Morgan Stanley | RESEARCH

UPDATE

November 4, 2026 09:29 PM GMT

Arm Holdings plc | North America

Licensing Strong, Royalties Weak

AlphaSignals Earnings Reaction

Unchanged	**Modest upside**	**Modest revision higher**
Impact to our thesis	Financial results versus consensus	Direction of next 12-month consensus EPS

Key Takeaways

- Arm's FY2Q27 print was a beat top/bottom line (4%/8% ahead of css respectively) – led by strong licensing (+50% yy) but we note a sizeable miss on royalties.
- Company stopped short of giving definitive guide to c.$2bn CPU sales in FY28 - but did talk to increasing confidence of achieving this.
- Q3 guide was in-line, with Sales/EPS of $1.54bn/$0.56 vs street at $1.52bn/$0.55.
- High opex growth trend was confirmed ($825m guide, in-line with expectations), which suggests the company is continuing the spend for long-term needs.
- We note AI momentum, especially with data centre royalties more than double yy but handsets are likely the headwind at least in Q2.

First Take: Arm reported a strong Q2 print but gave little in the way of update to the longer term story in CPUs. Instead, the company reiterated increasing confidence for c.$2bn in FY27/28. Sales/EPS for Q2 of $1.44bn/52c, ahead of consensus, with licensing well ahead of street at $773m (css $667m), which is up c.50%yy. Royalties meantime were notably weaker at $670m (vs $710m) where we think ongoing handset production weakness was to blame. This is offsetting strength in data cloud momentum, just as we previewed. The guide to Q3 talked of a sales range of $1.49-1.59bn (vs. street at $1.52bn) and EPS of 56c (vs street at 55c), or just ahead at the mid-point. The company is again guiding for strong Q3 opex in-line with that expected (c.$825m non-GAAP), which we think is supportive of long term development needs.

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Arm Holdings plc (ARM.O, ARM US)

Semiconductors | United States of America

Stock Rating	**Equal-weight**
Industry View	**Attractive**
Price target	**US$212.00**
Shr price, close (Nov 3, 2026)	US$202.49
52-Week Range	US$452.70-100.02
Mkt cap, curr (mn)	US$208,047
Net debt (03/27e) (mn)*	US$(5,366)
EV, curr (mn)*	US$205,296

* = GAAP or approximated based on GAAP

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Exhibit 1: Arm: Comparing Actuals with Consensus into the Print

	2Q27e				3Q27e			
	Actual	MSe	Cons	Actual vs. Cons	Guide	MSe	Cons	Guide vs. Cons
Revenue	1,443	1,375	1,377	*5%*	1,540	1,565	1,519	*1%*
Royalties	670	705	708	*-5%*		847	818	
Licensing	773	670	667	*16%*		710	695	
Gross profit	1,412	1,326	1,338	*6%*		1,508	1,472	
Gross margin (%)	97.9%	96.4%	97.2%	68bps		96.4%	96.9%	
Adj. EBIT	638	571	573	*11%*		707	664	
Adj. EBIT margin (%)	44.2%	41.5%	41.6%	258bps		45.2%	43.7%	
Net income	566	505	513	*10%*		635	594	
EPS (Diluted)	0.52	0.47	0.48	*9%*	0.56	0.59	0.55	*2%*

	FY27e				FY28e			
	Guide	MSe	Cons	Guide vs. Cons	Guide	MSe	Cons	Guide vs. Cons
Revenue		6,016	6,062			8,887	8,169	
Royalties		3,069	3,073			4,066	3,740	
Licensing		2,834	2,891			3,358	3,370	
Gross profit		5,755	5,839			7,820	7,365	
Gross margin (%)		95.7%	96.3%			88.0%	90.2%	
Adj. EBIT		2,700	2,693			4,062	3,642	
Adj. EBIT margin (%)		44.9%	44.4%			45.7%	44.6%	
Net income		2,405	2,409			3,605	3,259	
EPS (Diluted)		2.23	2.23			3.34	2.99	

Valuation Methodology and Risks

Arm Holdings plc (ARM.O)

We value Arm on a sum-of-the-parts basis, given the emergence of the new chip business. We apply a 50x EV/EBIT multiple to the IP business (at the upper end of the historical IP valuation range) and a 20x multiple to the chip business (a discount to global chipmakers but reflective of growth potential). Discounting FY29 at an 11% WACC, this implies a valuation of $212.

Risks to Upside

- Arm Neoverse and AI-related compute may ramp up beyond levels modelled
- Higher royalty rates in mobile, PCs and autos
- Better cost control beyond that forecast
- Further long-term CSS commitments with key customers
- Launch of v10 architecture or cloud GPU cores

Risks to Downside

- New entrant & established competitors
- Reliance on smartphone royalties
- Uncertainty around revenues from China JV
- Outstanding litigation risks