shifting that we should be considering?

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

A

Yeah. It's Jason. I'll take that. I would say the royalty trends for next year are pretty consistent in absolute dollars, maybe a little bit lighter just because of what you're now seeing on the memory shortage side. Like I said, maybe 1% or 2% impact largely due to that. The growth percentage is down a bit because of the overperformance that we saw last quarter and expected to see again this quarter. So we are, coming off of a stronger comp. Now, the obvious question then is because you've had stronger growth both in Q3, we thought we would grow about 20%. We grew 27%. So, $30 million beat or more. And now seeing some of that flow through into Q4. Will that flow into next year as well? Right now, I'd say too hard to say. There's a lot of talk about memory and even wafer shortages. And so, that stuff doesn't affect us as much as, many of the full fabless semiconductor companies. But, so I'd say right now we'll give you updates as we learn more. But overall, the absolute magnitude of royalties for next year, I expect to be pretty close to what we were thinking, what we said earlier this year. But, we'll see if this recent strength continues and allows us to take things up as we proceed into next year.

Simon Leopold
Analyst, Raymond James & Associates, Inc.

Q

Very helpful. Thank you.

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

A

You bet.

Operator: Thank you. In the interest of time, please limit yourselves to one question only and rejoin the queue for any follow-up questions. We will now go to the next question. And your next question today 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 actually just had two clarifications. One is, I was hoping you could quantify the exact amount of data center revenue. I know you said that it doubled. But how much is it? So, we can get a sense for, like, what the magnitude is versus the overall company sales. And then the clarification, the other clarification I had was I think you mentioned SoftBank contributed $200 million. I somehow recall the original expectation was about $178 million, $180 million. And if you could clarify that and what are you embedding for March and onwards from that contribution? Thank you.

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

Yeah, well, the $178 million last quarter it was – so no new deals were signed. It's just the deals from last quarter, It was $178 million for the quarter, the full quarter as the impact now is about $200 million. So nothing new. It's just a full quarter impact. I would expect that $200 million going forward is the right run rate going forward.

Vivek Arya
Analyst, BofA Securities, Inc.
Q

And the data center revenue?

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

Yeah, data center revenue, we provide the details on that once a year. I think at the beginning of this year, we said it had just hit double-digit. And because it's growing so much faster than the rest, assume it's going to be, somewhere in kind of the teens to probably getting closer to 20%. As Rene said, over the next, two to three years, you should expect to see it get similar or maybe even larger than the smartphone business, which is in the, kind of 40% to 45% of total business.

Vivek Arya
Analyst, BofA Securities, Inc.
Q

Thank you.

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

Mehdi Hosseini
Analyst, Susquehanna Financial Group LLLP
Q

Yes, just – thank you for taking the question. Just as a follow-up to the smartphone topic, how should I think about the migration to the Armv9 higher royalty is going to help offset lower smartphone units?

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

Yeah. So, I'll let Jason provide a detail. But again, as a reminder, with the way that we handle Armv9 for smartphones and particularly Armv9 CSS is, every smartphone cycle, we deliver a brand new CSS. Each time we deliver the brand new CSS, the royalty rates are generally increased year-on-year. So, when we think about Armv9 in smartphones, the appropriate way to think about it is, it's all CSS – it's all moving to CSS now, and as a result of that, we get priced every year with the royalty increase year-on-year.

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

A

Yeah. And in terms of the guidance kind of that I just gave in terms of, if there's a minus 20 degree unit impact, there's at most a kind of 4% to 6% revenue impact, just specifically within smartphones that would be incorporating the higher royalty rate per unit that's already been contractually agreed to and that we assume will be shipping later in the year.

Mehdi Hosseini
Analyst, Susquehanna Financial Group LLLP

Q

Okay. Thank you.

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

A

You bet.

Operator: Thank you. Your next question comes from the line of Vijay Rakesh from Mizuho. Please go ahead.

Vijay Raghavan Rakesh
Analyst, Mizuho Securities USA LLC

Q

Yeah. Hi, Rene and Jason, just a quick question on your partnerships. As your partner SoftBank executes on its AI roadmap, should we be expecting like an Arm custom ASIC down the road, given the substantial partnership that you have with them, with the $200 million a quarter NRV that you're getting. How should we look at that, the timing and how that will impact the fiscal 2027, let's say?

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

A

Yeah. Nothing. Hi, Vijay. Nothing we can say specific about any products that you're asking about. So unfortunately not much more we can say there.

Vijay Raghavan Rakesh
Analyst, Mizuho Securities USA LLC

Q

Got it. Thank you.

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

Krish Sankar
Analyst, TD Cowen

Q

Yeah. Hi, thanks for taking the question. Rene, I just wanted to find out a little bit about how to think about Arm's IP penetration rate or percentage rate in AI data center SMEs today, and where do you think that evolves over the next three years to five years?

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

A

Hey, it's a wonderful question. I think what we're going to do the next three years is a evolving of how these data center chips are built out. And what do I mean by that? Today you've got a classic architecture where you've got a CPU which connects into an accelerator. The CPU does some work, the GPU does some work. I think we're going to start to see over time is a morphing of the workloads that the CPU takes that the GPU used to do. And as I mentioned, you go to agentic inference that's going to mean more CPUs, which could be more different custom chips that are CPU based. In addition, the inference workloads, which are dominated by two pieces of area of work specifically prefill and decode, you could see some specific solutions around that, that continue to extend things like what a Grok has done. For example, you could still see more kind of innovation across that area.

I also think, you asked about the data center, but I think we're going to start to see a lot of that migrate to the smaller form factors where different combinations of IP and solutions are going to be needed to address areas where power is much more constrained, particularly around physical AI and then the lower edge devices. So, I think there's a lot of innovation to come in solving the AI problems, because one thing that's clear is that these AI workloads are going to be running on every single piece of hardware that has compute. And because the vast majority of the compute platforms out there today are already Arm-based, gives us a gigantic opportunity to move where that goes.

Krish Sankar
Analyst, TD Cowen

Q

Got it. Thanks, Rene.

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

Good afternoon. Thanks for taking my question. On compute subsystems, obviously, you continue to drive solid momentum. With two more licenses added in the quarter, the value add of CSS that we hear from your customers is resonating extremely well, right? It improves their productivity. It improves their overall system performance. They're willing to pay a higher licensing fee and higher royalty fee for that value add as you mentioned. I'm curious to know what percentage of the royalty mix is CSS today, and what proportion of the royalty revenue could it become over the next two years to three years.

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

A

Yeah. Thank you, Harlan. I'll let Jason take that.

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

A

Yeah. So, Harlan. Yeah, there are lot of progress on CSS with the five CSSs that have actually already been, turned into silicon and actually something we're receiving royalties on. It's had a material impact. Think of CSS last year, I think it was just kind of approaching double-digit. And this year it's well into double-digit. Think of it as being into the teens. And then I would say, over the next couple of years, I expect it to probably, it could be upwards of 50%. But, we'll have to see, I think, the primary drivers for acceleration of CSS has really been mostly around our customers needing to shorten the cycle time and CSS [ph] chip that cycle time about a half (00:30:18) and so, stay tuned. But I would expect to continue to see that acceleration occur and to continue to see I think right now, every CSS customer that's had a chance to, sign up for the next version or kind of renew for the next

generation has all done that. So, that's certainly a really key indicator of the value that as you said, customers are seeing from it.

Harlan Sur
Analyst, JPMorgan Securities LLC
Q

Yeah, absolutely. 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 Charles Shi from Needham & Company. Please go ahead.

Charles Shi
Analyst, Needham & Co. LLC
Q

Yeah. Thanks for taking my question. I think going back, maybe it was [ph] one year (00:31:04), you guys kind of soft guided FYE 2026 and FYE 2027 growth should be around 20%. You're definitely delivering that FYE 2026. We definitely will see how you think about FYE 2027 in about a quarter. But any early view you guys can provide FYE 2028. I know I'm asking and plus two year here. But you guys did do that going back about a year. And I was hoping if you can provide any early view into the outer year. Thank you.

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

Yeah, I would say for 2026, as you said, we'd said at least 20%. And I think now we're guiding to 22% at the midpoint. So, as you said, exceeding that target. For 2027, not guiding on full year, but in terms of, kind of at a high level, the 20% growth rate, I think certainly is very reasonable. And not anything that we back away from. In terms of 2028, we haven't drawn anything out there yet. I'd say maybe, stay tuned. There are opportunities as we contemplate, other possible offerings. And what that could do to our numbers is still something we're working through. So, we'll give you update on 2028 sometime down the road.

Charles Shi
Analyst, Needham & Co. LLC
Q

Thank you. I appreciate that.

Operator: Thank you. Your next question today comes from the line of Srini Pajjuri from RBC. Please go ahead.

Srini Pajjuri
Analyst, RBC Capital Markets
Q

Thank you. A couple of clarifications, guys, on the memory impact, I guess you talked about, you quantified that impact. But Jason, the outlook for the next quarter on the royalties being up low-teens, do you think memory is already having an impact on the smartphone volumes? Is that why it's only up low-teens? And then to add to that, you talked about CSS accelerating. I'm just curious, given the pressure on the bill of materials. Do you anticipate or are you seeing any impact in terms of the adoption of CSS and Armv9, I guess as you look into the next few quarters, given the bill of materials challenges? Thank you.

Rene Anthony Andrada Haas

Chief Executive Officer & Director, Arm Holdings Plc

A

Yeah. Thanks for the question. I'll take the second part first, and then Jason will take the first part on memory. Question was regarding CSS pricing impacting bill of materials. And no, we're not seeing any of that at all. What we are seeing is that the value gain by accelerating time to market outweighs anything that customers are considering given the complexity of building these chips, the increased cycle times through the fabs going from 5 nanometer to 3 nanometer to 2 nanometer means that the design windows are really short and missing the first few months of shipment or having any kind of delay was critical to profits. So based on that, we've really not had many discussions with anyone regarding the BOM impact. The value that we create relative to profits gained by the customer is what really drives the decision point. And then regarding the memory impact on the next quarter, I'll let Jason address that.

Jason E. Child

Executive Vice President & Chief Financial Officer, Arm Holdings Plc

A

Yeah. The memory impact very minimal I would say. And that's not really the driver of the guidance on the growth, the absolute growth in royalties has much more to do with, typically seasonality, our Q4 or calendar Q1 is always one of the slower quarters. And the one thing that happened a year ago is we did have MediaTek chip come out in Q4 of a year ago or – yeah, our Q4, calendar Q1 of a year ago, which was unusual timing. So, we are lapping that. So, it's much more about kind of what we're comping and to some extent seasonality. But overall, full year royalties, I would expect to be in that north of 20% range, which is kind of what we were expecting early in the year and still expect Q4 or calendar Q1 to be stronger than what we previously expected. So, it's really the year-on-year growth piece is really more of a seasonality/comping, kind of an unusual one-time release from a year ago.

Operator: Thank you. We will now go to the next question. And your next question comes from the line of Andrew Gardiner from Citi. Please go ahead.

Andrew Michael Gardiner

Analyst, Citigroup Global Markets Ltd.

Q

Hi. Good afternoon. Thanks for taking my question as well. Jason, perhaps one for you, on the OpEx side, we've clearly seen significant investment in the business, particularly in R&D given everything that you guys are doing. You've given us a bit of a steer on fiscal 2027 revenue growth. [ph] Naturally (00:36:07) R&D has been growing at a faster rate than revenue in the current period. Is that something we can expect to continue into fiscal 2027, given everything that you guys have got in front of you? Or will we actually start to see R&D growth slow relative to the revenue? Thank you.

Jason E. Child

Executive Vice President & Chief Financial Officer, Arm Holdings Plc

A

Sure. So, a little early to talk full year. I can tell you right now our expectation is that the Q4 to Q1 step-up will be similar to last year. I think last year it was, low double-digit sequential growth, and you should see the same kind of sequential growth as a year ago. Right now, I would say the growth after Q1 is probably going to moderate more so than it did this year. We did see pretty significant step ups throughout the year. I don't expect there to be quite a significant step ups for next year. But as we, progress more into next year, we'll give you a little more color. But that's the high level I'd say modeling approach I would take right now.

Andrew Michael Gardiner
Analyst, Citigroup Global Markets Ltd.

Q

Thank you.

Operator: Thank you. We will now take the next question. And the question comes from the line of John DiFucci from Guggenheim Securities. Please go ahead.

John DiFucci
Analyst, Guggenheim Securities LLC

Q

Thank you. Rene, you've seen a lot in technology over the years. So I'm going to ask a question that's kind of a little bit self-serving here. I'm curious how you'd characterize what's happening in the stock market recently as it pertains to the software sector. And if you might, since you're at least partially software company, how does AI affect your business other than driving demand? In other words, how should we think of how you'll leverage AI in the design of chips and systems? Thank you.

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

A

Yeah. Well, regarding the stock market's reaction to software company, [ph] I had agreements with that (00:37:58), I'd probably be in a different position than the one that I have. I'm not sure I'm in a great position to discuss what the near-term impacts are to the stock market. But what I can say after watching and being in technology my entire career, we do see these kind of things time to time where investors or the market gets jittery around what the broad impacts are when we're in the midst of fairly significant technology disruptions. I can say for our business, given the fact that we are an intellectual property provider that goes into physical things, chips, AI is not going to replace a physical chip anytime soon. They're kind of linked at the hip, if you will, relative to you need a hardware to run the software.

I think there's just enormous opportunity, however, still for growth in the overall sector, because when I think about where AI actually is operating truly inside the enterprise, [indiscernible] (00:39:00). When I think about our own company and things like our payroll systems or our purchase order systems or our SAP systems, there's some AI going on there, but not nearly enough to be massively transformative yet. And I think part of that is just the complexity of integrating these large systems and changing software workloads. So, I think we're in super early days to be quite frank. And having, been in technology again my entire career and have seen lots of technology disruptions. This one feels a little bit like the final frontier in terms of the amount of productivity and change that AI can benefit, and we're still all trying to get our arms around it. If you just even look at the numbers of spend I heard earlier today, Google or Alphabet announcing $180 billion CapEx spend, that used to be what semiconductor companies has been a year on fabs times a few.

So, we're in uncharted waters. And maybe that's why you're seeing some jittery numbers relative to how the market reacts. But from where we sit there's just huge demand for compute. And that's what Arm does. And so, I think in the long game I'm super excited about the opportunity for us.

John DiFucci
Analyst, Guggenheim Securities LLC

Q

Really appreciate your thoughts, Rene. Thank you.

Operator: Thank you. We will now take our final question for today. And the final question comes from the line of Timm Schulze-Melander from Rothschild & Co. Please go ahead.

Timm Schulze-Melander
Analyst, Rothschild & Co Redburn

Q

Yeah. Hi there. Thanks for taking my question. It's a two-parter for Rene, please. You've talked a lot about inference in the AI future. You just referenced the Grok architecture. And I really wanted to ask you, what are your thoughts or how should we think about SRAM, SRAM at the edge, some of these different memory structures and what they could mean for your business. And then the second part is just the cadence of power efficiency for Arm. Is there something that we should think about in terms of the average annual or per Armv8 to Armv9 energy for compute efficiency that you see going forward? Thank you so much.

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

A

Yeah. So, I'll take the latter part first because it kind of bridges into the first. We look at how to address power efficiency 24/7. And the reason for that is increasingly as you get into these smaller form factors, the one thing that you don't get much liberty on is battery life and space. So, as a result, we have to always think about operating a constrained environment where you're adding more and more demand of compute. When you add AI onto something that already has to drive a display or open an app or recognize the voice, it's constant thing that we think about and worry about. I think we're very well positioned to address it because we are the incumbent in many of these platforms. So, it is something we spend a lot of time and energy on.

To your first part of the question on SRAM and different memory technologies, absolutely that's something we're highly involved in. To oversimplify a computer, a CPU needs memory and memory needs a CPU, period and stop. So, when you're designing a piece of hardware, the two go very much hand-in-hand, and there is a lot of work and research being done about not just SRAM, but alternative memory technologies and solutions that can address these increasing demands on AI. So again, it's a question prior to yours in terms of the overall broad opportunity. What people in our space tend to worry about is that there isn't hard problems to go think and work on and develop new technologies for. We don't have that problem. Every single end applications can be impacted by AI. We believe every end application will run AI through Arm, so we're spending a lot of time and energy, and you can see by our investments to come up with innovative ways to address that.

Timm Schulze-Melander
Analyst, Rothschild & Co Redburn

Q

Great. Thank you so much.

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

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

Yeah, thank you. And thank you for all the thoughtful questions. And we could tell by range of the questions we were talking about memory prices inside the quarter and then what alternative memory technologies could look like years from now. I think that's a very good way to sort of describe the current quarter. But how we're very, very bullish about Arm long-term. We delivered the best quarter in our history. We delivered the best quarter in our history on royalties, which is really an indicator for the strategies we have going forward. And we have a huge amount of customers shifting to Arm in a big way with more CPU counts. That being said, the quarters that we're

most excited about are the ones ahead of us. We think we have huge opportunity as I mentioned in the new areas of physical AI, cloud AI, and edge AI, and we intend to do everything we can to make Arm, the compute platform of choice for all AI workloads. Thank you.

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