

Interviewee: Warren East
Position: CEO
Company: Arm Holdings
Channel: CNBC in Europe
Date: 05/02/13
Time: 09:04 CET
Duration: 07 Minutes 22 Seconds

Interview with Warren East

Steve Sedgwick

Arm Holdings, I mentioned that one didn't I? Our top gainer in the technology sector. It is up now 37p to 929.5p, 4.2% to the good is where this one is trading. Geoffrey?

Geoff Cutmore

So Warren East has joined us round the desk. Good to see you Warren.

Warren East

Morning.

Geoff Cutmore

Warren is the CEO of Arm Holdings. The market likes the numbers this morning. You'll be pleased to know that the stock is up what, 3.8% were you saying there Steve? Big jump anyway in the share price. So what comes next here for Arm through 2013?

Warren East

Well, we're continuing our programme of investment in new technology, we're licencing our new products, we're moving well beyond the mobile space and the mobile computing space, into the infrastructure that sits around that, and looking forward to the so-called internet of things.

Geoff Cutmore

There are some questions as to whether we're at a point where Tablet and Smartphone sales are going to slow this year, and I just wonder whether you feel that saturation may be close and whether that has an impact on the designs of chips that you licence into these products?

Warren East

Well obviously this is a sector which has been growing very strongly over recent years, and indeed estimates for this year are for reduced growth, but that's still a 40% growth that people are looking at in smartphones this year, and what's important for us is the increased use of technology within the phone. So even though the growth may be slowing, the value of the technology that's going in there is continuing to drive growth for our business.

Geoff Cutmore

Can I ask you for a comment on Apple? My understanding is that they rejected Arm chipsets to in the iPhone 5 and the iPad 4, they pursued an R&D programme developing their own A6 and A6X architecture. What does that mean for you, if anything, here, if Apple has decided to approach a higher capex into R&D themselves, and maybe they're not going to take Arm products?

Warren East

Well, we have two different models for our technology: one where we deliver whole designs, and one where we deliver effectively specifications, and we have people who do their own thing. Apple like to control a lot of their design, they do their own thing, but as anybody can see looking at the application space, this is based on Arm architecture, and from a business point of view then the relationship continues.

Karen Tso

So how closely are you linked to the story around Apple then, because the shrinking margin story, the lower demand story, is something the market has been concerned about, enough to sell down Apple

stock, but we're not seeing that reaction in your shares at the moment in terms of the performance on your numbers, so is there a correlation between your two companies?

Warren East

Well obviously Apple is a thought leader in the space for smartphones and tablets, and in that way, we work with them. However we design our technology into everybody's tablets and everybody's smartphones and market shares will shift from time to time, as thought-leaders' business positions change, but we still regard Apple as a thought leader in the space.

Steve Sedgwick

But as long as the market's growing you don't care. You're in what is it, over 95% of mobile devices, yeah?

Warren East

Indeed. It is ... yes.

Steve Sedgwick

Alright. I've been pawing through your numbers, I told you off-air, so let's go through a few of these things. Net cash, 520 million quid; way too much for some shareholders to be holding, isn't it? Don't they want you to give that back?

Warren East

Well, we have increased the dividends this year. We talk about a progressive dividend policy and our dividends are progressing.

Steve Sedgwick

How many times can you increase the final by 35%?

Warren East

Ah well, I mean that depends a little bit on the state of the business as we go forward. We're continuing to invest in the business. To target these new market areas we do need to do the equivalent for our business of investing in capital, and that's investing in people. So we've done that for the last three years and we're continuing.

Steve Sedgwick

Yeah, you knew I was going to ask you about that! 2,392 employees, you've increased that by 276 in the past 12 months and you were telling me off-camera that's a continuation of a multiyear trend as well. That's going into R&D personnel as well, and yet when Intel made similar commitments to increase their capex, the market decided it didn't like it. Why should the market like what you're doing increasing personnel and R&D, and not like it somewhere else?

Warren East

Well, the market's opinion's the market's opinion. Our technology is targeted.

Steve Sedgwick

Do you care what the market thinks, Warren?

Warren East

Of course we care what it thinks, but our technology is really aimed at the post-PC era, and over the last five years then the number of devices connected to the internet has grown, Arm's share has moved from a small share where most of the devices were PCs and most of them being Intel-based, to now three-quarters of these devices are Arm-based and that's the trend for the future.

Steve Sedgwick

I'm glad you mentioned the post-PC era, because I wonder if you want to settle a little dispute that we've been having. I think actually you might be somewhere in between the two of us. Geoff and I were talking about the ability of Michael Dell, as a private owner of a private company, to turn this one around. Sharon writes in, 'My opinion of Dell is it's your grandmother's computer company; they're finished and he's grasping at straws.' I think that is even more extreme than my view as well, but what do you think about what Dell can do, and the fact that you've just mentioned the post-PC era?

Warren East

Well post-PC era obviously means there are a wide range of different devices connected to the internet, so companies that play in this space need to be looking at multiple form factors, small screens, large screens, and everything in between. Now there are a huge range of companies, they all have strengths and weaknesses. Dell has a great brand in the enterprise space and it's a brand that's based on service, looking after the CIOs in these big companies, and I think concentrating on strengths generally works for most companies.

Geoff Cutmore

I've got a sort of big picture question, and it's we've been seeing you for years and watching this company steadily grow, but it seems stubbornly to still be below this billion revenue number. Does that irk you, and are you irked by the suggestion that a lot of companies, like Apple now, are starting to think about creating their own chips around some of the Arm designs and architecture that you've established? You don't seem to be being paid for what you've contributed to the sector, in a sense.

Warren East

Well, we have indeed signed a few more architecture licences and we've put that in our release and companies seek to control more of the design space and differentiate their products more. We are really an ecosystem company, and these architecture licences can benefit from that ecosystem. From a business point of view it's exactly the same for us. We earn licence fees and royalties in the same way. Market consensus for this year does have us at over \$1 billion and we just reiterated this morning that, based on where we are, notwithstanding competition, notwithstanding an uncertain environment, then we're comfortable with market expectations.

Geoff Cutmore

Best of luck with it Warren. Thanks so much for coming in and seeing us. Always a pleasure to catch up. Warren East, CEO of Arm Holdings.

Important Disclaimer

Although strenuous efforts are made to ensure the accuracy of interview transcripts, Executive Interviews and its associated companies accept no liability for what is said, for any discrepancy between the spoken and written word, or for any errors and omissions. Where doubt arises, please refer to the original broadcast video interview.