

ARM Holdings PLC (ARMH) – Colgate Investment Group Report

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Summary

Company: ARM Holdings PLC

Ticker: ARMH

Market: NASDAQ

Long/Short: LONG

Target Price: \$30.50

1 Profile

”ARM Holdings plc (ARM) designs microprocessors, physical intellectual property (IP) and related technology and software, and sells development tools. As of December 31, 2010, the Company operated in three business segments: the Processor Division (PD), the Physical IP Division (PIPD) and the System Design Division (SDD). ARM licenses and sells its technology and products to international electronics companies, which in turn manufactures, markets and sells microprocessors, application-specific integrated circuits (ASICs) and application-specific standard processors (ASSPs)-based on ARM’s technology to systems companies for incorporation into a range of end products.”¹

2 Market Fundamentals

Current Price: \$27.38 (After-Hours 2/26)

Market Capitalization: \$12.2B

52-Week Range: \$22.10, \$32.18

YTD Price Change: -10%

Yield: \$0.1631/.6%

Short Interest: 1.33%

Beta: .9

2.1 Public Comparables

Because ARMH is in the Semiconductors industry and has positive earnings, the PEG and PE ratios are the most appropriate valuation measures.

PEG:

ARMH: 4.67x

Industry Average: 3.59x

PE:

ARMH: 70.11x

Industry Average: 57.63x

Annual Growth past 5 years:

EPS: 18.97%

Revenue: 13.31%

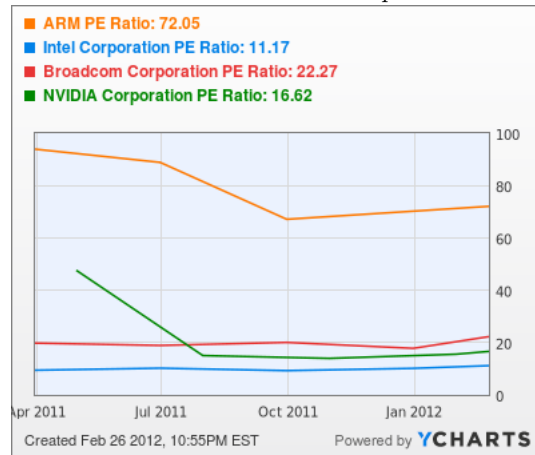
Dividend: 28.33%

ARMH seems highly valued with a PEG value of 4.6743, one of the highest in the Semiconductors industry, which is supported by a PE of 70.1141 that is also among the highest in the industry.

¹S&P TD Ameritrade Company Profile, 2/26/2012

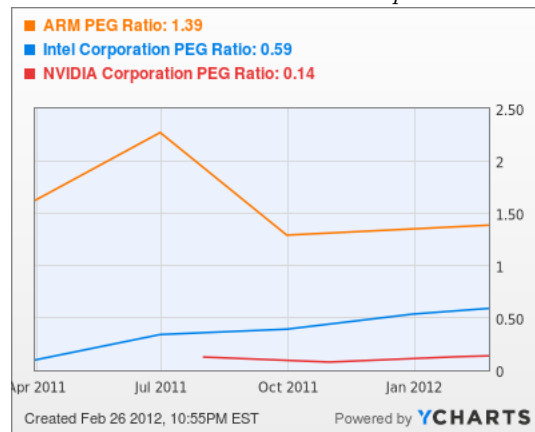
Charts

ARMH PE Ratio vs Competitors



Here ARMH has a relatively high P/E compared to its competitors, making it look relatively expensive, as also concluded in the previous section.

ARMH PEG Ratio vs Competitors

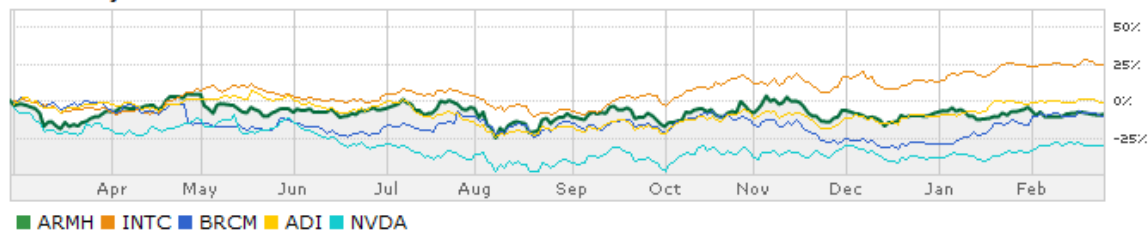


ARMH also has a high PEG ratio, making it highly valued/expensive in terms of how much investors are willing to pay for its growth.

Here is a chart of ARMH vs its closest competitors:

ARMH PEG Ratio vs Competitors

ARMH's 1yr Relative Performance of Stock Price vs. Peers



ARMH's Position in the Semiconductors Industry

Compared Stocks	ARMH As of 2/24/2012	INTC As of 2/24/2012	BRCM As of 2/24/2012	ADI As of 2/24/2012	NVDA As of 2/24/2012
Market Cap	\$12.2B	\$133.4B	\$17.9B	\$11.6B	\$9.6B
Total Revenue (TTM)	\$781.3M	\$54.0B	\$7.4B	\$2.9B	\$4.0B
Profit Margin	22.90%	23.97%	12.55%	26.94%	14.53%
52 wk Change	-3.35%	25.44%	-10.28%	-1.07%	-30.29%
Beta	0.9	1.1	1.2	1.1	1.6
Dividend Yield	0.60%	3.15%	1.09%	3.09%	--
Earnings Growth (5 yr)	18.97%	22.76%	20.64%	14.82%	4.32%
Revenue Growth (TTM)	20.96%	23.79%	8.37%	0.90%	12.83%
P/E (TTM)	70.11x	11.14x	22.31x	15.24x	16.7x

3 Investment Rationale / Potential Concerns

3.1 Positives

ARMH is heading in the right direction- expanding its R&D opportunities by hiring 227 (80% of its total hires in 2011) new members to its R&D team in 2011.

Royalty revenue (which makes up 57% of ARMH's total revenue) was up 22% in 2011, making ARMH's \$ Royalty CAGR (07-11) = 19% and the Industry's \$ Revenue CAGR (07-11) = 4%.

3.2 Risks

ARMH's expects its growth in the coming four years to be from gains in the Smart Phone, Mobile Computing, Digital TV & Set-top-box and Microcontrollers markets.

There is enthusiasm about the adoption of Windows 8, and because a large part of ARMH's revenue is from Royalties and Licensing, the performance of Windows 8 could negatively or positively affect ARMH.

3.3 Negatives

High PE, high PEG, and below average operating earnings yield, lead me to believe that ARMH is currently overvalued.

4 Technical Analysis

Long-term Technical Analysis

Over the long term, you can see an upward trend throughout the end of 2008 into early 2010. The stock price then enters into a channel, hovering around the \$29 mark, suggesting a resistance level at \$31, more recently this has declined to around \$30.



Short-term Technical Analysis

In the short term (past three months) one can see that ARMH is about to have a "death cross" situation, where the short moving average (20 day) will cross the long moving average (50 day in this case) from above. We can see Ichimoku clouds providing both support and resistance to the price very recently.

