The bid for Arm Holdings raises questions for shareholders

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The premium on the pre-bid share price SoftBank's bid for Arm Holdings looks attractive at first glance but shareholders may be missing a greater prize. ARM could benefit significantly from growth opportunities in the so-called 'Internet of Things' (IoT) market. IoT depend on silicon chips embedded in a very wide range of products, from healthcare to logistics to defence and homeland security. Already we're seeing phenomenal growth in silicon production, with production of silicon wafers in the second quarter of 2016 at the highest recorded quarterly level (see the latest SEMI report). While ARM doesn't manufacture silicon, it does licence the logic designs for these chips to manufacturers. It therefore stands to benefit enormously from the expected growth in the IoT, a market with the potential to exceed the growth of Apple Inc. (For reference, valued today an investment in Apple in 2006 would have increased 10 times.) If ARM shareholders take the cash, where will they get a similar return?

So, given the potential of IoT, will the investment by SoftBank help ARM to capitalise on this opportunity, and thereby benefit the UK plc? In the SoftBank bid for ARM, the two key questions are:

1. What does SoftBank bring to the party? and
2. What is its long-term commitment to developing Arm?

To the first question, ARM does not need market access as it already has licences with all the leading chip and applications suppliers, and has the financial capacity to continue development. SoftBank does not have any expertise in chip design and therefore does not bring anything technically to ARM's capability.

To the second question, there has been little concrete detail published on the longer term growth plan, thus it's unclear how future growth will be achieved. Without satisfactory answers to these questions, one might well conclude that the SoftBank bid could *jeopardise* the future potential of ARM.

Some argue that there will be plenty of other startups which might replace ARM, and grow on the back of the IoT. While it is undoubtedly true that the UK does have a leading technology capability in this area, there is growing evidence that the conditions which enabled ARM to grow in the 1990s no longer prevail. A leader article in The Economist (Nostrums for rostrums, 28 May 2016), warned that large incumbents in the tech sector are increasingly using the acquisition of startups (known as 'shoot-out acquisitions') with a view to eliminating potential rivals. This is good for startup entrepreneurs but very bad for the British economy. So, from a UK perspective, with hindsight this takeover may show just how damaging the lack of a UK industrial strategy has been.

On reflection, shareholders may consider that, given ARM's very strong forward licencing revenues, strong balance sheet, and workforce with proven technical ability, rejecting the SoftBank bid could lead to much greater gains than the current bid.