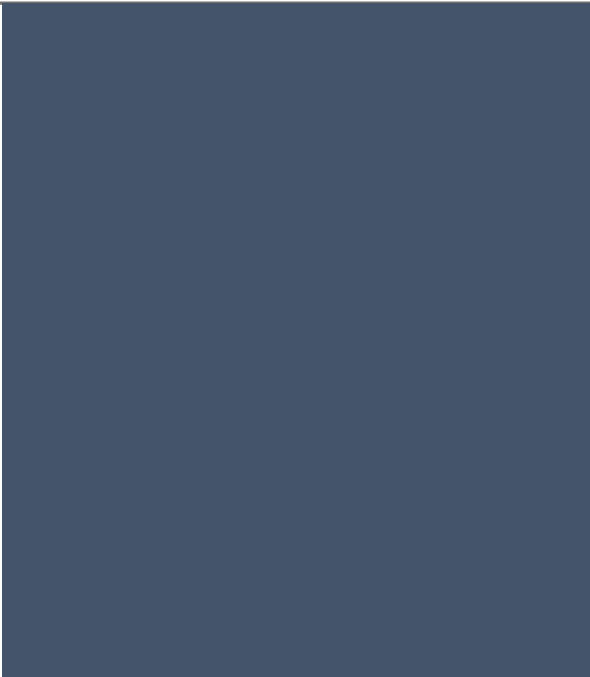




Strategic Implications of Acquisition

Softbank and Arm Holdings

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Abstract

Within the third quarter of 2016, SoftBank completed the acquisition of ARM Holdings, one of Britain's most successful High technological companies. This acquisition consequently has strategic changes not only on ARM's but also SoftBank's strategy, structure, organisation, culture, and other organisational lives. With a view to providing bases for such acquisition, this essay provides a comparative and evaluative analysis of the strategic change implications that has occurred not only from the viewpoints of ARM Holdings but also Softbank's. The essay shows that these two giant technological companies only fair better technologically and business wise since the acquisition. The essay adopts the relevant KPIs to corroborate its analysis and the synthesis of the data acquired.

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1. Historical Background of Arm Holding and Softbank

The acquisition of Arm Holdings by Softbank Group which is one of the biggest in technology industry in Europe occurred in 2016 and it was one of the biggest acquisitions in the history of Britain. Arm Holding is one of the biggest multinational semiconductors in the world and its designs base is in Cambridge UK. The acquisition occurred when there was uncertainty a lot of within the British economy. SoftBank acquired Arm holding with its subsidiary for £23.4 billion in July 12, 2016. SoftBank Group is the Japanese conglomerate that had acquired many other companies and added Arm Holding into their portfolio. The completion of the acquisition took two weeks of negotiations to break between Masayoshi Son, his team in Softbank and Robin Saxby with his team in Arm Holding. The acquisition brought a big paradigm shift to the Technology Industry and the British economy through employment and investment into the UK economy.

1.1 Introducing ARM Holdings

The name “ARM” was used in 1983 and its literal meaning was “Acorn Rise Machine”. Arm Holding is the most successful British multinational semiconductor and software design that has its headquarter located in Cambridgeshire, UK. The chairman of ARM holdings during the acquisition of the company was Stuart Chambers. The company designs Arm processors CPUs which facilitate speedy delivery to the other components. The company designs soft development tools and it holds shares of other companies. It also produces systems and platforms, system-on-a-chip (SoC) infrastructure and software. Arm’s product is well known in Smartphones, tablet, computers and many other devices. Many Processors are designed and licensed by Arm that can start from the world smallest computer to the processor of the supercomputers. Their products can be seen in the laptops, desktops, real time setting system, smart TV and many other devices. Arm does businesses with other entities including Samsung, Apple and other companies by licensing its technological hardware to be ubiquitous in many mobile devices which it receives royalties for each device (Massoudi A, 2016).

1.2 Introducing Softbank

SoftBank started as a computer parts store, it was founded in 1981 and then moved into publishing business which was known as Oh! PC and Oh! MZ magazines that was about NEC and Sharp computers. It was well known that it became Japan largest publisher of computer and technology magazines. SoftBank is prominent for its leadership in operators and of investing globally in technology, Internet and wireless sectors. SoftBank has interests in many businesses including advanced technology, consumer internet, sprint Corporation and Yahoo, having initiative in robotics, clean energy and other technology-based industries. When it went public in 1994, its worth was \$3 billion. Softbank acquired many other companies between 1995 and 2009; an example of these is COMDEX from the Interface Group. By 1996, Mr Son, the chairman of the company entered into joint venture with Yahoo which was later called Yahoo Japan and was known throughout the country. He went also into a venture in China with Alibaba and the investment turned out to worth \$60 billion. The SoftBank Group was acquiring many companies until 2016 and when it made its proposition to acquire Arm Holding.

SoftBank is advancing on its strategy with a view to sustaining its growth by customer base of its telecommunication business thereby increasing efficiency through structural reform as stated by Ken Miyauchi. With SoftBank focusing on acquiring many firms, they have created efficiency on telecommunications from the scratch focusing at the present, tomorrow. They have put machineries in place will help to tackle the problems that might arise in future. In telecommunication industry, changes can happen any time so is important to put systems in place that can keep a tab on the trend of events. Mr. Miyauch made it known that SoftBank is extending its business fields of telecommunication operations by advancing Beyond Carrier Strategy, and the aim is for a sustainable long-term growth. Mr. Miyauchi as the Strategy Director stated that between 2016 and 2017 was the period of investment which was the time that SoftBank acquired Arm Holdings.

2. Explaining Acquisition

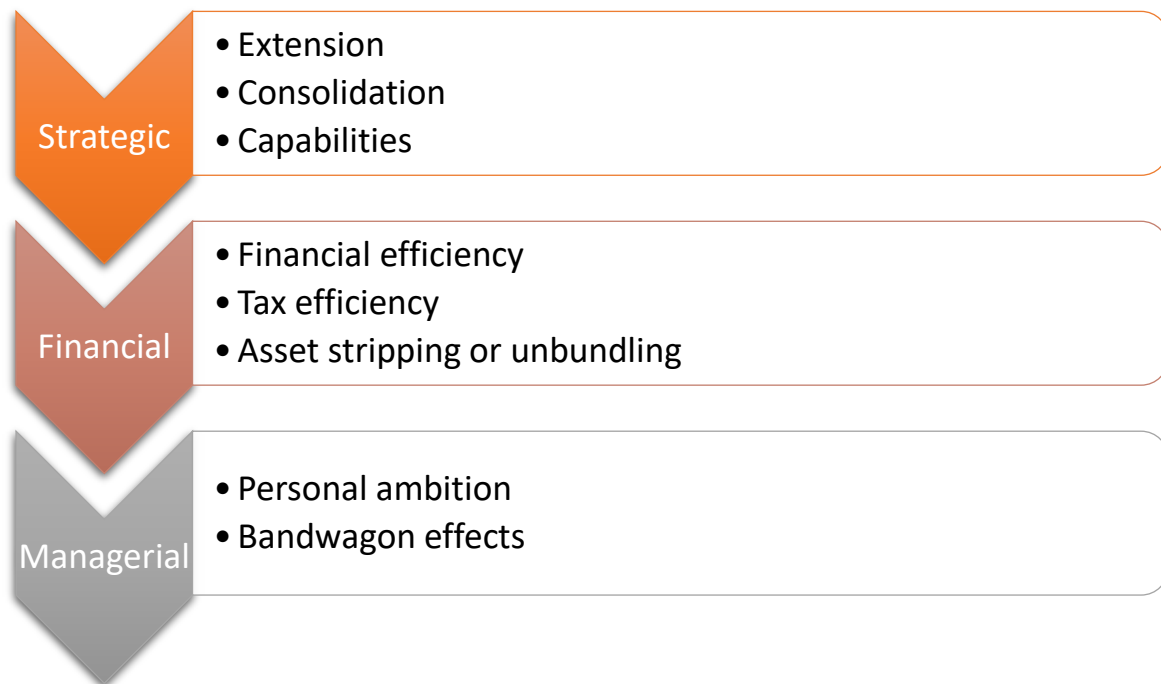
Acquisitions are made as a speedy means of achieving major organizational goals according to Johnson et al (2014). Acquisition, in the light of SoftBank strategy, means taking over company through the purchase of shares. This is achieved by targeting majority of the shares of the targeted organization. In the Softbank case, for instance, Arm recommended to their shareholders that SoftBank had a good offer which led to an acceptance of the offer and a successful completion of the deal, thus, making Arm Holding and its acquirer integrate as one entity. The acquisition was hitch free and friendly which facilitated the smooth integration of the management of Arms holding into the administration of SoftBank (Johnson, et al 2010).

SoftBank's acquisition of the Arm Holdings happened at the bargain of about £23.4 billion (€31.4 billion), which was the biggest in Europe. The shareholders were being paid £17 per share after the deal irrespective of the fact that the UK vote to leave European Union. And the pound plummeted in value, (McCormick, 2016).

3. Motives for the acquisition

Acquisitions happen for many corporate reasons. These reasons according to Johnson et al (2014) include strategic, financial and managerial.

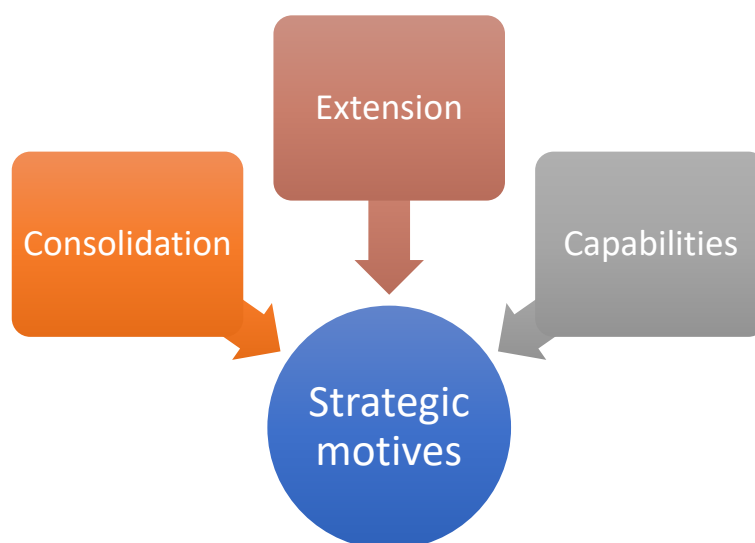
Figure 1: Three motives for acquisition



3.1. Strategic reasons for acquisition

The first major reason for acquisition is strategic. Strategic reasons are caused by the need for the organization to compete more effectively in their industry and so they seek to avenues to gain competitive advantage over their competitors. Such reasons according to Bower (2001) can be categorized into three ways; extension, consolidation and capabilities.

Figure 2: Strategic reasons for Acquisition



Extension

For Strategic reason of extension, according to Bower (2001), an organization may want to extend the reach of its operations in relations to its geography, market or products and services.

According to Johnson G. (2014) companies acquire in other to extend and accelerate their position of leadership in their target industry. This is the case with Softbank acquiring Arm holding which is in other to be the leader in IP licensing. They also want to be able to outsource Semiconductor companies for R&B through the acquisition increasing their market shares on CUPs, system-on-a-chip and other products that ARM produces.

The CEO of SoftBank Mr. Masayoshi Son has long had admiration for Arm Holding for they are renowned and well respected in the technology industry as leader in this field. He believes that Arm will strategically fit into Softbank's strategic motive for extension into the technological market as they invest to capture the future ahead. This is an opportunity for him to have commitment to UK and to have access to the talents in science and technology in Cambridge.

Instead of Softbank starting from the beginning, they are better off acquiring Arm Holding that is already in existence with the aim achieving a great market share and the market dominance that comes with it

Consolidation

Companies use acquisition to consolidate the competitors in the industry according to Bower (2001). They do this to reduce the market power of their competitors and so they gain control over products and the supply of products.

With the acquisition of Arm Holding, SoftBank will have access to AIM deep industry expertise, the global network, the new and the old intellectual property thereby consolidating its position in technology according to Johnson G. (2014)

SoftBank makes the strategic move towards acquiring Arm, as Arm has dominance in designing, building computer, semiconductor, highly energy-efficient processors and the technology that comes with it. These are embedded in 95% of most smart phones (Jones, 2016). SoftBank invests in Arm as one of the leading sciences and technology innovations.

As Mr. Son believes in long term objectives, he sees the strategic partnership as being significant to future growth. Softbank has the vision about the two companies with the same technologically oriented cultures. It is believed that they will always be looking for ways to improve innovations, that is, looking for how to be the best in technology industry, while attracting and retaining the very best talents. With these similar values and beliefs, they are led to a strategic partnership for a greater opportunity for years ahead (D. Jones 2016).

SoftBank acquired Arm Holding as a consolidation against their competitors as the latter produces 95% of Semiconductors and processor for all computers, which led to increase in the market power and decrease in the competition

Capabilities

The third strategic reason for acquisition as Bower (2001) puts it is to combine capabilities in order to increase the company's efficiency.

Another reason for acquisition according to Johnson (2014) is that companies use it as means of a grand entrance into a new market that the acquirer has been desiring which they believe can increase their capabilities. This happens often in technology industry. Irrespective of the fact that Softbank is into computing and technology, ARM is very good in R&D in the components they produce. So, instead of fresh entrance into the technology world, Softbank will be using the acquisition to set foot in the industry with these components. This is illustrated by many other firms like Google acquiring Admob for \$576 million and Apple acquiring Quattro for Wireless for \$275 million in 2010.

In the past, Arm has shown a very strong track record for strategy that gains and maintains specific market. Such prowess will only lead to an increase in the technological strength of their products, thus, leading to more revenues from adjacent markets, thereby creating a business that will last for a while. So, Softbank was looking for ways to solidify their technological capabilities which they could not achieve on their own so they went for the acquisition Arm Holdings which is the British smart phone chip designers. They will help SoftBank become a leader in the technology market known as "internet of things." There will be the infrastructure of networking that will also increase the capabilities of Arm holding in the area of powering their servers, the security applications leading to the foundation for Arm long term growth and success which invariably is Softbank long term growth in the technology industry (Massoudi et al 2016).

From records, it is seen that about 85 billion chips have been sold from Arm factory to the world. Mr Son could see that Arm has a proven track record on strategy to maintain the existing market, target new markets by increasing the content and value of their technology per smart device thereby bringing new revenues from adjacent markets while investing in a business for long term goals.

3.2 The financial motives for acquisition

The growth of Arm showed a financial efficacy with the balance sheet in the following manner:

Financial efficiency

The rapid growth of ARM was very attractive to Softbank as it was listed on the London Stock Exchange with the capitalization of £17.0 billion pounds by July 2016. The revenue of financial year of 2015 stood at 968.3 million with normalized operations £499.7 million which is a very good balance sheet (Business Wire 2016)

Strategic Financial gains for Arm Holdings

Acquisition does not only benefit the acquirer but also the acquired. As the Board of Directors of Arm Holdings believed that the company has a strong stand on the development of their future with SoftBank. They concluded that Arm stood in a very strong position for development

after the acquisition by having more attractive capital to secure and deliver their long-term objectives. The Board of directors were able to note that the Acquisition brought a significant cash by multiplying 24.4 times ARM's revenues for the year ending 31st December 2015 with £968.3 million and an equity of about 56.8 times adjusted profit after the year 2015 in which by the year ending amounted to £438.9 million. The Board noted that there was in the contract of the Acquisition the worth doubling about 24.4 times of Arm's income at the end of December 2015 of GBP963.3 million and the equity of about 56.8 times that could be adjusted to profit after tax about GBP428.9 million by the end of December 2015. The Board was assured by SoftBank that they would continue to invest and grow Arm's business in UK, and that the head office in Cambridge would remain at its present location. With these in place, Arm believed that SoftBank was well positioned to accelerate their long-term strategy on growth. (Business Wire 2016)

On tax efficiency

This is one of the reasons for acquisition. During the acquisition of Arm by Softbank, it was agreed that Arm will continue to as a separate business within Softbank with its existing Headquarters, existing structure which could lead to tax efficiency.

3.4 Other reasons for SoftBank's acquisition of Arm Holdings

Uniqueness

It is well known that Arm has a unique and differentiated position in the technological world as a semiconductor intellectual property supplier. Arm can create the size to be small with energy efficiency processors as stated by Business Wire (2016)

The decades of Innovation cannot be overlooked but maintained by continuous funding towards further innovations.

SoftBank had a vision to sustain ARM on its long-term goal in generating a great value per device, winning more licenses and having in flock of royalty through Growth categories, "Enterprise and Embedded Intelligence"

SoftBank's plan was to support ARM multiple growths toward investing in engineering great talents and complementary acquisition. This move will cement ARM on R&D, which will lead to them having an edge on the present competitors and new arrivals.

SoftBank with their knowledge in acquisition acquires ARM as a non-listed company which provides an easy opportunity to meet their long-term growth strategy.

Culture of Technology

SoftBank culture of technology orientation tallies with that of Arm Holding and acquiring the company will solidify their values. These similar values center on the similarity of visions, focus on innovation and always willing to attract and retain the best talent. These common values will lead to strategic partnerships to capture the opportunities that will unite both firms for decades to come.

SoftBank saw that Arm Holdings rule the world of technology. By 2015 ARM has embedded 95 per cent of smart phones and 30 per cent of chips sold in the world. SoftBank could see that ARM has a strategy to maintain, gain and to retain its market shares which lead to the sale of about 80 billion products in 2015.

4. Change implications from the viewpoints of ARM and Softbank

Acquisition is a serious change which is classified as strategic and impactful. (Faulkner et al, 2012). Changes occur to the structure, culture and several aspects of the organisation acquired and the acquirer. The acquired often times suffer the most significant impact of the change. (Sadler et al, 2008)

4.1 Impact on the change on Arm Holding

Organisational structure

With many acquisitions come an immediate restructuring of the organization acquired (Sudarsanan, S., 2010), This was not the case in the acquisition of Arm Holding as SoftBank assured the company that for them to continue to be a leading-edge in technology within UK, there would be a double increase in the number of employees in the UK while those outside the UK will experience same. This will be in line with the historical trends of Arm Holding with the amount of technical and non-technical staff employed.

Share Schemes

Another major area of change is the issue of share schemes. Softbank had an irrevocable undertaking which was presented at the decision making leading to the acquisition. This was proposed to the Directors and shareholders of Arm holdings. Those that are participants in Arm Share Schemes will be contacted based on the acquisition on the rights towards the share plan and further details about the proposal. Those Directors would accept the offer as Arms shares if the acquisition was implemented as a Takeover Offer instead of the scheme. This would be binding unless there is a withdrawal from the scheme or there is higher competing offer from elsewhere.

Market structure

As part of the acquisition deal, Softbank would support the position of Arm to continue to be the leader in IP and in semiconductor production while they would be outsourcing the research and development functions.

Softbank's experience in global network relationships will help to lead Arm Holdings to continue to dominate the market for the existing intellectual property and emerging markets as well.

In order to continue to lead in innovation, SoftBank will sustain Arm's historical focus in generating value per device and getting more licenses per device while having more streams in growth categories with Enterprises and Embedded Intelligence.

Softbank will support more growth by investing in engineering talents and complementary acquisition for continuation on R&D for Arm to continue to have an edge on the existing and upcoming competitors.

Delisting and relisting at the London Stock Exchange market

A major impact of the change on Arm Holdings was its delisting from the London stock Exchange market following the acquisition. At acquisition, the shares dealings with Arm was suspended by 5.00pm a day before the acquisition closing date. A request was made to London stock Exchange to cancel trading in Arm shares from the official list following the effective date. After the Scheme was put in place, Arm was re-registered as a private company under the company act.

On June 28th 2018, Softbank made the announcement that Arm Holdings would return to stock market within the next five years. The company that was bought four years ago for \$32 billion would be relisted on the stock exchange market.

4.2 Effect of the change on Softbank

Organizational culture

The organization culture of Softbank improved to that of a technological orientation following the acquisition. SoftBank appreciated and valued the knowledge, skills and the expertise of the management of Arm and their employees and would like to keep them as such. This includes the senior management team, their brand image, and their culture. Softbank agreed that the current management and existing technical personnel would continue even after the acquisition as to ensure the success of the business.

Changes in strategy

SoftBank's strategy was basically to improve their portfolio of technical capabilities, the products, to have more shares in the market and be part of the future strategy on technology (Agarwal, et al 2009)

SoftBank is one of the firms which acquisition have become their prominent features. Through the acquisition of Arm, SoftBank has expanded now to Chips and other computer services.

The strategy for SoftBank to acquire Arm was to fulfil their organizational goal of becoming part of the global entity on Semi-conductors and other products that arm produces. SoftBank tapped into new skills of Cambridge talents, skills and technological knowledge while they recognized that Arm needed a substantial amount of capital for its growth (Benou et al 2005).

As Eisenhardt et al (2000) notes, this knowledge can be provided but cannot be transferred through lengthy business alliances. SoftBank used this strategy, as it needs the transaction to be done quickly enough, knowing fully well its expertise does not extend to those fields (Capron, 1999). With SoftBank acquiring Arm, they would acquire unexpected knowledge and capabilities, new market intelligence information and strategy in innovation (Graebner, 2004)

4.3 The modalities for continuity of business strategy between Arm Holding and SoftBank after the acquisition

SoftBank acknowledges and values the knowledge, skills and expertise of the current strategic team of Arm and their employees. So it decided to leave the structure the way it was with the existing senior management team, their brand, the partnership-based business and organizational culture so that there would be continuity with their record. Once the Acquisition was completed, SoftBank agreed that Arm should be operating as a separate business entity under SoftBank.

It was agreed that the existing employees of Arm would continue to work and operate from the current head office in Cambridgeshire that comprises of most of the leaders, The Product Groups of Arm and the directors in IT, Legal, Finance and Human Resources for the next five years. SoftBank would not make any major changes in restructuring, operations of Arms and the places of business that Arm operates. SoftBank expected the existing employees of Arms to continue for the success of the firm after the acquisition. SoftBank committed to the schemes that would bring more effectiveness to the employees, likewise the existing contractual and statutory employees' rights with their pensions, the management of Arm holding with their contractual and statutory rights. More over SoftBank agreed on 12 months basis following the implementation of the scheme that the salary would remain the same with pension benefits of every staff in Arm Holding. Every employee's contractual and statutory rights would be safeguarded unless the employee stated otherwise.

With this in place, the technical and non-technical staffs would be in line with historical trends of their past in experience at their roles.

5. Post-acquisition evaluation of ARM and Softbank

2000 new employees have been added to the existing staff of Arm Holding over two years, while the technical employees increased from 2,173 to 2,534.

SoftBank's acquisition of Arm included a division of Arm designs silicon botherer which is what is inside most of the devices that is used around the world with China included. In the fiscal year March 2018 this design accounted for 20 % of their revenue. There was a low downturn in this revenue compared to the pre-acquisition of Arm which came up to £31 billion. This deal came when the trade relations between USA and China turned very bad that there were counter sanctions going on between the two countries. But once it was done, China would get hold of design which could accelerate the growth of the companies that are within the country according to Speed (2018).

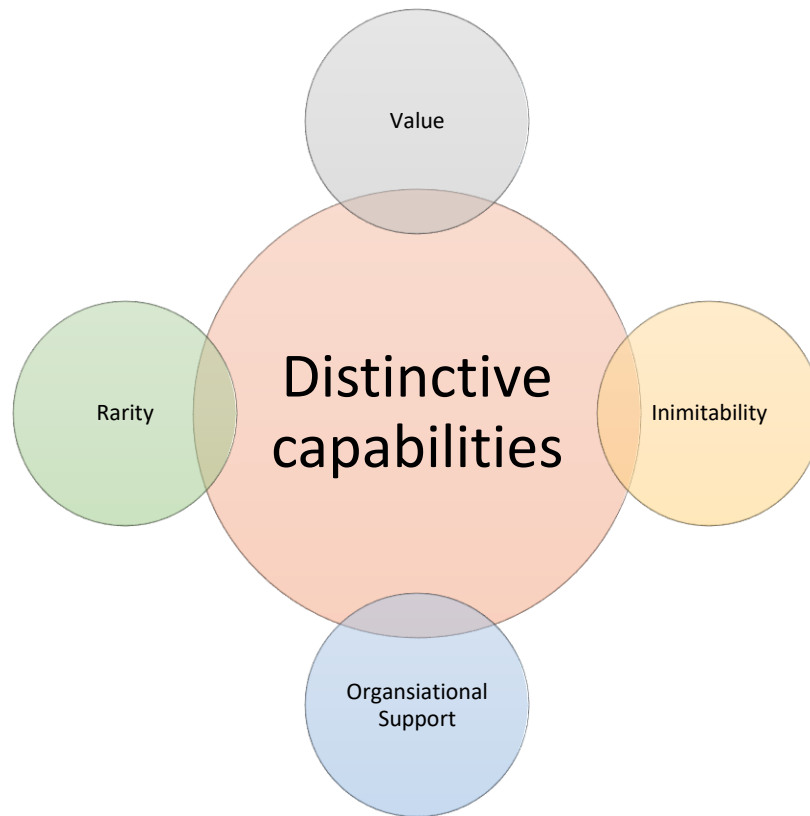
Since after the acquisition of Arm in Cambridgeshire, there are lots of new companies opening up in Cambridge that are known as collective Silicon Fen and they are part of Europe's biggest technology clusters. Arm has grown their staff to 2500 in UK and 6000 employees worldwide as stated by Field M., (2019)

In 2017, Softbank lunched a \$100 billion investment in Arm which was the Vision fund and the biggest in history. The chairman of Softbank said that the Vision Fund would bring information for revolution. The vision fund has portfolio of over 60 companies which has only made SoftBank stronger, bigger and better so far.

Using the VRIO Strategic Capabilities as the KPI to validate post acquisition analysis

These capabilities are KPI and they are measured in terms of VRIO (Barney, 1997)

Figure 3: Measuring KPI with distinctive capabilities



Value

Arm Holding know their value that's why the acquisition was very expensive. The clients are rest assured that the value of their products will be maintained and protected making it difficult to imitate and this will give them a competitive advantage over their rivals

Rare

As the products of Arm are rare, valuable and very hard to be imitated, some of the potential can be only fulfilled if the firm was organized. Since the acquisition, Arm continues to have dominance in productions of chips, semi-conductors and IP worldwide.

Inimitable

One of the major strategic capabilities of Arm Holdings is the inimitability of their products. Their products cannot be easily copied. This has been maintained as they still retain the major distinction of their semi-conductors and chips worldwide.

Support by Organization

Since the takeover, a part of the organizational culture of Softbank can be noticed in Arm Holdings. In high performing industry like technology industry, there is opportunity for firms with that type of capabilities to have their culture embedded without any fear of disorganization. Softbank is ready to support Arm for future.

With the investment that came from SoftBank, Arm has been able to support their processes and systems.

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Appendix

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