

University of Wales Trinity Saint David

2019/2020

LCDB7005- Strategic Change and Organisations

SoftBank Group Corporation Acquisition of ARM Holdings

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Presented for Doctor of Business Administration

Word Count: 3,858

Table of Contents

Introduction.....	3
Background	3
SoftBank Group	3
ARM Holdings.....	5
Changes to both parties	9
Post-Acquisition Performance	11
Conclusion	13
Bibliography.....	15

Table of Figures

Figure 1 SoftBank Acquisitions Since Founded	4
Figure 2 ARM Holdings Powered SoCs in 2015.....	5
Figure 3 ARM Holdings Narrow-Band IoT Forecast.....	12

Introduction

In September 2016, Japanese internet and telecommunications conglomerate “SoftBank” completed its acquisition of United Kingdom chip manufacturer based in Cambridge “ARM Holding” paying approximately \$31.4 billion in cash, one of the largest ever cash investment in European tech firm (Dugar et al. 2016). The offered price was representing a premium of 42.9 percent (£17.00 per share) which SoftBank paid \$21.5 billion in cash and \$9.5 billion loan acquiring 100 percent of the ARM Holding issued and to be issued shares (Thornton, 2017).

The acquisition agreement resulted ARM Holding to be delisted from the London Stock Exchange (LSE) to be run as a standalone company (Dugar et al. 2016). As part of the agreement the Arm Holding’ organisational strategy, management team, business model and corporate culture will remain the same (Dugar et al. 2016). Also, they agreed to keep the headquarter in Cambridge, London, ARM Holding to double its staff in the next five years and increase the customer count down outside the UK (Woollaston, 2016).

In this report we will start providing overall background of the SoftBank and ARM Holding. Then we evaluate and examine from the SoftBank view the strategic imperative behind the acquisition. In other words, SofBank’s overall strategy behind the acquisition of ARM Holding including motives and reasons. Then, we will compare and evaluate change implications resulted from the acquisition for both SoftBank and ARM Holding including strategy changes, organisational culture and structure. Next, we look at both companies after the acquisition to evaluate their performance till now and onwards. Finally, we conclude pointing out key information discussed in this report.

Background

SoftBank Group

SoftBank Group Corporation founded by Masayoshi Son in 1981 is a Japanese Multinational conglomerate company specialist in broadband, e-commerce, internet, finance, fixed-line

telecommunication, media and marketing and other businesses (SoftBank, 2001). They also run “vision Fund”¹ one of the largest venture capital firm in technology with over \$100 billion in capital (Lazure, 2017). Their main areas of focus are the proliferation of high capacity and high speed of communications infrastructure for the internet.

SoftBank Group Corporation has a broad range of investments in internet-related organisations where it sees the strong potential growth in the future. They own majority of US Telco Sprint, Japanese Telco SoftBank and Yahoo! Japan. They also have diverse investment in multinational companies including Chinese Alibaba Group, South Korean e-commerce company Coupang and Indian hotel company Oyo and many others (Dugar et al. 2016). Before the acquisition of ARM Holdings, SoftBank earned \$87 billion revenue in 2015 fiscal year (Dugar et al. 2016).

As part of their future vision strategy, they acquired ARM Holdings for \$31.4 billion in cash. The acquisition of ARM believed to be a big play by SoftBank to enter Internet of Things (IoT) technology (Ribeiro, 2016). This believed to be the largest-ever investment of the SoftBank. Below Figure 2, illustrate the SoftBank history and their key acquisitions towards their goals in becoming one of the biggest internet-related companies in the world.

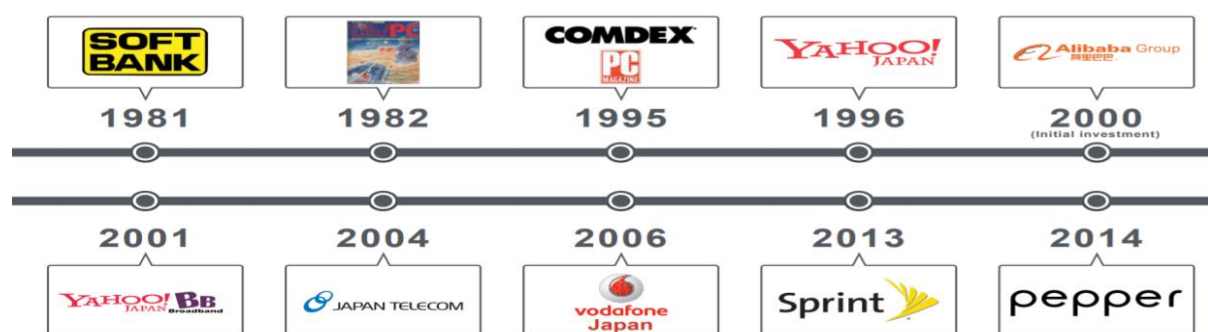


Figure 1 SoftBank Acquisitions Since Founded

Source: SoftBank, 2016

¹ This was collected by other Silicon Valley companies including Apple and Facebook aiming to invest in emerging technology companies.

ARM Holdings

ARM Holdings is one of the largest British tech company in software design and semiconductor founded in November 1990 (Thornton, 2017). ARM Holdings major presence in mobile processing and its graphics and processor technology used by Apple, Huawei and other major telecommunication companies in their in-house microchips resulted them to be one of the big tech company in the world (Thornton, 2017). Their components based on ARM Holdings technology licensed can be found in majority of world smartphones. They develop Intellectual Property (IP) blocks used in silicon chips where its customers combine with their own IP to create a complete chip design (Lunden, 2016). They generate revenue through licence fees as well as royalties when its customers ship chips containing ARM chip. They earned \$1.5 billion in year 2015 (Thornton, 2017).

It is important to mention that 99 percent of smartphones are made by ARM Holdings chips (Son, 2016). They now branched into other devices that smartphones including tablets and Internet of Things (IoT) devices. Looking at Figure 2, ARM Holdings shipped 14.8 billion units of powered SoCs (system on Chips).

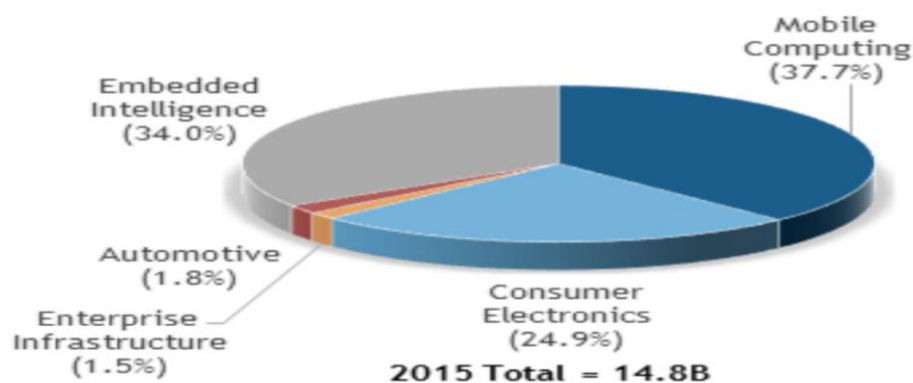


Figure 2 ARM Holdings Powered SoCs in 2015

Source: ARM, 2015

ARM Holdings was known as processor architectures dominating mobile phone processor market (Thornton, 2017). Before, its acquisition by SoftBank the company has diversified

significantly into other mobile, storage, computing and embedded sectors (Bajarin, 2016). More importantly, they expanded their processor portfolio targeting end compute and networking applicants including broadband infrastructure, networking and servers and wireless infrastructure (Dugar et al. 2016). The company is now in the edge of challenging not only Intel's market in servers, but also in networking control plane (SoftBank, 2017).

There are great opportunities for ARM having service provider like SoftBank as its owner. SoftBank commitment in keeping the ARM as it is in terms of management and strategy helps them to achieve their long-term vision on expanding its Intellectual Property (IP) licensing and leading the market in the Internet of Things (IoTs) in the next few years.

SoftBank Overall Strategy

There are different acquisition strategies that companies implement including Horizontal, Concentric, Vertical and Conglomerate acquisition (York, Dunham and Ahn, 2012). Horizontal acquisition is defined as one company buy the other because they are competitors (York, Dunham and Ahn, 2012). Concentric acquisition is defined as one purchasing the other because they have similar product or services in terms of product line, technology or customer base (York, Dunham and Ahn, 2012). Vertical acquisition means a company purchase another to extend their product or services required (York, Dunham and Ahn, 2012). Finally, Conglomerate acquisition is defined as combining two companies that produce product or services that are different to each other (York, Dunham and Ahn, 2012).

SoftBank acquiring ARM Holding believed to be both vertical and conglomerate acquisitions. SoftBank believed through its acquisition of ARM would result the company to extend its services and products in the future specifically IoT products. They saw ARM as a key to be an upstream suppliers of big tech companies. In 2016, SoftBank CEO and chairman Masoyachi Son said, "ARM will be an excellent strategic fit within the SoftBank group as we invest to

capture the very significant opportunities provided by the 'Internet of Things' (SoftBank, 2017).

In terms of Conglomerate acquisition, looking at SoftBank and ARM Holdings it is hard to measure the Return on Investment (ROI) that justifies the \$31.4 billion cash investment as there is no obvious synergies between internet services and telecommunication business of SoftBank and technology processor company ARM Holdings (Dugar et al. 2016). For SoftBank the acquisition of ARM believed to be the long-term financial plan to take advantage of the secular growth in ARM market as in 2016, Masayoshi Son quoted "I have a believe and vision for next 30 years".

SoftBank believes in the technological Singularity meaning in the future our technological abilities will be advanced in way that we will incorporate computer based processed into our biological functioning until we become machine-based resulting in unfathomable changes in civilisation (Tucker, 2006). Consider machines with faster processing speeds greater than human brain where these Artificial Intelligence (AI) could do the human thinking at a shorter amount of times (Son, 2016). This is when everything will be automated and connected to each other from our shoes to most sophisticated items in the world. Thus, they believed that ARM Holding share same technological-oriented culture and long-term vision.

SoftBank vision in becoming one of the biggest technological company leading IoT resulted in acquisition of ARM. They believe that IoT microprocessor chips will be designed and fit in super artificial intelligence (AI) and will be used in different industries including Automobile devices, health care, consumer service and industrial (Dugar et al. 2016). For example, looking at automobile we see that every day they become smart and smarter which requires more chips to be integrated specifically when they become driverless (Son, 2016). Thus, Automobiles will become super computers requiring multiple chips and this is when the ARM will enter the market aggressively.

There were few reasons behind SoftBank strategy for ARM acquisition. Main reasons why SoftBank acquired ARM were because to maintain and become a key competitor in the tech industry. This is mainly to increase its customer base, widen its network and revenue stream. Below will explain in more details.

First was to accelerate and expand customer base of the telecommunications business for future growth across existing as well as new markets (Dugar et al. 2016). Thus, through acquisition they support and accelerate ARM position as a global leader in intellectual property licensing as well as R&D outsourcing for semiconductor organisations (Dugar et al. 2016). To achieve this, they had multiple growth initiatives through investing in top talent and complementary acquisitions to make sure ARM maintain a competitive edge in both existing and emerging market (SoftBank, 2016). They have acquired further two brands including low price telecommunication services company, Y!mobile and SoftBank Hikari specialist in fibre optic broadband service as a complementary strategy to widen their customer base (Kharpal, 2016).

Apart from strengthening the customer base, SoftBank strategy was to strengthen the network in preparation for upcoming of IoT era (Dugar et al. 2016). Thus, SoftBank believed ARM would be the great option to achieve their objective. For example, SoftBank strategy is to develop 5G network for IoT era which is next generation mobile communication system (Bajarin, 2016). By Having Y!mobile and SoftBank Hikari providing low price, energy saving telecommunications and ARM working together to design required chips would strength SoftBank position as a global leader and will be a major business opportunity for them. According to the Masayoshi Son on 2016 “ARM alone will ship 1 trillion IoT chips in the next 10 years having 80 percent of the market”.

Since 1981 SoftBank has led the information revolution, in other words has been in the frontline of technology paradigm shift (SoftBank, 2016). This started by invention of personal computer distribution to personal computer internet and broadband, then mobile internet and now Internet of Things (IoT). Thus, ARM believed to be the essential part of the SoftBank to

move faster in creating new infrastructure, products and services and technologies designed for smarter and better-connected world.

Changes to both parties

Introducing CAGE distance framework used to identify the differences companies should address when adopting cross border strategies. It looks at four strategic categories including cultural, geographic, administrative, and economic (Ghemawat, 2016). Cultural distances define the difference s between the collection of values, beliefs and social norms (Ghemawat, 2016). Geographic distances look at how countries are far from each other considering their sizes, time zones and whether they are close to oceans (Ghemawat, 2016). Administrative considers political and historical associations between countries (Ghemawat, 2016). Finally, Economic distance looks at consumer wealth and income and labour costs in general.

As mentioned in previous sector, one of the main reasons SoftBank acquired ARM Holdings were that there were sharing the same technology-oriented culture and long-term vision (Softbank, 2016). Thus, as part of the agreement SoftBank agreed to maintain ARM's organisation with no change in senior management team, business model and corporate cultures. They believed the current management team have the necessary skills, expertise and knowledge to continue strong track record (Dugar et al. 2016). SoftBank agreed that the statutory and contractual employment right including employee pension will be safeguarded in accordance with the requirements (Dugar et al. 2016). They also agreed to keep and maintain at least the basic salary of the ARM employee for at least 12 months till the scheme becomes effective unless otherwise agreed with the employee (Dugar et al. 2016).

From the cultural and geographical distances perspective, Japanese companies are much different in terms of beliefs and values to UK companies. To reduce and eliminate this distance SoftBank agreed to keep ARM culture as it was. SoftBank believed on ARM management as they had same objective and goals but in different culture and geographical environment.

Looking at an economic distance, ARM also believed in its R&D in IoTs which will bring tremendous growth to the company. Both ARM and SoftBank were believing in this vision resulted to reduce economic distance and thus working together in achieving their goals. As part of the agreement SoftBank asked ARM to accelerate the investment in R&D across the range of systems and software, physical IP, security technologies and IoT which the company itself could not do it on its own (Lunden, 2016). They also asked ARM to further increase its customer base both in and outside the UK through acceleration in adoption of Intellectual Property (IP) (Dugar et al. 2016). The costs associated with the increase in R&D will be financed from IP business revenue stream.

Also, ARM confirmed to double its employee numbers in the United Kingdom within the next five years (Dugar et al. 2016). These were the main factors found to accelerate ARM strategy under the SoftBank umbrella. From the administrative distance point, they share positive historical and political association with each other, and this believed to not to be affected.

For SoftBank, acquisition of ARM resulted in both strategy and structural reforms. In respect of Geographical, economic and cultural distances, SoftBank through its multiple complementary acquisitions were in major transitional period. They are now transforming into a truly global company that ensures future sustainable business growth over the long period of time (Lazure, 2016). As part of their strategy, in July 2019 SoftBank has made a preliminary application for IPO (Initial Public Offering) to list its shares in Tokyo Stock Exchange (TSE) (Dugar et al. 2016). Through this there will be a governance change with in the company, however, SoftBank has emphasises that it will be more autonomous and independent than before (Dugar et al. 2016). SoftBank is to establish a strict governance system more favourable than its competitors aiming to accomplish goals set out before (Dugar et al. 2016).

Apart from growth strategies, SoftBank has been through structural reforms to increase its efficiency after its acquisitions (Softbank, 2017). In 2017, SoftBank has introduced Smart & Fun! Workstyle reforms resulted in significant benefits for the organisation (SoftBank, 2017).

SoftBank strategy is to automate and increase the work efficiency using artificial Intelligence (AI), robotics and encouraging employees to take effective use of free-up times to have more time for self-development (SoftBank, 2017). Through this structural reform not only the employee's efficiency has increased, and average monthly overtime has decreased but also the mindset of the employees has significantly changed (SoftBank, 2017). Last year, more than 400 projects have launched through frontline operations due to this programme (SoftBank, 2017).

Post-Acquisition Performance

As mentioned, there is no obvious synergies explaining SoftBank Acquisition of ARM Holding in short-term. However, we believe that this acquisition is a longer term strategic context. SoftBank strategy after the acquisition believed to increase the investment in the latest technology to generate more value per device, to further accelerate and gain market shares and to create and develop new revenue streams.

Looking at ARM Holdings main markets we see that in 2016 ARM has 90 percent share in mobile and 65 percent share in consumer (ARM, 2017). Thus, to gain further market shares increasing functionality will create more demand and thus new revenue streams. In Automotive and Robotics, we see that ARM holds 10 percent of the market share (ARM, 2017). Market moving towards driverless cars and the need for efficient IoT chips will increase and thus the need for ARM chips in the next few years. Looking at Enterprise and Servers ARM holds 17 percent in networking and less than 1 percent in servers (ARM, 2017). ARM offers common platform across cloud and network for software (ARM, 2017). Thus, ARM could further accelerate to increase its market share. In the Embedded and connectivity ARM holds 30 percent (80 percent of 32-bit) market share as a leader due to low-power, less cost and easy to programme (ARM, 2017). ARM could further develop its market share internationally.

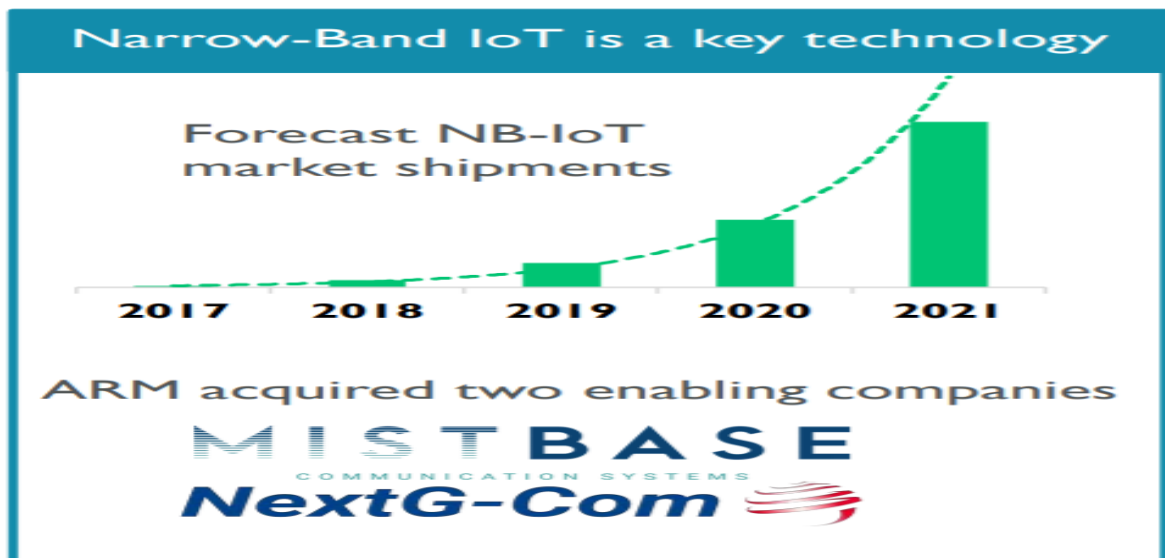


Figure 3 ARM Holdings Narrow-Band IoT Forecast

Source: ARM, 2017

For example, ARM recently announced for Narrow Band IoT technology (ARM, 2017). This is a cellular communication standard that is compatible with 5G enables pre-installed connectivity for any electronic devices within cellular coverage (Chen et al. 2017). This technology could be used in three sectors of Mobile and Consumer, Automotive and Robotics as well as Embedded and Connectivity (Chen et al. 2017). To enable in production of this product SoftBank also acquired MISTBASE communication system and NextG-Com (ARM, 2017). This product forecasted to gain a huge market share and revenue growth for SoftBank.

One of the key concerns for both ARM and SoftBank is enhancement in security (Son, 2016). As one of the important challenges facing both companies is to secure the IoT. While there is rapid development in technology, but we also see hacking exponentially growing. For example, in the Automobile sector, according to Masayoshi Son in 2016 “as of today there are 500 ARM Holdings chips in automobiles which none of them are secure”. This means they can be easily hacked taking control or damage the car which could be dangerous. Thus, one of the key post-acquisition performances for both companies is to enhance the security. Recently, SoftBank

announced development of processors for secure IoT in all their performed sectors (ARM, 2017).

Another key post-acquisition performance which SoftBank is considering is China market (Dugar et al. 2016). In the last 35 years, China's government is investing heavily in its internet economy and directing development of the local ecosystem (Dugar et al. 2016). Thus, the relationship between the Chinese firms and international firms including ARM is very important. In 2016, ARM based host processors resulted a lead in industries in China including, consumer, industrial and automotive (Dugar et al. 2016). Given ARM's entrenchment and difficulty in transitioning away from an architecture in China, it is highly unlikely that the China will move away from China. Also, the close relationship between the Chinese companies and SoftBank including Alibaba Group Holding chairman Yun Ma is on SoftBank's board of directors there is a long-term view in terms of investment in china (Dugar et al. 2016).

Conclusion

SoftBank acquisition of ARM Holdings believed to be the long-term investment that it will be in a degree in which the investment will accelerate ARM's growth beyond what they could have achieve on their own. The succession of acquisition in just weeks offering all in cash and immediate acceptance of ARM shareholders confirm the idea that the ARM on its own could not have bring this growth to its shareholders on its own.

This acquisition as a long-term investment strategy believed to have synergies in the future. SoftBank believed to be playing the next generation mobile market with end service companies such as Oyo in India that runs on mobile service provider such as SoftBank in Japan and internet service provider including Yahoo! Japan devices (e.g. phones and robots) and build up of infrastructure chips ARM-Based system. They will collectively result in SoftBank portfolio to be in every region of the world.

SoftBank strategy in acquiring ARM was to first expand its customer base in telecommunications business for future growth both in existing market and others. There strategy was to support ARM in IP licensing to further expand it market in the UK and enter into different markets as well as invest in R&D aiming in becoming one of the leading tech companies in IoT era. Another reason behind this acquisition believed to strengthen the network for the upcoming of IoT era. SoftBank through its acquisitions including SoftBank Japan specialist in mobile service provider, internet service provider Yahoo!Japan and ARM's specialist microprocessor chips would result SoftBank to be the global leader in the IoT.

SoftBank believed that two companies were sharing the same technology-oriented culture and long-term vision on technology innovation. Thus, as part of their agreement ARM management team, its culture and business model will be unchanged. They believed that ARM as it was were moving forward to its objective and had the commitment in place to both meet companies' goals. For SoftBank and its strategy through its major acquisition and in investing in efficient technologies has resulted the company in slowly become a global leader. In 2016, the company has issued a preliminary application for IPO in becoming Public company. This of course results in some cultural and economic changes within the company.

The strategic performance for post-acquisition for both companies believed to continue increasing investment in latest technology to develop efficient products, to accelerate and gain market shares and to create new revenue streams. Also, they are working in developing processors to enhance the security of IoT. This is one of the major drawbacks of IoT era and both SoftBank and ARM are working together to reduce and eliminate the security issues.

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