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A case study of SoftBank's acquisition of ARM Holdings

Abstract

Faced with fierce competition within the industry, acquisition is the preferred strategy for companies that want to expand rapidly and gain market share. With the development of IoT, in order to further lead technological innovation, respond to new market demands and new business model layout, many companies have begun a new round of market competition.

This essay takes SoftBank's acquisition of British chip design company ARM Holdings as an example to analyze how SoftBank can seize the opportunity of the IoT through acquisition and realize the enterprise development strategy. Therefore, this essay starts with the basic situation of the two companies, uses the SWOT model to analyze SoftBank, and from the perspective of the company's overall strategy, points out that its motivation to acquire ARM Holdings which is consistent with the company's overall strategy. Finally, evaluate and compare the changes and impacts of the acquisition on the two companies.

Keywords: SoftBank, ARM Holdings, acquisition, SWOT

1 Introduction

With the rapid development of information technology, the requirement of communication in the information society is not only the communication between people, but also between people and things, as well as between things, thus creating a new concept - the IoT. It is known as the third revolution in information technology after computers and the Internet(Yong, 2010).

In the development of the IoT, it is particularly important to explore industry development rules and specific business models. In particular, it is necessary to find the core application that drives the development of IoT, which is significant for telecom operators and mobile communication service providers. For communication service providers, this is both an opportunity and a challenge. As Japan's third-largest telecommunications giant, SoftBank has realized the importance of industrial layout. On September 5, 2016, SoftBank announced the acquisition of ARM Holdings, a British chip design company, for \$32 billion, one of the largest M&A deals in the global technology market in 2016. In the next few years, SoftBank will focus on doubling the number of ARM employees to 5,000 to 6,000 (SoftBank, 2016). SoftBank said the acquisition of ARM Holdings is aimed at entering the IoT and AI, hoping to further seize the opportunities of the development of the IoT. For SoftBank, the acquisition is not only crucial for the future strategic layout, but also important to achieving its overall strategic development goals.

Therefore, after introducing the basic situation of SoftBank and ARM Holdings,

this essay uses SWOT model to analyze the internal and external environment of SoftBank, and analyzes the motivation of ARM acquisition from the perspective of the overall strategy of SoftBank Group. In the final part of the essay, I will evaluate the changes in the acquisition for the two companies to gain insight into the impact of the acquisition on the two companies and industries.

1.1 SoftBank

In September 1981, the SoftBank Group was founded in Tokyo by Masayoshi Son and was initially operated as a distributor of packaging software. The development of the company has gone through several critical periods. They are the company's establishment period, IT industry investment and operation period, broadband operation period, fixed network operation period and mobile operation period(Jin, 2007). It can be seen that SoftBank is developing and growing in the process of continuous transformation and upgrading.

SoftBank officially entered the traditional telecommunications business by acquiring Japan's third-largest fixed-line operator, Japan Telecom. It is now Japan's third-largest Japanese telecommunications giant, lagging behind NTT and KDDI. It is worth mentioning that two-thirds of SoftBank's main source of income still comes from the traditional telecommunications industry, and other income comes from strategic investments around the world, indicating the importance of traditional telecommunications to the development of SoftBank.

The SoftBank Group consists of a purely holding company SoftBank Group and

1,302 subsidiaries. In addition to traditional services, such as Japan's mobile communications services, mobile device sales, broadband and other fixed communications services, it is also an Internet-based innovator, operating in various industries, from traditional telecom operators to strategic holding companies. The corporate philosophy is "Information Revolution--Happiness for everyone". It has always been committed to using information technology to benefit the whole people and society. The company's goal is to become the company most needed by the people all over the world. These are the driving forces for the continued development of SoftBank(SoftBank Group, 2019).

Masayoshi Son, chairman of SoftBank Group, proposed the Cluster of No.1 Strategy and pointed out that it will be the strategy to lead the company's sustainable development in the next 300 years. The company's business strategy is the Beyond Carrier strategy, stating that the strategy calls for the use of a broad telecom customer base to adopt a flexible approach to extend its business scope into services and content and related areas while expanding its customer base and seeking synergies from domestic and overseas group companies(SoftBank Group, 2019).

M&A and investment have always been one of SoftBank's main growth strategies. In the past decade, SoftBank has invested \$82 billion in more than 140 mergers and acquisitions, many of which are closely related to the IoT. In September 2016, SoftBank Group acquired ARM Holdings, a British chip design company, which was seen as a key step in the layout of SoftBank's IoT(SoftBank Group, 2019).

1.2 ARM Holdings

In November 1990, British semiconductor and software design company ARM Holdings was born in Cambridge, England. After more than 20 years of continuous development, ARM Holdings has become a leader in the semiconductor industry. Qualcomm, Samsung, and Apple all use ARM Holdings chips, and 99% of the world's smartphones, tablets, and smart TVs use its processors. ARM Holdings' business includes providing processor IP and related software and tools, IoT platforms and solutions.

ARM Holdings' business model is a key feature of its success. It only authorizes chip technology and does not directly produce chips. ARM Holdings' business model has significantly reduced its own R&D costs and risks. It forms an ecosystem centered on ARM Holdings with a risk-sharing and benefit-sharing model that enables low-cost innovation. ARM Holdings has established partnerships with more than 1,000 companies worldwide to form its unique partner ecosystem.

ARM Holdings is known for designing processors for the main chip in almost all smartphones. With the growing influence of mobile customers and the advantages of the partner ecosystem, it has grown into a global chip giant. Simultaneously, its processor license is the largest source of revenue for ARM technology licenses.

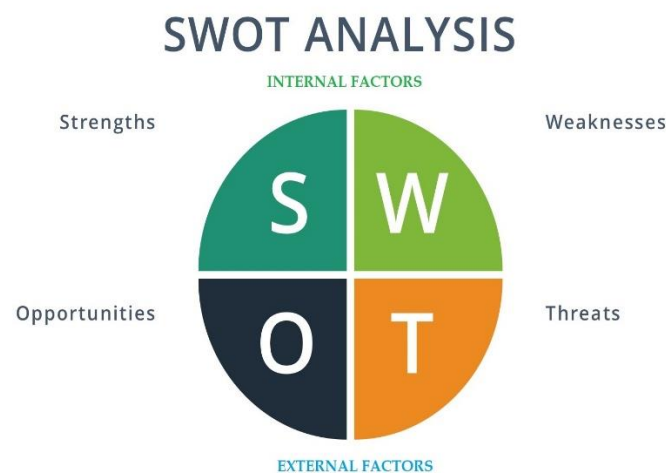
It must be mentioned that as a chip design company competing with Intel and Qualcomm, in addition to its position in the field of smart phones, ARM has long been involved in the IoT. Thousands of highly specialized engineers focus on developing technologies in the IoT, building an IoT platform and maintaining network information

security, all of which are the focus of ARM Holdings development. Future large-scale IoT connections require lower cost chips. Therefore, ARM Holdings demonstrated its unique strengths in the development of silicon and IoT technologies(Arm Ltd, 2019).

2 Analysis of SoftBank with SWOT

This section uses the SWOT model to analyze the internal and external environment in which SoftBank is located, and points out its advantages and disadvantages in arranging the IoT.

SWOT analysis includes S (strength), W (weakness), O (opportunity) and T (threat) abbreviations. The analysis was proposed by Heinz Weihrich, a professor of management at the University of San Francisco in the early 1980s(Weihrich, 1982). As shown in Figure 1.



(Figure 1: SWOT analysis model)

2.1 Strengths

2.1.1 Leading position of communication operators

SoftBank has advanced technology in the traditional communications industry and the Internet so that the market share of domestic enterprise products continues to expand, making it the third largest communications operator in Japan(Jin, 2007). The lucrative telecommunications industry has enabled SoftBank to continue to increase its international capital cooperation, making it a world-renowned telecom operator.

Its leading position in communications and the Internet has laid the foundation for the development of the IoT. The IoT is an extension of the Internet, which integrates technologies in the three fields of electronics, communications and computers. The client side of the IoT has expanded to any things and things for information exchange and communication(Sun *et al.*, 2010). Therefore, the advantages of SoftBank in the traditional telecommunications industry and the Internet have become an important foundation for the development of the IoT.

2.1.2 Excellent corporate culture

SoftBank Group's corporate philosophy is “Information Revolution — Happiness for everyone” (SoftBank Group, 2019), which has been committed to using information technology to benefit all mankind and society and to become the company most needed by people all over the world. Excellent corporate culture encourages employees to work together to help SoftBank realize the transformation and development of the company

again and again to create a business miracle. A good corporate culture will help SoftBank overcome the difficulties in the IoT and move on.

2.1.3 Diversified management and quality service

In the context of meeting the national communications industry infrastructure, companies are constantly accelerating innovation and providing products and services to partners. SoftBank has always focused on the consumer to meet the diverse and individual needs of its customers, while improving the customer service experience through multiple channels(SoftBank Group, 2019). Combined with the diversified operation of SoftBank, the layout of the IoT will contribute to the expansion of the SoftBank industry ecosystem and achieve synergies.

2.1.4 Experience in strategic investment

SoftBank has gradually developed into a strategic investment company in the process of continuous enterprise upgrade and transformation. This is related to SoftBank's business model, with one-third of its revenue coming from strategic investments around the world. SoftBank has a wide range of investments and currently has 1,302 different types of subsidiaries(SoftBank Group, 2019). In the past decade, SoftBank has invested heavily in the IoT. SoftBank's extensive experience in strategic investment operations will give it an edge in acquiring IoT resources.

2.1.5 Unique entrepreneurship

Under the leadership of Chairman and CEO Masayoshi Son, SoftBank has the current

business landscape and continues to expand with its unique strategic vision and adventurous spirit. Masayoshi Son's love of the IoT has been around for a long time, and he has completed a series of IoT layouts, such as telecommunications, e-commerce, robots, etc. It is precisely because of Masayoshi Son's bold predictions about the future information revolution that Softbank will enable Softbank Group to further increase its investment and layout in the IoT.

2.2 Weaknesses

2.2.1 Weak technical research and development capabilities

SoftBank relies heavily on telecommunications services and strategic investments to drive economic growth. However, its low-cost processors are in high demand and are imported by other companies or supplied by other suppliers, resulting in high costs (SoftBank Group, 2019). Due to the lack of professional and technical personnel and technology research and development capabilities in the IoT, Softbank Group has severely restricted its own development. Therefore, acquisition can be said to be the fastest way to gain this advantage.

2.2.2 High debt ratio and high investment risk

As of March 31, 2016, Softbank's liabilities have reached \$115 billion, five times its adjusted earnings (Yuan, 2016). Venture capital may have a negative effect on the Group's operating results, financial condition and cash flow. Capital expansion often requires investors, but SoftBank in high debt situations tend to lose interest to investors,

so its investment activities will be limited. Therefore, high debt ratio may become a disadvantage for its strategic investment in the IoT.

2.3 Opportunities

2.3.1 The arrival of the IoT era

A new round of information technology industry revolution is changing the world. The most prominent are cloud computing and the IoT.

The novelty of the IoT is the use of technology crossover and integration to establish a "things" and "things" network, complete remote real-time data exchange and control, and facilitate people's production and life. Therefore, the IoT is based on existing communication services, making full use of the information connection provided by the Internet to complete the required real-time data reading, information exchange, remote control and other special functions(Sun *et al.*, 2010).

Applications based on the IoT will lead the future of the information revolution in different fields and industries. This is a huge development opportunity for SoftBank Group, which is keen on strategic investment and AI.

2.3.2 Approval of the IoT unified standard NB-IoT

In June 2016, the IoT standard NB-IoT was formally approved and frozen at the 72nd meeting of the 3GPP RAN Plenary Meeting in Busan, South Korea. Its approval is a milestone for the IoT industry. It will promote the development of equipment vendors, chip vendors, module vendors and platform vendors in the NB-IoT industry chain. All

participants in the industry chain can easily achieve their own profit model. NB-IoT organically unites the original fragmented IoT, which is the greatest value, creating a great era(Xuecheng, 2017). It will bring out the application of the IoT industry after the improvement of the basic network and the popularization of the terminal, which will further strengthen the determination of SoftBank Group to enter the field of IoT.

2.4 Threats

2.4.1 Competitor threat

The SoftBank Group is a company based on traditional telecommunications and mobile internet and strategic investment. Its competitors in the domestic telecommunications industry are NTT Docomo、KDDI Au. Its competitors in strategic investment are well-known Sequoia Capital and Goldman Sachs Group. Since SoftBank Group's investment field covers various industries, its potential competitors are numerous. Competitors may have an advantage over SoftBank in terms of capital, technology development, price competitiveness, customer base and reputation. Thus, if SoftBank does not seize the opportunity of the development of the IoT, then it's likely to be at a competitive disadvantage, which will adversely affect the development and operation of the entire enterprise.

2.4.2 Information security threat

The innovation and transformation of IoT technology has brought about tremendous changes in traditional industrial forms and lifestyles. As hundreds of millions of devices

access the IoT to provide innovative and connected new services, the entire IoT ecosystem and platform will be vulnerable, especially to user privacy and the underlying network environment. It can be seen that information security has become a threat to SoftBank Group's involvement in the IoT, which requires SoftBank to strengthen its ability to enhance information prevention and control. Thus, the acquisition of enterprises that provide IoT information security research and development will be an inevitable choice.

2.5 Chapter summary

In summary, the SWOT model lists the strengths, weaknesses, threats and opportunities of SoftBank. Through the SWOT matrix, when analyzing the SoftBank Group's entry into the field of IoT, the strategy adopted should be to take advantage of strengths, seize opportunities, eliminate weaknesses and respond to threats (Figure 2).

In the matrix model, the SO strategy and the ST strategy clarify that the decision to enter the IoT is inevitable, and it is necessary to make up for the lack of information security in the IoT. However, when the WO strategy and the WT strategy achieve the company's overall development goals, SoftBank urgently needs to complement the technology development capabilities and the information security defense capabilities of the IoT platform.

In summary, the acquisition can make up for SoftBank's shortcomings and threats, enhance its overall advantages, and is a key step to further seize the IoT market. The next section will specifically analyze SoftBank's motivation to acquire ARM Holdings,

which is the best proof of SoftBank's use of its strengths, opportunities and overcoming weaknesses and threats.

	Strengths: 1 Leading position in the communications industry 2 Advanced corporate culture 3 Diversified management and quality service 4 Strategic investment operation 5 Unique entrepreneurship	Weaknesses: 1 shortage of Independent research and development capabilities 2 lack of Technical talent 3 High debt ratio and high investment risk
Opportunities: 1 The arrival of the IoT era 2 Formulation of unified standards for IoT	SO strategy: 1 Expand investment in the IoT 2 Expanding its own ecosystem	WO strategy: 1 Acquisition of technology and talent companies 2 Expand investment in the IoT
Threats: 1 Competitors 2 information security	ST strategy: 1 Expand investment in the IoT 2 Need to increase the investment in IoT information security	WT strategy: 1 Acquisition of technology and technical talent companies 2 Need to increase the investment in IoT information security

(Figure 2: SWOT Matrix Analysis of Softbank)

3 Analysis of acquisition motivation based on SWOT model

This section will provide an in-depth analysis of the motivations and reasons for SoftBank's acquisition of ARM Holdings.

3.1 In line with the overall strategy of SoftBank

SoftBank's overall strategy is Beyond Carrier strategy, pointing out that the company

will adopt a flexible approach to expand its telecom business into a wide range of fields, and seek synergies with domestic and foreign companies. Masayoshi Son presented his Cluster of NO.1 strategy and noted that this is a development strategy that will guide the company for the next 300 years (SoftBank Group, 2019). The acquisition of ARM Holdings is aimed at the layout of the IoT, which is the best example of the successful implementation of the company's overall strategy.

The development of the IoT requires connecting hundreds of millions of devices to provide innovative, lifestyle-changing services. However, all devices need to load the chip to work.

As a global leader in the chip industry, ARM Holdings provides low-cost chips for virtually all electronic devices and smart motion. Therefore, owning ARM Holdings is the key to occupying the IoT market. Meanwhile, the acquisition of ARM Holdings made up for the lack of technical research and development capabilities and shortage of professional and technical talents of SoftBank Group, which greatly enhanced the international competitiveness of SoftBank Group. Simultaneously, after SoftBank Group acquired ARM Holdings, it will not interfere too much with the management of ARM Holdings. This approach allows ARM Holdings to continue to focus on the development of IoT technology, especially the layout of the IoT and the maintenance of information security. For SoftBank, this will undoubtedly help strengthen its technology research and development capabilities and master the most advanced information technology in the IoT. The above indicates that the acquisition of ARM Holdings is in line with the overall strategy of SoftBank Group.

3.2 Highly matched in the IoT domain strategy

SoftBank has a long history of attention to the IoT. In the past decade, SoftBank has invested heavily in industries and sectors related to the IoT and has been pushing the overall layout of the IoT. In IoT applications, the four most frequently mentioned elements are communications, networks, operators and devices. SoftBank already has telecommunications, content, robots and other terminal devices. The acquisition of ARM Holdings is arguably the last key factor in the entire IoT value chain and is seen as the vital step in the overall strategic layout. It is worth mentioning that ARM Holdings as the chip giant in the mobile Internet era, it has been building the IoT for a long time. It involves chips that dominate the entire mobile terminal industry and has a first-class patent library. It continues to license chips for multiple industries, such as the IoT, smart cars and electronics and so on (Yanqiu, 2016). In addition, its professional team of engineers are developing technologies related to the IoT platform and information security(Shiran, 2018). For SoftBank, ARM Holdings is very attractive, and the acquisition makes ARM Holdings the core strategic asset of SoftBank and the core driver of economic growth. Therefore, the highly matched layout of the two sides in the field of the IoT is a crucial reason for the acquisition of ARM Holdings.

3.3 Highly matched in the field of ecosystem construction

SoftBank is a strategic investment company. Since its establishment in 1981, it has invested more than 600 companies and owned more than 300 IT companies. SoftBank Group, with capital as its link, has formed its own unique industrial ecosystem,

involving companies in various industries and sectors. However, the success of ARM Holdings depends on its unique business model and product technology advantages, and more importantly, its partner ecosystem, which has established partnerships with more than 1,000 companies worldwide and has a wide range of content(Yutao *et al.*, 2017). Softbank's acquisition of ARM Holdings will achieve the compatibility of industrial ecosystems between the two sides, thus forming a larger ecosystem centered on SoftBank Group, which will promote the integration of internal resources and synergies. Therefore, the acquisition of ARM Holdings by SoftBank Group will help to expand the industrial ecosystem and realize the key link of ecosystem synergy. For ARM Holdings, the grafting of SoftBank Group's resources is also conducive to its industrial ecology in the new business area. Therefore, the highly matched ecosystem is one of the reasons for SoftBank Group's acquisition of ARM Holdings.

3.4 Highly matched in Cloud Computing

In 2010, SoftBank proposed in its development plan to better serve customers in cloud computing. Therefore, in the process of strategic investment, it continuously invests in the layout of cloud computing and cloud services, trying to achieve a comprehensive transformation of assets in the cloud.

However, in 2010, ARM Holdings also began to lay out cloud computing field, and launched cloud computing servers one after another, but did not achieve substantive breakthroughs. The success of the acquisition will enable ARM Holdings to make use of the company resources and operators of SoftBank Group, greatly accelerate the

application of ARM Holdings in cloud computing, and also enhance the international competitiveness of SoftBank Group in cloud services and cloud computing. Therefore, the high matching between the two sides in the field of cloud computing is also one of the important reasons for SoftBank Group's acquisition of ARM Holding(Yutao *et al.*, 2017).

3.5 The need to improve overall profitability

ARM Holdings' outstanding performance in terms of profitability and market is also one of the driving forces for SoftBank's acquisition. In 2015, ARM's chip shipments reached 15 million, an increase of 3 million over the previous year. The profit margin is as high as 40%. The gross profit margin was as high as 95.9%, and such a high profit margin shocked the highly indebted SoftBank. Therefore, the most direct or realistic reason for SoftBank's acquisition of ARM Holdings is to promote the company's profit margin. According to SoftBank's corporate earnings report, the profit margin of acquiring ARM Holdings has increased by at least 20%(SoftBank Group, 2019), which is the right choice for shareholders and the market to prove the acquisition of ARM Holdings.

4 The changes and influences of the acquisition on the two companies

This section compares and evaluates the changes and impacts of the acquisition to both parties from the perspective of SoftBank and ARM Holdings.

4.1 Changes of SoftBank

4.1.1 Changes in organizational structure

The Softbank Group's organizational structure has increased the Arm Segment, and ARM Holdings has become a subsidiary of SoftBank Group and has changed its name to Arm Limited. Masayoshi Son, Chairman of SoftBank Group, serves as Chairman of the Board of Arm Limited. Simon Segars continues to serve as CEO of Arm Limited and is the Board Director of SoftBank Group(SoftBank Group, 2019).

In addition, after the completion of the acquisition, SoftBank Group also established Vision Fund and Delta Fund Segment (SoftBank Group, 2019). In the future, SoftBank Group's investment in ARM Holdings will come from the Vision Fund.

SoftBank believes that the next phase of the information age is underway, and the establishment of visual funds will accelerate the pace of technological change and become the creator of future technological change life. The Vision Fund will not only invest in communications infrastructure and services, but will also invest in the robotics, finance and insurance sectors and build next-generation infrastructure platforms for these companies. It can be said that the establishment of the visual fund will help realize the vision of SoftBank 2.0 and establish strategic synergies by investing in innovative technologies and entrepreneurs who will develop and innovate in the future.

4.1.2 Changes in strategy

After the acquisition, SoftBank Group transferred the business of its subsidiary

SoftBank Co., Ltd. to IoT, robotics, artificial intelligence, cloud computing, digital marketing and security services, and continuously increased investment and development of new business. SoftBank's development strategy officially turned to the IoT and AI. ARM Holdings will continue to operate independently and continue to play its role in the development of key technology advantages. SoftBank will continue to increase investment in research and development. When the latest technology is needed, ARM will give SoftBank technical and personnel timely support in order to make the best use of the latest technology.

4.1.3 Changes in the status of ecosystems

After the acquisition of ARM Holding, SoftBank will become a keystone firm in its ecosystem (Yulai, 2016). Any company that wants to participate in the IoT must obtain a chip processor through the license and consent of SoftBank. This undoubtedly enhances SoftBank's control and leadership in the IoT field, activates the entire company's industrial chain, and enhances its competitiveness and leadership in the industry.

4.2 Changes of ARM Holdings

4.2.1 Changes in company ownership

The corporate image of ARM Holdings has changed. After the acquisition, it changed from “ARM” to “Arm”, from an independent listed company to a subsidiary of SoftBank Group named Arm Limited. The composition of the board of directors has

changed from the original five-person board to the current six-person board. In other words, it consists of three people like Masayoshi Son and the CEO, chief financial officer and chief technology officer of ARM Holdings. Masayoshi Son is the Chairman of the Board of Arm Limited(Yinhu, 2016). It should be noted that SoftBank is committed to maintaining Arm Limited's independence and values, allowing it to operate independently, and keeping its management unchanged.

4.2.2 Changes in the number of engineers

After the acquisition, ARM Holdings increased its R&D investment. More than 1,000 new employees are employed, 80% of whom are senior R&D engineers, bringing the total number of R&D to more than 5,800. Meanwhile, it actively hired a research and development team to enhance research and development capabilities. It is expected that the number of engineers will nearly double in the next five years (SoftBank Group, 2019). Arm plans to continue to grow its engineering team around the world. In the future, Arm's R&D strength will be closer to the market(Qingqing, 2016).

4.2.3 Changes in the basic eco-environment of the IoT

After the acquisition, ARM Holdings has sufficient funds for long-term technology development plans and focuses on mobile smart devices, cloud computing and the IoT (Xiangru, 2017). As part of the SoftBank Group, relying on SoftBank's upfront investment in cloud computing and the IoT can accelerate the rapid adoption and implementation of IoT technology. Arm will further increase its investment in new

technologies, especially those related to IoT, to achieve higher returns. These will help build a richer IoT ecosystem.

4.2.4 Changes in technical cooperation

After the acquisition, Arm increased its technical cooperation with the SoftBank Group's internal companies. Companies in SoftBank are basically Internet-based innovation companies. Therefore, Arm's cooperation with them helps to generate new innovations. Arm will continue to seek opportunities to strengthen cooperation and technology development within the SoftBank Group and continuously enhance the Group's competitiveness and business value(SoftBank Group, 2019).

5 Conclusion

Through the acquisition of ARM Holdings by SoftBank Group, this essay uses the SWOT model to conduct a comprehensive analysis of SoftBank, expounding its strengths and opportunities, threats and weaknesses in the field of IoT. Then, it analyzes in detail the motivation of SoftBank Group's acquisition of ARM Holdings. It can be said that the completion of the acquisition is closely related to the high degree of matching between many aspects of the two companies. The acquisition not only satisfies the overall strategic requirements of SoftBank, but also closely related to the layout of SoftBank Group in the IoT, cloud computing and ecosystem. Meanwhile, it will also help to improve the overall profitability of the SoftBank Group.

Therefore, from the current point of view, the implementation of the acquisition

strategy is in line with the needs of the development of SoftBank's IoT, and is also in line with SoftBank's determination to enter the IoT. Finally, the acquisition brought some changes to the two companies. These changes indicate that acquisitions are an important way for companies to achieve extraordinary transformation.

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