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SOFTBANK – THE ACQUISITION OF ARM HOLDINGS

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Strategic Change and Organisations

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I. INTRODUCTION

1.1. Overview of Softbank

Established in 1981, SoftBank has evolved from a packaged software distributor into one of the top three telecommunication carriers in Japan. The company used to be the exclusive carrier of the iPhone and iPad in Japan until the release of the iPhone 4S. Nowadays, SoftBank provides a wide range of telecommunication services, including mobile phone services, Internet services, Internet protocol phone services, and e-commerce. The position of SoftBank in Japan can be comparable to the place of Sprint in the wireless communication industry in the United States.

The SoftBank Group is composed of the pure holding company, and more than 200 subsidiaries all over the world, 3/4 of which are 150 consolidated and the rest are equity method associates, as of the end of March 2013. The net revenue of the SoftBank Group in 2012 was more than JPY 3 trillion, and the operating margin had been on the rise for seven successive years. In 2013, the number of SoftBank subscribers also reached 1.4 million. The group has continuously expanded its business via strategic mergers and acquisitions (M&A), and one of the most noteworthy deals was the acquisition of Sprint Nextel Corporation.

The success of the SoftBank Group has made the founder and chairman, Masayoshi Son, become the richest person in Japan in 2014, whose net worth was USD 19.7 billion. When he was 16 years old, Son left for the United States. Then he studied at the University of California, Berkeley, majoring in Economics and made friends with many famous entrepreneurs, including Bill Gates and Steve Jobs. Masayoshi Son was very passionate about the telecommunication industry. He was reported to threaten to immolate himself inside the building of Ministry of Post and Telecommunications of Japan, asking for the approval of his business application.

1.2. Overview of Arm Holdings

Arm Holdings is a well-known British software design and processor manufacturer with innovative and energy-saving processors. Almost every smartphone available on the market uses the main chip manufactured by Arm. In 2017, the partners of Arm were reported to have sold more than 21 billion chips on the global scale.

In addition to producing chips for smartphones, Arm has been investing in new markets and technologies. The company has designed and developed platforms, sensors and systems that are connected to enable and fuel the Internet of Things (IoT). More than 140 billion digital and electronic devices, such as digital TVs, smart sensors, cloud data centres, use the products of Arm, and the number is estimated to reach one trillion in the near future. Arm also plans to invest in other technologies, namely Windows 10 on laptops, cloud infrastructures, 5G, machine learning, and autonomous automotive technology.

II. STRATEGIC IMPERATIVE

2.1. Background of the acquisition

It came as a surprise to the technology world when SoftBank announced its plan to acquire Arm Holdings for USD 31.4 billion, equivalent to GBP 23.4 billion in July, the biggest acquisition of a European technology company up to that moment. Two months later, SoftBank announced that the purchase was settled for approximately USD 31 billion, equivalent to GBP 24 billion. Arm Holdings was no longer listed on the London Stock Exchange.

The acquisition of Arm Holdings has also been the latest purchase by SoftBank, following the acquisition of Sprint at USD 20 billion and the investment of USD 15 billion in the Japanese division of Vodafone. As mentioned above, chips designed by Arm are used by well-known companies, including Apple and Samsung, for their smartphones and tablets. Last year, it was estimated that 15 billion Arm's chips had been delivered, about half of which were in smartphones.

With the acquisition of Arm Holdings, SoftBank aims to accelerate its plans of IoT. Although the revenue of Arm Holdings was only approximately USD 1.5 billion last year, its energy-efficient chips have transformed the computing world. It's evident that the acquisition is a long-term investment of SoftBank and the group expects that this wild bet will pay off in the future.

The decision of acquiring Arm Holdings was supported by the board of directors and management of SoftBank after they carefully assessed and considered the value of the company. They also have a belief that this acquisition will benefit both SoftBank and Arm Holdings in the following ways:

- The leading position of Arm Holdings in licensing intellectual properties and outsourcing Research & Development (R&D) will be enhanced. Besides, the profound knowledge and experience, as well as the wide network of SoftBank, will speed up the adoption of Arm Holdings' chips in the new markets.
- Arm Holdings can continue focusing on innovating and increasing value per device. SoftBank will assist Arm Holdings in generating more revenue from licensing deals in new categories, especially “Enterprise and Embedded Intelligence.”
- SoftBank will invest in recruiting engineering talents and acquiring complementary units or companies to ensure that Arm can keep growing through R&D and maintain its competitive advantages of cutting-edge technologies. It will be also easier for Arm to implement such long-term growth strategies when it’s a non-listed company now.
- Both SoftBank and Arm Holdings have many values in common, including the technology-driven culture, the vision and the innovation focus. They also value talents and put much effort into recruiting and developing such people. These shared values will become the strong base of their strategic partnership and enable both parties to grab many opportunities in the future.
- As a leading group in technology, SoftBank has the intention of investing in the growth initiatives of Arm to enhance the presence and position of the group in the United Kingdom. The group expects to expand the business of Arm Holdings and increase the number of employees by twice in the next five years.

2.2. The strategic imperative behind the acquisition from the view of Softbank

Currently, SoftBank has implemented its 'Beyond Carrier' strategy to transform and extend its business into the new fields besides traditional telecommunication services. The ultimate goal of this strategy is to help SoftBank grow sustainably in the medium and long term. While expanding the current customer base of the telecommunication services, SoftBank will start exploring and investing in the service content and related areas, taking advantage of its broad customer base.

With regard to the telecommunications business, SoftBank considered the years of 2016 and 2017 the investment period to expand its customer base in its strategy for the next five to ten years. The group has focused on increasing the sales of the three areas: Softbank smartphone, Y!Mobile smartphone, SoftBank Hikara, the optical broadband service. The customer base grew as SoftBank expected thanks to the promotion campaigns such as Hikari Home Bundle Discount Set, in which customers can enjoy discounted charges when registering for both the broadband services and the high-capacity data plan. The number of SoftBank smartphone users reached 1.69 million, and the number of SoftBank Hikari Home Bundle Set was 1.38 million in 2017. However, discounted charges caused a decrease in the profit of this segment, JPY 683 billion, equivalent to USD 6.33 billion, decreasing by 5.1% compared to the previous year.

For smartphones, SoftBank Group uses the dual-brand strategy: SoftBank and Y!Mobile to capture customers' needs and increase sales. The target customers of SoftBank smartphones are people who like owning the latest smartphone models and needs high-volume data plans. They think highly of the values that SoftBank brings to them, and the monthly cost of JPY 8,000 is worthy. However, not all customers consider the same and Y!Mobile is the cost-saving option for price-conscious customers who are comfortable with smartphones of older generations and only need to use e-mail and SNS to save costs. The two brands aim at different target groups and

have established clear positions in the market so that they won't compete with each other. The stores can carry both brands without making customers confused or compare one brand against the other. At the end of 2017, there were more than 1,000 stores that sell both SoftBank and Y!Mobile smartphones. The sales of Softbank and Y!Mobile have been steadily increasing, which can be contributed to the successful positioning strategy that has helped the brands stand out within the first two years and met the needs of customers.

Another way SoftBank has used to expand its customer base is to strengthen its partnership with Yahoo! Japan. For each purchase via Yahoo!Shopping, SoftBank users will receive ten times of the standard reward points; furthermore, they can also enjoy Yahoo! Premium membership free of charge. These co-marketing activities have enhanced the brand images and effectively increasing customer loyalty of both SoftBank and Yahoo!Japan.

The above strategic movements have benefited SoftBank in many ways: the customer base is steadily expanding, the decline in average revenue per user (ARPU) has been slowed down, and the revenue and profit of 2018 increased compared to the previous years.

III. COMPARE AND EVALUATE THE CHANGE IMPLICATIONS FROM THE VIEWPOINTS OF SOFTBANK AND ARM HOLDINGS

3.1 Changes in strategy

While some spectators consider Softbank's business style reckless, if Softbank corporation does have a coherent gameplan, it appears to combine both the deeply rooted sense of vision and arms-length application. Softbank's strategy seems to focus on two main objectives: promoting an Internet chain concentrated on financial-related services, and providing small companies with a vehicle for venture capital financing. To achieve its first objective, Softbank adds a fee and financial advisory services in its Internet portfolio. These services comprise mortgages, insurance, consumer finance and an e-commerce ventures' host.

Also, it appears at the centre of a union to which the Japanese government signed on an agreement to trade its nationalised bank, Nippon Credit Bank (NCB). In acquiring the latter goal, an investment fund under Softbank's management has been released to provide the emerging high-technology industry in Japan with equity financing. At the same time, this corporation also releases an Internet-based stock exchange called Nasdaq Japan including a list of Japanese small-sized enterprises.

Softbank's strategy seems to centre on reproducing in Japan, the proven-to-be-the-most successful-and-enduring business models in the US more advanced Internet section. Implementing one-stop financial services with lower transaction fees for participants over the Internet, Softbank's intention is to recreate the commercial success of the US Internet-based financial services in Japan.

On the other side, Arm confronted with several issues including the security exploits of the so-called “Spectre” and “Meltdown.” First, Advanced Micro Device, Arm, and Intel received the warning from security researchers that their processors might be exposed to a new exploit class. Along with several domestic corporations including Apple, Google, and Microsoft, Arm quickly took actions to establish alleviations preventing hackers taking advantages of these exploits to steal information in a PC, phone, or server. The company gave out potential exploits’ details on vulnerable chips and their mitigation plans.

This event emphasized the evolving modern security threats as well as the advanced techniques hackers might practice aiming at a believed-to-be-secure system’s section. It also stressed that Arm and the leaders in the industry need to be constantly aware of the security threats and to keep the system safe, as well as illustrating the importance of collaboration, even with both partners and competitors in achieving the shared objective of user security.

In addition, Arm is paying attention to creating new streams of revenue by investing in related products and services, especially in developing IoT-related (Internet of Things) technologies. As the shape of IoT is started to formed and the understanding of value generation and market monetization becomes higher, this is considered as a highly potential business market. The intention of Arm is to offer these businesses support using its technology and making new chances for long-term growth.

3.2 Structure

On the first hand, Softbank used structural reform as a way to increase efficiency. Following the strategies outlined above, the company are engaging in structural reform. One great example is the reform of Smart & Fun! workstyle, which has resulted in evident benefits. Set up in fiscal

2017, this initiative does not only focus on reducing overtime work but in return, its primary goal is to work smarter and more efficient by using IT. Accordingly, the use of AI and robotics has been widely applied to automate and raise the efficiency of work as well as to provide employees with more time to develop themselves. Over the past year, thanks to the application of this initiative, we cannot only witness a major decrease in the monthly overtime work per employee, but we can also observe a massive change in the mindset of employees. One example of this is that frontline employees have launched over 400 projects centred on the processes of operational reform. Using IT, the company heads to detail each employees' duties and the skills required for each task. This detailed visualization will allow managers to pick the right person for the right jobs and as a result, boost the working efficiency fundamentally. Moreover, the company are currently presenting new systems that are resulting in significant benefits, for examples, systems that help employees leave the office on time, utilize the super flextime system, or consult partial telecommuting. Next, the company's plan is to release full telecommuting and other systems with the goal of creating a flexible working environment letting employees work from anywhere.

On the other side, Arm Holding worked toward the goal of collaborating across the SoftBank Group. In fiscal 2017, Arm focused on creating new collaborations with other technology corporations across the SoftBank Group. Aiding this is the Executive Chairman of Sprint, Marcelo Claure who is appointed to the Arm Board. The results of Arm's collaboration has already been visible in several substantial innovations, such as the new, upcoming networking technology of Sprint and Cavium (an Arm licensee). Arm will continuously search for collaborating opportunities across the SoftBank Group, and also, to achieve the Group's value enhancement. In their expectation, Arm believes that many more opportunities await, especially

in the AI field, energy-efficient servers, next-generation telecommunications equipment, and in IoT.

IV. ARM AND SOFTBANK FARED SINCE THE ACQUISITION

As of December 31, 2018, the Arm's technologies of processors were accounted for over 95% in smartphone's main chips due to its highly energy-efficient design. Currently, Arm is in the position of expedited R&D investments and is spending most of its revenues on reinvesting back into the business. After two years following SBG's acquisition, as of March 31, 2019, Arm witnessed a major increase of 34% in its R&D headcount. Experts anticipate that this accelerated investment period will remain for the upcoming years, however, Arm can raise its profitability as the revenues from its new, in-progress technologies begin to shape. The deployment of new technologies like AI and computer vision in expanding the market using autonomous vehicles and the Internet of Things (IoT) is the key for the steady long-term growth of the global semiconductor market, to which Arm's products and services are distributed. In the near future, however, the growth of the semiconductor industry will be slower than the long-term average. This slower development is primarily due to the flattening smartphones' growth as well as the slower Chinese economic growth. Since Arm's goal is to come out with the "future" technologies, the company itself follow a plan continuing to enhance its research and development to carry out the long-term strategies below:

- Keeping up its market position in its favourable areas such as smartphones, consumer electronics, and embedded computing;
- Enhance brand royalty per chip by enhancing its values, which means to offer more advances on graphics and machine learning processors or to apply more beneficial technology aiming at increasing performance and security;

- Become the market leader in developing technology related to autonomous vehicles, IoT, and augmented reality headsets;
- Establish innovative business models to reform competitive landscape, for instance, directly giving its technology license to OEMs and cloud companies; and
- Generate new revenue streams from IoT-managed services, for example, device management, connectivity management, and data management.

ARM's new owner has also aimed at a different audience. Recently, when Segars introduced a new Lenovo Group Ltd. laptop built on an ARM-technology-based chip to Son, he was invited to stay in and demonstrate for Bill Gates later that day.

While it seems to be a dream scenario for Segars and his team: invest for growth and leave the profit issues asides, they are gradually out of their comfort one due to the exchange. The technology of ARM is common in semiconductors. Son plans to direct ARM into the field of software and services.

According to Segars, when Son first had the takeover discussions with ARM, he showed a great passion for a "science project." Son took over ARM with a strong belief that the processor maker, with products dominating the market of smartphone, could replicate its success in the chips empowering the internet of things industry jargon to illustrate the connection of everything, from household appliances to factory machines to the internet.

That connected future won't enter life as quickly as Son and many other futurists expected. One primary cause is that all those connected devices will lead to a massive management hassle: they

must be highly secured as well as get their software updated and remain connected. This, technically, will be extremely complicated, and the price will potentially be so high.

Another challenge is the lack of expertise of ARM in IoT services. In reality, there had always been two steps cleared from the end-users of the devices incorporated ARM-designed chips.

So now, following Son's big dream, ARM has started to build up its IoT services department. In August, \$600 million was spent on U.S.-based data analytics startup Treasure Data Inc. -- the largest deal of this company in 14 years. In June, ARM aimed at Stream Technologies, a Glasgow-based enterprise centred on enhancing IoT devices' connectivity.

"10 to 15 years from now, there would be a trillion connected devices in the world, and even if a device only costs a few pennies per month, that amount would still be massive," said the analyst at Sanford C. Bernstein, Chris Lane. "Right now is still too early. It's a money-making idea."

In the end, Segars will possibly have to cut down expenses and give a good explanation to his public market investors why his company is worth more than the amount SoftBank paid for it. SoftBank has the intention to list ARM in approximately five years, as Segars shared.

ARM's opportunity window may shut sooner than that. SoftBank's Vision Fund received strong support when technology was on top. ARM itself was raised by the belief that a change in the chip industry was viable, as new industries lining up to include electronics and intelligence in their products and operations.

At the end of 2018, tech and chip giants, in particular, are disfavored. Given that a trade war, slower-than-expected development of new markets like self-driving cars and the return of existing problems like the abundance of inventory, the semiconductor industry began to soften.

The benchmark Philadelphia Stock Exchange Semiconductor Index observed a decrease of 7.8 percents in 2018, after two consecutive years of an over 36-percent growth.

ARM already acknowledges that being successful in one field doesn't mean a free pass. The company has been working on mitigating the dominance of Intel in computer technology for nearly a decade and not so far from achieving their goal.

And in servers, where for a decade, Intel has taken control of over 90 percent market share, ARM-based processors have made several false knock-outs with the join of chipmakers, then drawing out without earning any visible amounts of business from Intel. ARM received a major boost in 2018 when, according to the long rumours, one of Intel's biggest clients, Amazon.com Inc., made an announcement that its in-used chips with its design in its server network, semiconductors that are ARM-technology-based.

Segars' recruiting drive has led to ballooned costs. Profit has jumped up. In its most recent quarter, the expenses were 327 million pounds, which equals an increase of 33 percents compared to the same period last year. Before all of this, earnings was just about 18 million pounds, which equals only about a quarter of the earnings a year ago.

For now, ARM's owners aren't worried. But with SoftBank's holdings of 25 percent in ARM belonging to the Vision Fund as well as approximately \$100 billion invested by other investors, the future investing decision of the company will be limited without returns. Segars is aware of those high expectations and Son expects to regain more than the \$32 billion spent to take over ARM.

KPI: Investing in ARM's people and systems

Engaging the company people: The company desires to turn ARM into the best workplace in the company industry. The company people work on the company products, transfer them to the hands of customers, and support the partners' ecosystem which distributes that technology into the market. In the last 15 years, the company have continuously conducted a people engagement survey.

Over this time, the company have witnessed an exceptionally positive response rate and, more importantly, an engagement increase in employees. The company takes turns of the annual comprehensive survey and a more loosen interim survey centred on main or topical questions. Only the number of asked questions varies. The company involve all of its employees in both surveys' forms.

The company calculate people engagement depending on the "high positive" survey responses instead of adding positive responses and divide it into the overall performance score. For more information on how The company inspire, motivate and reward the company people and the company goals for employee engagement,

The ARM's CR approach's employee engagement factor is team ARM. Its main duty is to encourage all the employees in the company offices all over the world to donate money and volunteer their time and skills to create benefits for local communities and other societies. Besides, sustainable engagement is an engagement measure that ARM has been applying since 2014 to have a deep understanding of the motivation and energy level of people to perform their best.

KPI: Operating with ethics and integrity

Forming trust. Possessing an explicit governance framework to perform the CR activity, operating integrated, and being responsible for the company movements are essential to protect the trust of all CR programme shareholders of the company. It includes investors, the company employees, CR Partners, and the communities. The company support.

The company provides company performance measurement in building trust in three ways. First, the company make sure that every year they get the confirmation from all of their employees on their understanding of the Group's Code of Business Conduct and Ethics, which also consists of the Human Rights Policy of the company.

Along with the core beliefs, visions, missions, and strategies of the company, they assure that the company employees fully know their responsibility. Other critical trust-building factors are conciseness, honesty and transparency in reports. The company overall performance score (drawing annually from the DJSI process) is utilized to calculate the success level of the company in achieving this.

Another method to measure trust is to see how the company performance against their rivals is and how the company proceed to meet with its commitments for reductions in energy use and carbon emission. For more information on environmental performance and targets

Innovating for impact at scale Driving innovation

In 2015, ARM got the fifth place in the list of the most innovative corporation all over the world ranked by Forbes magazine. In the same year, the company took out approximately 25% of its operating revenue to do research and develop. They also set aside 10% of the company engineering resource in total to developing new products' types. In their new product development through 2016, the company have publicly promised to raise expenditure, with an

actual increased £40 million. The goal is to bring back an additional value of \$200 million in 2020.

ARM encourages innovation. And it's not limited inside the engineering teams. It describes an essential part of how the company work their way in business. And this also includes in the company CR delivery. Therefore, the success level of the company in promoting innovative products will be best calculated by the metrics that illustrate the performance of the company business thoroughly: the company financial data. These indexes are collected and measured by sales data, turnover, normalised profits, earnings per share, cash generation, and dividends.

KPI: Maintaining quality service and lasting relationships

Customer satisfaction surveys are utilized to evaluate the company performance in customer service and in how the company respond to the customers' support requests.

In 2015, there was an addition to the company customer satisfaction survey list. By far, they include:

- › Technical Communications Survey (customer experience of ARM product documentation)
- › Connect Surveys (customer experience of ARM online service portal for secure collection and download of ARM products)
- › Remote Training Survey (customer experience of receiving remote/online ARM training)
- › Sales & Legal Survey (customer experience of the underpinning commercial process with ARM)

V. CONCLUSION

In conclusion, the acquisition between Softbank and ARM Holdings has considered as a significant surprise in the technology industry. While Softbank took the benefit of latest technology from ARM and an opportunity to improve its image across EU market, ARM Holdings get the chance to have the long- term investment for research and development phase.

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