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Arm Holdings plc | North America

Inching Towards the CPU Ramp

Arm's FY2Q27 beat (sales/EPS 4%/8% ahead of consensus) was licensing-led, masking a royalty miss. Confidence in c.$2bn of AGI CPU sales over FY27–28 rose, but costlier supply and execution risk cloud the Gen1 ramp. We keep our $212 PT and EW rating.

Key Takeaways

- Sales/EPS beat by 4%/8%, driven by record Q2 licensing of $773m, up 50% yy.
- Royalties missed at $670m (+8% yy vs c.$710m consensus); data centre doubled, but handsets remained weak.
- AGI CPU: rising confidence in c.$2bn revenue across FY27-28, but no formal guide; Gen1 margins guided 30–40%.
- Q3 guide in line: sales/EPS $1.54bn/$0.56 vs Street $1.52bn/$0.55; opex guided at $825m, as expected.
- Execution is the key risk: first CPU shipments in DecQ, first sales in FY4Q27; power efficiency a growing theme.

What did we learn? Little new now, with more promised next time. This quarter offered little that was new, pointing instead to the next quarter for updates on CPU progress, new CAGRs and possibly new products. The CPU story did inch forward. Management say the challenge is less about demand, and perhaps even less about securing supply, than executing the initial volume ramp to customers. As a hitherto leading IP player, Arm has not been through the full checklist of supplying leading-edge silicon globally before, so the issues are largely practical as production moves beyond pilot lines. For instance, ensuring output, aligning supply, managing inventories and collecting receivables. First shipments occur this quarter (DecQ), with sales most likely in FY4Q27 where the company still expects c.$100m of revenue to be recognised. Supply costs are a growing issue (especially wafers, tester access and memory availability), and Arm has cut its Gen1 CPU margin expectations as a result (now 30-40% vs prior commentary of 40%). **In contrast to AMD earlier this week (link), Arm struck a more cautious tone on the CPU ramp – but the issues are not insurmountable and may largely stem from a lack of experience to date.** Gen1 you learn and Gen2 you earn? Let's see.

AI drives the licensing beat; physical AI emerges in royalties. Arm acknowledged no major architecture deals in licensing, attributing the beat (up c.50% yy) entirely to new AI wins, citing multiple CSS and ATA deals. We think AI-driven licensing shows that customers are still leaning into custom chips for specific workloads, reflecting Arm's design flexibility versus x86. However, we also think the beat reflected (i) milestone achievements against a pipeline of backlog deals and (ii) possible non-commercial agreements on new designs to come; the latter may yet prove intriguing. In royalties, Arm still expects a triple digit% growth CAGR in data centre over the next 2–3 years, and, new this quarter, flagged solid growth in

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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 4, 2026)	US$191.80
52-Week Range	US$452.70-100.02
Mkt cap, curr (mn)	US$197,064
Net debt (03/27e) (mn)*	US$(5,191)
EV, curr (mn)*	US$194,313

* = GAAP or approximated based on GAAP

Fiscal Year Ending	03/26	03/27e	03/28e	03/29e
Sales / Revenue (US$ mn)**	4,920	6,072	9,099	11,871
EBITDA (US$ mn)**	2,364	3,049	4,407	6,386
EBIT (US$ mn)**	2,115	2,755	4,277	6,261
EPS (US$)**	1.77	2.26	3.47	5.20
Prior EPS (US$)**	-	2.23	3.34	5.09
EPS (US$)§	1.75	2.23	3.05	4.04
P/E**	85.5	85.0	55.3	36.9
EV/revenue*	32.1	31.6	20.7	15.5
EV/EBITDA**	66.7	62.9	42.7	28.8
EV/EBIT**	74.6	69.7	44.0	29.3
DPS (US$)	0.00	0.00	0.00	0.00
Div yld (%)	0.0	0.0	0.0	0.0
FCF yld ratio (%)**	(0.1)	0.7	1.1	1.5
Net debt (US$ mn)*	(2,751)	(5,191)	(8,915)	(13,460)
Net debt/EBITDA**	NM	NM	NM	NM
RNOA (%)**	41.5	50.5	76.1	98.9
ROE (%)**	27.7	29.4	36.0	38.1

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework
§ = Consensus data is provided by Refinitiv Estimates
* = GAAP or approximated based on GAAP
** = Based on consensus methodology
e = Morgan Stanley Research estimates

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physical AI (mainly autos, but also robotics), where it sees royalties up 20–30% next year. Management acknowledged slowing growth in a near-flat handset production market next year. Even so, Arm's smartphone royalties (mainly on application processors) are likely up LDD% yy next year, helped by higher rates on the newer v9/CSS mix (including next-gen CSS deals).

A thin quarter, as previewed, but power efficiency is a theme to watch. This was a thin quarter for new news, much as we had previewed (link). However, we noted Arm's willingness to lean on the inherent power efficiency of its architecture, set against possible US power shortfalls to come (link). We think this theme will grow as more power-efficient AI compute is sought over the next few years.

AGI CPU: execution risk, not supply availability, is the key issue. Management describes demand for the Arm AGI CPU as extremely strong, with purchase orders from multiple customers extending through calendar 2027. It raised confidence in achieving up to $2bn of AGI CPU revenue across FY27-28 (vs. prior visibility of > $1bn), citing secured supply-chain agreements for wafers, substrates, testers and memory. However, supply has proved more expensive than expected when first announced at the Arm Everywhere event in March 2026, especially wafer and memory pricing. Meta is the lead customer, with multiple others expected. First commercial deliveries remain on track for FY4Q27, with any Q3 contribution expected to be small. Gross margin on Gen1 is guided at 30-40%, although management still hopes to improve this towards 50%+ over time (across Gen2-4). The company will try and corral consensus at or near $1.1bn CPU sales meantime although we think the market will expect c.$2bn to be clarified at the next print.

Licensing strong, royalties weak. Licensing hit a Q2 record of $773m (+50% yy), beating expectations by c.$100m as customers accelerated long-term commitments. Arm signed three new Arm Total Access (ATA), four new CSS deals and booked milestone payments on licensing projects. We think these may include new, non-commercial agreements on a future architecture suite. SoftBank accounted for c. $209m this quarter, and a similar level is expected in Q3 and Q4. Royalties were $670m (+8% yy), which was below consensus of c.$710m: cloud/data-centre royalties doubled yy, but Edge AI/smartphone royalties were pressured by higher memory prices.

Q3 skewed to licensing but Q4 more balanced. Arm guided Q3 revenue up c.24% yy at the midpoint (c.$1.54bn), again skewed to licensing (up c.50% yy). Royalties are guided to grow low-teens qq but only low single digits yy, reflecting continued cloud/AI strength offset by persistent smartphone weakness and a tough prior-year comparison. The company suggested Q4 yy growth may be like Q3, but more balanced between licensing and royalties. All told, we think this implies a big licensing number of c.$850mn in Q4, setting our FY27e at >$3bn, implying 28% yy growth.

We remain EW Arm, PT $212. With the stock de-rating from June peaks we think valuation better reflects fundamentals. Although lots was hinted at this quarter, nothing new for the near term means that we stay EW. To turn more bullish we would need to see evidence that (i) operating leverage can be sustained amidst the transition to chip making and that (ii) CPU demand to 2030 is achievable. We make



only modest changes to our sales/earnings, in line with new updates from the company. This lifts our FY27/28/29 EPSe by 1/4/2% respectively. We maintain our sum-of-the-parts methodology reflecting the emergence of the new chip business. We trim our IP EV/EBIT multiple marginally to 49x (prior 50x), still at the upper end of the historical IP valuation range but accounting for the sector de-rating. We maintain our 20x EV/EBIT multiple for the chip business, a discount to global chipmakers but reflective of growth potential. Discounting FY29 at an 11% WACC, this keeps our PT at $212.

Financials

FY2Q26: Quick Summary

- Arm's FY2Q27 print was a beat top/bottom line (4%/8% ahead of css respectively). This was led by strong licensing (+50% yy) but we note a sizeable miss on royalties (up just c.8% yy) given ongoing weakness in handset royalties.
- Company stopped short of giving definitive guide to c.$2bn CPU sales in FY27+28 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 datacentre royalties more than double yy but handsets are likely the headwind at least in Q2 and again in Q3.
- Sales skewed again to licensing but more balanced in Q4 – we expect yy growth of c.24% in Q3 (mid-point of guide) and for a comparable yy growth in Q4.
- SoftBank licensing was c.$209m in Q2 (vs Q1: c.$200m) – mgmt sees it as this level again in Q3 and Q4.

Exhibit 1: ARM Annual Income Statement

Annual Income Statement	2021	2022	2023	2024	2025	2026	2027e	2028e	2029e
Revenues	**2,027**	**2,703**	**2,679**	**3,233**	**4,007**	**4,920**	**6,072**	**9,099**	**11,871**
Cost of goods Sold	-145	-131	-106	-154	-121	-121	-254	-1,082	-1,773
Gross profit	1,882	2,572	2,573	3,079	3,886	4,799	5,818	8,017	10,098
R&D	-814	-995	-1,133	-1,979	-2,071	-2,776	-3,389	-3,951	-4,473
SG&A	-826	-897	-762	-983	-984	-1,115	-1,279	-1,356	-1,437
Other income/(expenses)	-3	-47	-7	-6	0	-8	0	0	0
EBIT (reported)	239	633	671	111	831	900	1,150	2,710	4,188
Adjusted EBIT	**304**	**731**	**783**	**1,382**	**1,818**	**2,115**	**2,755**	**4,277**	**6,261**
Adjusted EBITDA	**505**	**916**	**953**	**1,544**	**2,001**	**2,364**	**3,049**	**4,407**	**6,386**
Net Financials & other	458	153	0	101	-111	257	273	222	481
PBT (reported)	697	786	671	212	720	1,157	1,423	2,932	4,669
Income Tax	-153	-110	-147	94	72	-253	-200	-410	-654
discont. Ops.	-156	-127	0	0	0	0	0	0	0
Net Income (reported)	**388**	**549**	**524**	**306**	**792**	**904**	**1,223**	**2,522**	**4,015**
Net Income (non-GAAP)	**595**	**663**	**657**	**1,307**	**1,820**	**1,889**	**2,436**	**3,742**	**5,615**
EPS ($) Adjusted - Basic	0.58	0.65	0.64	1.27	1.73	1.78	2.28	3.50	5.26
EPS ($) Adjusted - Diluted	**0.58**	**0.65**	**0.64**	**1.25**	**1.71**	**1.77**	**2.26**	**3.47**	**5.20**
DPS ($)	0.73	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

	2021	2022	2023	2024	2025	2026	2027e	2028e	2029e
Sales growth - yy	7%	33%	-1%	21%	24%	23%	23%	50%	30%
Gross margin	92.8%	95.2%	96.0%	95.2%	97.0%	97.5%	95.8%	88.1%	85.1%
EBIT Margin	11.8%	23.4%	25.0%	3.4%	20.7%	18.3%	18.9%	29.8%	35.3%
Adjusted EBIT Margin	15.0%	27.0%	29.2%	42.7%	45.4%	43.0%	45.4%	47.0%	52.7%
EBITDA Margin	21.7%	30.3%	31.4%	8.4%	25.3%	23.4%	23.8%	31.2%	36.3%
Adjusted EBITDA Margin	24.9%	33.9%	35.6%	47.8%	49.9%	48.0%	50.2%	48.4%	53.8%
PBT margin	34.4%	29.1%	25.0%	6.6%	18.0%	23.5%	23.4%	32.2%	39.3%
Net margin (reported)	19.1%	20.3%	19.6%	9.5%	19.8%	18.4%	20.1%	27.7%	33.8%
Net margin - Adjusted	29.4%	24.5%	24.5%	40.4%	45.4%	38.4%	40.1%	41.1%	47.3%
Effective tax rate	-22%	-14%	-22%	44%	10%	-22%	-14%	-14%	-14%

Source: Company data, Morgan Stanley Research estimates (e)

Exhibit 2: Arm Quarterly Income Statement

Quarterly Income Statement	1Q26	2Q26	3Q26	4Q26	2026	1Q27	2Q27	3Q27e	4Q27e	2027e
Revenues	**1,053**	**1,135**	**1,242**	**1,490**	**4,920**	**1,289**	**1,443**	**1,553**	**1,787**	**6,072**
Cost of goods Sold	-30	-29	-30	-32	-121	-36	-42	-57	-119	-254
Gross profit	1,023	1,106	1,212	1,458	4,799	1,253	1,401	1,496	1,668	5,818
R&D	-650	-691	-737	-698	-2,776	-838	-857	-824	-870	-3,389
SG&A	-259	-252	-284	-320	-1,115	-317	-343	-305	-314	-1,279
Other income/(expenses)	0	0	-6	-2	-8	-7	0	0	0	0
EBIT (reported)	114	163	185	438	900	91	201	367	485	1,150
Adjusted EBITDA	**472**	**522**	**568**	**802**	**2,364**	**606**	**719**	**763**	**954**	**3,049**
Net Financials & other	32	139	43	43	257	162	7	44	60	273
PBT (reported)	146	302	228	481	1,157	253	208	411	545	1,423
Income Tax	-16	-64	-5	-168	-253	17	-78	-58	-82	-200
disc. Ops.	0	0	0	0	0	0	0	0	0	0
Net Income (reported)	**130**	**238**	**223**	**313**	**904**	**270**	**130**	**353**	**463**	**1,223**
EPS ($) - Basic	0.12	0.22	0.21	0.29	0.85	0.25	0.12	0.33	0.43	1.14
EPS ($) - Diluted	**0.12**	**0.22**	**0.21**	**0.29**	**0.85**	**0.25**	**0.12**	**0.33**	**0.43**	**1.13**
Adjusted EPS ($) - Basic	0.35	0.39	0.43	0.60	1.78	0.45	0.53	0.57	0.72	2.28
Adjusted EPS ($) - Diluted	**0.35**	**0.39**	**0.43**	**0.60**	**1.77**	**0.45**	**0.52**	**0.57**	**0.72**	**2.26**
DPS ($)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	1Q26	**2Q26**	**3Q26**	**4Q26**	**FY26**	**1Q27**	**2Q27e**	**3Q27e**	**4Q27e**	**FY27e**
Sales growth - qq		7.8%	9.4%	20.0%		-13.5%	11.9%	7.6%	15.1%	
Gross margin	97.2%	97.4%	97.6%	97.9%	97.5%	97.2%	97.1%	96.3%	93.4%	95.8%
EBIT margin (reported)	10.8%	14.4%	14.9%	29.4%	18.3%	7.1%	13.9%	23.6%	27.1%	18.9%
EBIT margin - Adjusted										
EBITDA margin	44.8%	46.0%	45.7%	53.8%	48.0%	47.0%	49.8%	49.1%	53.4%	50.2%
PBT margin	13.9%	26.6%	18.4%	32.3%	23.5%	19.6%	14.4%	26.5%	30.5%	23.4%
Net margin (reported)	12.3%	21.0%	18.0%	21.0%	18.4%	20.9%	9.0%	22.7%	25.9%	20.1%
Net margin - Adjusted										
Effective tax rate	-11%	-21%	-2%	-35%	-22%	7%	-38%	-14%	-15%	-14%

Source: Company data, Morgan Stanley Research estimates (e)

Exhibit 3: Arm Annual Balance Sheet

Annual Balance Sheet	2021	2022	2023	2024	2025	2026	2027e	2028e	2029e
Cash & cash equivalents	1,171	1,004	1,554	1,923	2,085	2,751	5,191	8,915	13,460
Financial investments	126	631	661	1,000	740	850	370	370	370
Accounts receivables	910	1,124	999	781	1,107	1,300	1,589	2,161	2,671
Inventory	0	0	0	0	0	0	63	374	863
Contract assets	81	166	154	336	642	977	429	500	594
Prepaids & Other	203	167	169	157	256	358	357	455	534
Total current assets	**2,491**	**3,092**	**3,537**	**4,197**	**4,830**	**6,236**	**7,999**	**12,775**	**18,491**
PP&E	259	188	185	215	394	841	1,144	1,622	2,104
Goodwill & Other Intangibles	1,870	1,841	1,758	1,777	1,771	1,853	2,069	2,056	2,044
Equity method investments	1,560	736	723	741	565	387	599	599	599
Financial receivables, net									
Deferred tax assets	90	135	139	282	401	375	410	410	410
Other non-current assets	609	518	524	715	971	1,011	1,056	1,056	1,056
Total non-current assets	**4,388**	**3,418**	**3,329**	**3,730**	**4,102**	**4,467**	**5,278**	**5,743**	**6,213**
Total assets	**6,879**	**6,510**	**6,866**	**7,927**	**8,932**	**10,703**	**13,277**	**18,518**	**24,704**
Short-term debt									
Accounts Payable	55	57	65	26	62	0	166	692	821
Provisions (Contract liabilities)	459	365	319	225	239	333	400	629	695
Income tax payable	4	129	162	147	124	106	130	211	230
Other current liabilities (incl accrued li	633	844	817	1,107	535	601	832	902	950
Total current liabilities	**1,151**	**1,395**	**1,363**	**1,505**	**960**	**1,040**	**1,528**	**2,433**	**2,695**
Long-term debt									
Pensions and commitments									
Deferred tax liabilities	317	279	262	135	41	39	70	70	70
Provisions (Contract liabilities)	1,028	1,022	1,000	911	1,018	1,145	1,115	1,115	1,115
Other non-current liabilities (incl accru	333	266	190	81	105	193	168	168	168
Total non-current liabilities	**1,678**	**1,567**	**1,452**	**1,127**	**1,164**	**1,377**	**1,353**	**1,353**	**1,353**
Total liabilities	**2,829**	**2,962**	**2,815**	**2,632**	**2,124**	**2,417**	**2,881**	**3,786**	**4,048**
Total net assets	**4,050**	**3,548**	**4,051**	**5,295**	**6,808**	**8,286**	**10,396**	**14,732**	**20,656**
Total equity	**4,050**	**3,548**	**4,051**	**5,295**	**6,808**	**8,286**	**10,396**	**14,732**	**20,656**
Net debt:									
Total Debt	0	0	0	0	0	0	0	0	0
Total "Cash"	1,171	1,004	1,554	1,923	2,085	2,751	5,191	8,915	13,460
Net cash/(debt)	**1,171**	**1,004**	**1,554**	**1,923**	**2,085**	**2,751**	**5,191**	**8,915**	**13,460**

Source: Company data, Morgan Stanley Research estimates (e)

Exhibit 4: Arm Valuation Matrix and Ratio Analysis

Valuation Matrix ($m)	2021	2022	2023	2024	2025	2026	2027e	2028e	2029e
Share Price ($)	**51.0**	**51.0**	**51.0**	**192.0**	**192.0**	**192.0**	**192.0**	**192.0**	**192.0**
Number of Shares (m)	1,025	1,025	1,025	1,027	1,050	1,061	1,068	1,068	1,068
Market Cap ($m) - average	**52,287**	**52,287**	**52,287**	**197,269**	**201,600**	**203,664**	**205,104**	**205,104**	**205,104**
Net debt/(cash) ($m) - average	-1,171	-1,004	-1,554	-1,923	-2,085	-2,751	-5,191	-8,915	-13,460
Enterprise Value ($m) - average		**51,283**	**50,733**	**195,346**	**199,515**	**200,913**	**199,913**	**196,189**	**191,644**
P/E (x)	87.8	78.9	79.6	153.4	112.1	108.5	85.0	55.4	36.9
P/E FY1 (x)	**78.9**	**79.6**	**40.8**	**112.1**	**108.5**	**85.0**	**55.4**		
Price/book value (x)		14.7	12.9	37.3	29.6	24.6	19.7	13.9	9.9
Price/FCF (x)	51.6	146.5	92.2	-2191.9	-162.3	-1977.3	146.8	94.2	66.9
EV/Sales (x)	0.0	19.0	18.9	60.4	49.8	40.8	32.9	21.6	16.1
EV/Sales FY1 (x)	**0.0**	**19.1**	**15.7**	**48.8**	**40.6**	**33.1**	**22.0**		
EV/EBITDA (x)	0.0	56.0	53.2	126.5	99.7	85.0	65.6	44.5	30.0
EV/EBITDA FY1 (x)	**0.0**	**53.8**	**32.9**	**97.6**	**84.4**	**65.9**	**45.4**	**30.7**	
EV/IC (x)	0.0	16.6	17.6	71.1	62.2	50.3	42.5	35.5	27.9
Dividend yield	1.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF yield	1.9%	0.7%	1.1%	0.0%	-0.6%	-0.1%	0.7%	1.1%	1.5%
Per share data ($):									
EPS - Diluted	**0.6**	**0.6**	**0.6**	**1.3**	**1.7**	**1.8**	**2.3**	**3.5**	**5.2**
Dividends per share	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF per share	1.0	0.3	0.6	-0.1	-1.2	-0.1	1.3	2.0	2.9
Book value per share		3.5	4.0	5.2	6.5	7.8	9.7	13.8	19.3

Ratio Analysis	2021	2022	2023	2024	2025	2026	2027e	2028e	2029e
ROCE		12%	12%	2%	10%	9%	10%	17%	19%
ROIC	17%	25%	28%	2%	23%	30%	30%	58%	72%
ROE		15%	13%	6%	12%	11%	12%	17%	19%
Interest cover (x)	-	-	-	-	-	-	-	-	-
Cash Conversion	2.4	0.5	0.8	0.7	-0.1	0.6	1.1	0.9	0.8
Net debt/Equity	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Dividend/FCF	74%	0%	0%	0%	0%	0%	0%	0%	0%
Payout ratio (DPS/EPS)	126%	0%	0%	0%	0%	0%	0%	0%	0%
Capex/Sales	5%	1%	2%	3%	5%	11%	9%	6%	5%
yy growth:									
Sales growth		33.3%	-0.9%	20.7%	23.9%	22.8%	23.4%	49.8%	30.5%
EBIT growth		164.9%	6.0%	-83.5%	648.6%	8.3%	27.8%	135.6%	54.5%
EBITDA growth		81.4%	4.0%	62.0%	29.6%	18.1%	29.0%	44.6%	44.9%
EPS growth		11.4%	-0.9%	95.3%	36.8%	3.3%	27.6%	53.6%	50.1%
FCF growth		-64.8%	58.8%	-115.9%	1280.0%	-91.7%	-1456.2%	55.9%	40.8%
Dividend growth		0.0%	na	na	na	na	na	na	na
Margin structure:									
Gross margin	92.8%	95.2%	96.0%	95.2%	97.0%	97.5%	95.8%	88.1%	85.1%
EBIT margin	11.8%	23.4%	25.0%	3.4%	20.7%	18.3%	18.9%	29.8%	35.3%
EBITDA margin	24.9%	33.9%	35.6%	47.8%	49.9%	48.0%	50.2%	48.4%	53.8%
PBT margin	34.4%	29.1%	25.0%	6.6%	18.0%	23.5%	23.4%	32.2%	39.3%
Net margin	19.1%	20.3%	19.6%	9.5%	19.8%	18.4%	20.1%	27.7%	33.8%

Source: Company data, Morgan Stanley Research estimates (e)

Risk Reward – Arm Holdings plc (ARM.O)

Transition stage as Arm moves into chips

PRICE TARGET US$212.00

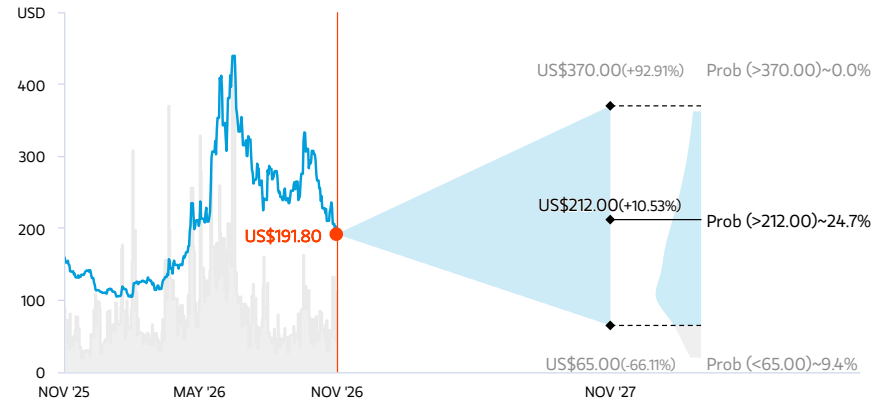
We value Arm on a sum-of-the-parts basis, given the emergence of the new chip business. We apply a 49x EV/EBIT multiple to the IP business (at the upper end of the historical IP valuation range) and a 20x multiple to the chip business (a discount to global chipmakers but reflective of growth potential). Discounting FY29 at an 11% WACC, this implies a valuation of $212.

Consensus Price Target Distribution US$125.00 — US$286.95 (MS PT) — US$480.00

◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)



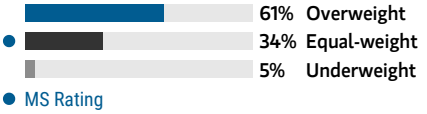
Key: Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 4 Nov 2026. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology here

EQUAL-WEIGHT THESIS

Arm is the silicon IP leader with 60%+ share of global semiconductor IP sales, including a ubiquitous position in smartphones. Upside revolves around structural growth opportunities in edge/cloud AI, PCs & autos including share gain, royalty rate inflections as customer designs shift to Arm's v9/CSS architecture and upside from the chip transition. We model a 32% EPS CAGR over FY25-29 amidst the shift to chipmaking. Downside risks include outstanding litigation, geopolitical uncertainty, competition and slowing future China sales.

Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Disruption:	*Positive*
Pricing Power:	*Positive*
Technology Diffusion:	*Positive*

View descriptions of Risk Rewards Themes here

BULL CASE US$370.00

Market de-risks and moves to valuing Arm on FY31

Arm could see better gains than modelled, especially in the infrastructure segment, driven by AI and general cloud growth, as well as a more uniform transition to higher royalty rates than modelled. Near-term upside from the chip business, with greater value in the outer years. We value the business on FY31 and apply a 20x EV/EBIT multiple to the chip business and 50x multiple to the IP business.

BASE CASE US$212.00

Long-dated chip business emergence

We value Arm on a sum-of-the-parts basis, given the emergence of the new chip business. Earnings growth is slowing as the company builds out its engineering presence ahead of its new chip strategy. We apply a 49x EV/EBIT multiple to the IP business and a 20x multiple to the chip business. Discounting FY29 at an 11% WACC, this gives us a price target of $212.

BEAR CASE US$65.00

Risk factors impact; no chip impact

Key downside risks include (i) loss-making chip business, (ii) weaker royalty rates in key end markets, (iii) the business impact from an unfavourable litigation outcome and (iv) loss of share to competitors in growing end markets. As such, macro headwinds, slowing AI growth and no upside for the chip business would imply a bear case of $65.

Risk Reward – Arm Holdings plc (ARM.O)

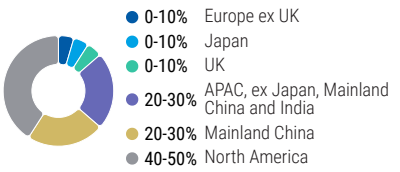
KEY EARNINGS INPUTS

Drivers	Mar 2026	Mar 2027e	Mar 2028e	Mar 2029e
Sales growth - yy (%)	22.8	23.4	49.8	30.5
Gross margin (%)	97.5	95.8	88.1	85.1
EBIT Margin (%)	18.3	18.9	29.8	35.3

INVESTMENT DRIVERS

- Strong portfolio positioned for growth (Neoverse, v9)
- Arm on a long-term journey to higher returns
- Structural growth opportunities in automotive and AI
- Competition from emerging open-source ecosystems
- Licensing growth to slow over medium term

GLOBAL REVENUE EXPOSURE



Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

4/5 BEST	24 Month Horizon	5/5 MOST	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

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

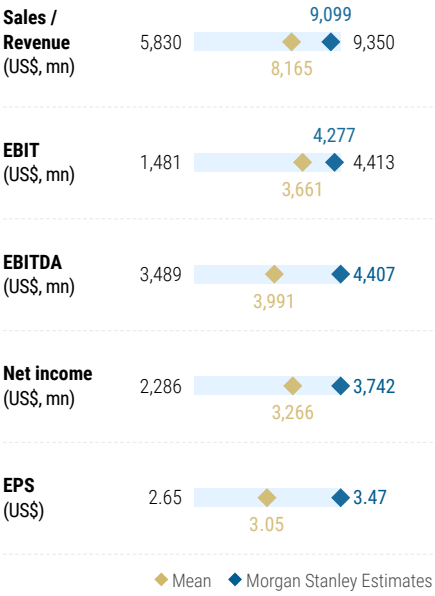
OWNERSHIP POSITIONING

Inst. Owners, % Active	96.5%
HF Sector Long/Short Ratio	2.2x
HF Sector Net Exposure	30.6%

Refinitiv; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Mar 2028e



Source: Refinitiv, Morgan Stanley Research

Valuation Methodology and Risks

Advanced Micro Devices (AMD.O)

Our $550 PT for AMD equals ~20x base case FY2028e MWEPS of $27.58, reflecting further share gains at the expense of Intel, and ~50% y/y growth in datacenter (51% in AI)

Risks to Upside

- Datacenter GPU outperforms expectations, closing the gap with Nvidia
- PC and server share gain accelerates; Intel's competitive response is less impressive than expected
- Server refresh drives datacenter revenue above expectations

Risks to Downside

- Intel's server CPUs in 2027 stifle AMD's momentum and allow it to regain share
- AMD loses graphics share to NVIDIA
- Datacenter GPU underperforms expectations

Risk Reward Reference links

1. View explanation of Options Probabilities methodology - Options_Probabilities_Exhibit_Link.pdf

2. View descriptions of Risk Rewards Themes - RR_Themes_Exhibit_Link.pdf

3. View explanation of regional hierarchies - GEG_Exhibit_Link.pdf

4. View explanation of Theme/Exposure methodology - ESG_Sustainable_Solutions_External_Link.pdf

5. View explanation of HERS methodology - ESG_HERS_External_Link.pdf