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SOFTBANK ACQUISITION OF ARM

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Evaluate and comment upon the strategic imperative behind the acquisition, from the view of Softbank? Compare and evaluate the change implications from the viewpoints of ARM, and Softbank? (include changes in strategy, structure, org. culture, and any other elemental changes that you feel appropriate to consider)

Softbank Group Co. is a well known Japanese multinational conglomerate holding company with its headquarters situated in Tokyo. Softbank has invested in multiple corporations and organisations including Arm Holdings, Fortress Investment Group, Boston Dynamics, Ali Baba (29.5 %) Uber (15%), Yahoo Japan (48.17) etc. The company is running under the prominent leadership of the founder Masayoshi Son. Softbank has multiple running operations in areas of broadband, fixed line telecommunication services, e-commerce, internet, finance, media along with marketing, semi-conductor design, technology etc. In 2000, Softbank was given the title of the world's 36th largest running corporation and also the 2nd largest public trading company in Japan. The founder set the bases for this company in 1981 as a store dealing with computer parts and later expanded the business by going into publishing. It published a magazine Oh!PC whose publication reached up to 140,000 copies by 1989. By 1994, Masayoshi Son made the company open for public and it was valued for \$3 billion and within five years Softbank turned into a holding company with very highly strategic and effective expansion strategies along with acquisitions (Info and Corp., 2019).

Masayoshi Son had the ability to build this company into an expanding telecomm and media conglomerate which was worth the value of \$68 billion with various and major shares in Sprint etc. As a founder and leader he "professed a fondness for big crazy ideas and has been looking to deploy huge war chest of cash has accumulated from successful investments" (Ft.com, n.d). Some of the previous investments and acquisitions include: \$20 million investment in the well known e-commerce company Ali Baba whose worth has now increased up to \$65 billion. Over the last ten years or so, Softbank has been a part of more than 140 deals with the total of \$82 billion worth This establishes the fact that Softbank has been known to utilise any expansion and growth opportunities that they seem profitable in the long run (Ft.com, n.d).

Softbank which had renamed the company from Softbank Corp. to Softbank Group Corporation decided to acquire ARM holdings in 2016. ARM holdings on the other hand was a British multinational semiconductor designing company which later got owned by Softbank Group and its Vision Fund. It was founded in 1990 as a joint venture between different companies including Acorn Computers, Apple Computer (now known as Apple Inc.) and VLSI Technology (Info and Corp., 2019). ARM holdings have its running

headquarters in Cambridgeshire in the United Kingdom with its main work in the designing of processors (ARM processors also known as CPU's). It also designs "software related development tools under the DS-5, RealView and Keil brands, as well as systems and platforms, system-on-a-chip (SoC) infrastructure and software" (ARM CPU Core Dominates Mobile Market – Tech On!, 2002). In 26 years under the effective leadership of Masayoshi Son, ARM became a \$22 billion worth company and with around a workforce of 5,500 employees as a multinational company . In the year 2015, ARM Holdings had earning revenue of \$1.3 billion with 1% of the entire earning contributed by UK only. "ARM is not only known to be a semiconductors manufacturer but also providing designs of them and consequently earns revenue in the form of a licensing fee and royalty chips" (Web.archive.org, 1990). Analysts have estimated that "more than 86 billion ARM-based chips have been shipped across the globe since its inception out of which 15 billion were shipped in 2015 alone" (Tayal, 2019). However the scenario completed changed when the Japanese telecommunication company got interested in ARM holdings and made an offer to the shareholders of ARM holdings to buy the company for a value of £23.4 billion in 2016.

It came as surprise to the rest of the business world when Softbank offered the proposal to acquire the British chip designer ARM Holdings of \$31.4 billion which apparently was the biggest ever acquisition offer or purchase of a European origin technology company. Softbank when acquired ARM Holdings made the deal basically with the hopes that this British smartphone chip designer will assist it in developing further and dominant the big technology market, the "internet of things", as a leader (Ft.com, n.d). ARM has often been considered to have a lot of potential to be considered as a top target for acquisition by Intel which is the world's largest telecomm chip maker who unfortunately was unable to avail the opportunity created by the smartphone boom in the telecommunication industry around the globe. The telecomm chip architecture by Intel, known as x86, was developed for personal computers (PC's) and has not exhibited very high level of compatibility with battery supported devices for which the main solution found was efficient power consumption.

Originally ARM's technology was created in the 1980's by a British computer maker. However it eventually became a separate company with Apple providing strong backing to it and its created technology. "Rather than a manufacturer, as designer for telecomm chips ARM's intellectual property model leaves it a high profit margin. However, its revenue of about £1 billion last few years has made it a minnow by global chip standard" (Warren, 2016).

From the global political scenario this acquisition had many people's attention. With Brexit debates and the future of United Kingdom a bit blurry regarding its position in the European Union this acquisition highlighted the confidence of Masayoshi Son in its economy just right after UK passed the vote to not be a part of the European Union anymore. "I am one of the first people to bet with a big size on the UK after Brexit. Talking about investing is easy. I am proving it. This is my big bet, stated Masayoshi Son" (Ft.com, n.d.). Furthermore he specially provided the clarification that his decision has not been influenced by Brexit, stating "The paradigm shift is the opportunity (referring to the expected growth in the internet of things – interconnected gadgets and devices), it will be a big opportunity for all of mankind and products used". On the contrary, ARM's founder Hermann Hauser's opinion regarding the acquisition was the opposite where he described "Softbank's proposed takeover of the company as one of the sad and unintended consequences of Brexit" (Ft.com, n.d.).

Basics and Conditions of the Merger

This merger of two companies Softbank and ARM Holdings in a cash transaction did not have any regulatory or antitrust terms to it. Usually if the company to be acquired is larger than a certain size, the buyer is supposed to file for antitrust along with permission to merge its company with the target one but Softbank being a holding company and none of its earlier businesses included a semiconductor that is why this merger could not be considered an overlap. The conditions of the merger included:

- "ARM Holdings shareholder vote (75% condition)
- All conditions satisfied by 11/17/16
- Court sanction of the scheme
- Release of the scheme document
- No antitrust or regulatory conditions" (Tayal, 2019)

While analysing the strategic point of view of Softbank and its acquisition it becomes apparent that this acquisition was not about a telecommunication carrier taking hold and control of a smartphone manufacturer or even a smartphone chip manufacturer which it seems to be, but if we look closely it's basically a telecommunication carrier acquiring a chip designer avoiding any overlap in the business activities of the two organisations which automatically eliminates the probability of cost of combination effect as a consequential effect from the acquisition which actually enhances the cross selling opportunities for this merger of two

conglomerates. From the past investment stance of Masayoshi Son, it seems that the strategically the reason for acquisition of Softbank of ARM was that it is expected by ARM to be at the heart of IoT (Internet of Things) revolution which would actually cause “a paradigm shift in human history” and can most definitely be termed as a multi billion dollar opportunity which Softbank did not seem keen on missing. It seems like Softbank after acquisition has long term plans for ARM holdings of providing designs globally for all the IoT devices but in order to assist ARM in following the long term plan, it would have to invest heavily and most probably increase its workforce who would only focus their attention on the designing of the IoT devices (Ft.com, n,d). This highlights the strategic shift by Softbank from telecommunication services to IoT. On this matter many research and strategic analysts for example Kirk Boodry stated :

“we are seeing a pivot from the internet to infrastructure”

Also Yoshinori Ogawa another strategist said:

“Its difficult to see any near-term synergy between telecommunication and Internet of Things. There also is a conglomerate discount”

Furthermore Atul Goyal stated:

“To us, the ARM acquisition appears largely inconsistent with Softbank’s strategy. It does not inspire much confidence and requires deeper review”(Tayal, 2019).

However many other analyst view the acquisition to have great timings from political and financial perspectives. The acquisition offer was made a week after the United Kingdom had announced its wish to separate itself from the European Union also known as “Brexit” consequentially the pound fell 11% since its decision of Brexit and since pound currency faced its 30 –year low downfall of value, this acquisition offer turned out to be \$4 billion cheaper for Softbank. However, the leader does not support the analysts’ views by sharing the contradictory news of ARM sharing soaring following the “Brexit” announcements discarding any review regarding the assumed discounts Softbank might have availed from the weak pound currency rate. If UK would be experiencing normal political scenario the acquisition of UK’s biggest technology design company by an international buyer would have caused a political and thorough scrutiny, however with Brexit and its repercussions, this deal was accepted with relief as it reflected the interest and stability that international buyers still saw in the UK market to invest.

From ARM's point of view, before the acquisition ARM was not experiencing any issues like insufficient cash reserve problems as it had sufficient funds to meet its set long term capital targets. Also ARM was running in profit and this acquisition would not have increased any opportunities (due to the combination effect of the companies) related to technology, product offered or even the competition. It is known that ARM was not expecting to be acquired as it thought it did not need to however Softbank offered so strategically providing great deal of assurance that no change would be brought about in the functionality of ARM and they are more interested in providing assistance to ARM by increasing their workforce to a double. Regarding this claim of increasing the workforce to almost double seems doubtful to one of the ARM founders as he is of the view that given that Softbank has huge pending debts to be cleared, it will be using the cash earned and generated by ARM Holdings to pay off its pending debts and building up interests rather than the so called assistance claims (Tayal, 2019).

It seems that this deal was just in the interest of the shareholders and investors of ARM as, from this acquisition, they would be immediately receiving 43% premium on their shares in this company. This sort of strategy by the shareholders and investors basically reflects a "culture of short-termism". This type of strategy has been criticised by various analysts stating that such a strategic plan could "incentivise hedge fund activism at the cost of long term growth (Tayal, 2019). Looking at the bigger picture and if ARM would have focused on the long term goals rather than short term it would have been apparent that although it is possible that due to the decreased sales of smart phones the revenue growth of ARM might be slow but in the long run ARM due to its chip designing speciality and its architecture being utilized by tech companies like Apple (APPL) and Samsung (SSNLF) it would be at the heart of IoT (Internet of Things) around the globe. ARM without the acquisition would have proven itself to be tough competitor to even Intel's IoT efforts. Due to this critics hold the view that United Kingdom should have kept the ownership of ARM Holdings with themselves as it is one of the biggest tech company and it provides its investors with the platform to have a global level exposure to the world's economy. Also it can not be ignored and denied that \$32 billion is a hefty and an attractive price which was offered but ten years down the lane this offer seems minimal if the Softbank's long term plans for ARM actually pane out.

The business strategy of an organisation refers to creating or coming up with a plan which consists of aims and objectives that will be put into action. Objectives reflect specific targets that are set to accomplish the goals. Any organisation without such strategies will have no set direction or path to follow having high

probability of failure. In order to avoid such scenario ARM on the other hand has a couple of strategies up its sleeves to reach its set targets and objectives. The strategies focus on areas including growth, human resource and networking partners of the business. ARM has always been growing and had the potential from its conception but in order to further expand, ARM was able to identify certain factors which can be termed as growth drivers to ensure that the growth plan takes place. By bringing these drivers into play ARM tends to continue its journey of growth and increasing its revenues. The growth drivers include, firstly enhancing the market for penetration with the strategy which ARM have been utilising and reaping the consequential benefits of it. "ARM has achieved more than 95% penetration of the mobile market, however ARM is involved in far more than mobiles"(Abir, 2019). From a total of 10 billion chips being designed and sold, half of them go into electronics or products which are not mobiles. ARM hoped to utilise the opportunity created by other end markets which now require the use of smarter processors in order to function. Its target to increase market penetration includes increasing its market share by tapping into other electronic applications including smart TV's routers and servers. The second growth driver identified by ARM was increase value per smart electronic device referring to the business strategy of ARM which states "as consumer products become smarter they often contain multiple ARM chips, increasing the royalty fee opportunity" (Arm.com, 2012). Smartphones and Televisions can be considered the generators of five to ten times increased royalty than any basic model and lastly the third growth driver of develop and license new technology. This reflects the strategy of coming up with new technology by continuously investing in finding unique ideas (research and development) in order to create more revenue from royalties.

Softbank business strategy is also almost on the same lines of ARM including mainly the aim to maintain its growth from medium to long term by extending its consumer bases and coming up with new technology to support the set targets of increasing its product value in the eyes of the consumer consequently leading to its focus on developing 5G networks in order prepare its self for the upcoming IoT era for which it sees ARM to be the leading force. Furthermore, " Softbank Corporation, recently initiated the strategy with a view to sustain growth by expanding the customer base of its telecommunications business while leveraging this broad base to extend its business into service and content fields and related areas" (Abir, 2019). From this perspective it becomes clear as to why there was not any organisational structural or strategic management change brought about in ARM after its acquisition by this Japanese company, Softbank. Softbank apparently was sharp enough to choose and target a company which was already working with the business strategies which align very well with its own business strategy especially ARM's strategy of coming up with new

technology to increase its revenue growth and Softbank's strategy of developing new technology to increase its consumer base go hand in hand. ARM seemed to be in perfect condition to just acquire with no need to bring any change as it could have disrupted the already smooth running management which as anyways was in accordance with Softbank's own current business strategy. This very smooth and effective strategy played well for ARM is considered to be "the world's leading designer of key technologies used in semiconductor computer chips and is known to be the best for designing the processors for the main chip in nearly all smartphones" (Arm,.com, 2012).

From management perspective when analysing organisational culture is it imperative to keep in mind that the concept of culture has very different understandings in the social world and the business world. For organisations linked together from different parts of the world might be functioning with different organisational cultures. It can defined as "a set of shared assumptions, values and patterns of behaviour that guide individuals' actions or decisions. Organisational culture guides the way the business is carried out within the organisation" (Pwc.com.au, n.d.). There are many factors including internal and external factor which have a lot of impact on how the organisation carries out its' business strategies. Each organisation is unique in its own way when it comes to carrying out business activities known as organisational culture. This mainly refers to the behavioural patterns of employees, and their interrelationships. It is important to keep in mind here that no organisation can build or create an organisational culture overnight only because it takes time to take its shape and role in the organisation as it incorporates its' vision and values to make it complete and adaptable.



Figure 1: Organisational cultural traits

The table below includes the organisational cultural values of Softbank and ARM Holding's organisational cultural values.

ARM HOLDINGS CULTURAL VALUES	SOFTBANK CULTURAL VALUES
Honest and Accountability	Continue to challenge high walls without fear of failure
Team building and team work	Decide the mountain to climb and decide how to act by back calculation
'Can do approach'	Speed is value. Fast action produces fast results
Supportive working environment	Don't make excuses, think hard enough to break your brain

Table 1: Organisational cultural values of ARM Holdings and Softbank.

ARM holdings have been exhibiting the organisational culture which comprises of internal factors such as honesty and accountability consequently creating a sense of trust between the employees along with the stakeholders. ARM holdings is known to cherish and value the concept of team building and encourage their employee's with the 'can do' approach. The leadership shows support and believes in providing an encouraging and supporting working environment for its employees by utilising the personal development along with ecosystem strategies with the aim to bring out the optimum performance and especially innovation from its work force. On the other hand Softbank values and support the cultural values of hard work and perseverance, exhibits and believes in a speedy decision making process and challenging one self without the fear of not getting results, indirectly encouraging to be more creative and innovative. Both the organisations have similar organisational cultural stance towards diversity (one of the most integral part of successful organisational culture – people) encouraging employees from all backgrounds to utilise their respective abilities to the best of their potential and also in hiring individuals with special needs and along with disabled employees (Arm.com, 2012). It has been evident that Softbank and ARM holdings both share somewhat similar organisational cultural stance towards its employees and working environment and that might be the reason that the world did not see

much changes brought about culturally by Softbank after its acquisition of ARM holdings. It is believed that international acquisitions are more complicated and have a higher tendency of failure due to change in international organisational cultural concepts of the organisations now linked together but fortunately Softbank was astute enough to identify the company where the management was in accordance to their way of working due to which ARM Holdings did not experience or witness any disruptive change in its organisational culture and is still running smoothly without any management issues.

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