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Arm Holdings plc | North America

Growing Confidence of an Agentic Future

WHAT'S CHANGED

Arm Holdings plc (ARM.O)	From	To
Price Target	US$191.00	**US$202.00**

CPU demand appears strong, but guidance is prudent reflecting supply as the gating factor. We see royalties as the cleaner near-term growth driver led by Cloud AI. We remain Equal-weight, though lift our PT to $202 on IP multiple expansion.

Key Takeaways

- Arm delivered a modest beat on revenue and EPS in the quarter (revenue $1.49bn vs. $1.47bn; EPS $0.60 vs. $0.58).
- Q1 guide implies EPS ~8% ahead of street, helped by opex growth tracking below expectations.
- Licensing was strong (including next-generation CSS wins), while royalties were weaker than expected ($671m, c.4% below street).
- Management cited solid Cloud AI momentum (royalty revenue in Cloud AI ~2x YoY).
- Arm sees demand for its new AGI chip reaching $2bn+ across FY27-28 (2x vs prior) and commercial availability is emerging.

FY26 results reinforce a constructive medium-term growth story, but supply visibility remains the key constraint. Demand for the new CPU chip appears to be building quickly, particularly with large enterprise customers, with early deployments and its power-efficient design supporting the opportunity across agentic AI workloads. However, advanced-node wafer availability at TSMC remains the gating factor, limiting near-term confidence in Arm's ability to fully capture the potential $2bn+ FY27/28 chip opportunity. Meanwhile, management continues to frame the core IP business around c.20% annual growth, led by Cloud AI royalties, hyperscaler custom CPU adoption, and DPU/SmartNIC penetration. The key debate is how to size the CPU opportunity without double counting AI infrastructure demand, while monitoring royalty reacceleration and licensing durability. We make only modest estimate changes in line with management commentary, but raise our valuation multiple for the IP business to reflect the emergence of Cloud AI as a more meaningful growth driver. This lifts our base case PT to $202.

CPU chip demand signal is strong but supply (TSMC wafers) is the gating factor. It has been ~6 weeks since Arm announced its new CPU chip (link), and management indicated that demand has built quickly – particularly from large enterprises – supported by early commercial deployments and the product's power-efficiency

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Arm Holdings plc (ARM.O, ARM US)

Semiconductors | United States of America

Stock Rating	**Equal-weight**
Industry View	**Attractive**
Price target	**US$202.00**
Shr price, close (May 6, 2026)	US$237.30
52-Week Range	US$239.50-100.02
Mkt cap, curr (mn)	US$243,812
Net debt (12/27e) (mn)*	US$(5,565)
EV, curr (mn)*	US$241,061

* = GAAP or approximated based on GAAP

Fiscal Year Ending	12/26	12/27e	12/28e	12/29e
Sales / Revenue (US$ mn)**	4,920	5,898	8,653	11,290
EBITDA (US$ mn)**	2,364	2,601	4,435	5,993
EBIT (US$ mn)**	2,115	2,332	4,305	5,868
EPS (US$)**	1.77	1.93	3.51	4.91
Prior EPS (US$)**	1.60	1.96	3.68	-
EPS (US$)§	2.12	2.95	3.56	5.26
P/E**	134.1	123.0	67.6	48.3
EV/revenue*	50.6	40.4	27.2	20.4
EV/EBITDA**	105.3	91.6	53.0	38.5
EV/EBIT**	117.7	102.2	54.6	39.3
DPS (US$)	0.00	0.00	0.00	0.00
Div yld (%)	0.0	0.0	0.0	0.0
FCF yld ratio (%)**	(0.0)	0.6	0.8	1.1
Net debt (US$ mn)*	(2,751)	(5,565)	(8,794)	(12,971)
Net debt/EBITDA**	NM	NM	NM	NM
RNOA (%)**	41.5	42.6	88.5	104.3
ROE (%)**	27.7	24.9	35.4	36.2

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework
§ = Consensus data is provided by Refinitiv Estimates
* = GAAP or approximated based on GAAP
** = Based on consensus methodology
e = Morgan Stanley Research estimates

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positioning for agentic AI workloads. The practical constraint is manufacturing capacity, most notably access to advanced wafers at TSMC. TSMC (covered by Charlie Chan) is expected to increase 3nm availability into CY26-27. However, it remains uncertain how much incremental capacity will be allocated to Arm versus other high-volume customers. Our view is that this should improve over time, but near-term capacity limitations could constrain Arm's ability to fully serve the $2bn+ FY27/28 opportunity. **Against that backdrop, we view management's decision to keep guidance conservative until supply visibility improves as sensible**.

Management frames c.20% growth for the core IP business; Cloud AI the swing factor. Management guided to ~20% year-on-year growth in both royalties and licensing over the coming year (and similarly framed Q1 as ~20% yy). The primary driver is Cloud AI royalties, which management expects to ~2x yy in FY26 (and potentially again in FY27), supported by increasing adoption of custom CPU designs among hyperscalers and xPU players. Management also highlighted Arm's near ubiquitous presence in emerging DPUs and SmartNICs as a tailwind for royalty growth. It reiterated the company's typical seasonal profile in licensing (roughly 60%/40% weighted to H2/H1). It also guided to operating expenses of ~US$760m in Q1, rising ~4-5% sequentially through the year. Taken together, this implies opex growth broadly in line with the ~20% top-line growth framework, with **scope for incremental margin expansion** (consistent with CFO commentary).

CPU TAM for orchestration: focus on core count (avoid double counting). As agentic workflows broaden, management's emphasis is that incremental CPU demand may show up more through higher core counts (and more orchestration capacity) rather than a mechanically higher CPU:GPU chip ratio. Arm continues to advocate single threaded, power-efficient CPU designs as a structural advantage into 2030. Importantly, this framework suggests the number of "head node" CPUs may track more closely with xPU/ASIC deployment, while orchestration needs increase the core requirement per system as workflow complexity and session volume grow.

- **Implication for investors:** Building a CPU TAM requires care to avoid double counting (e.g., assuming both sharply higher CPU:GPU ratios and sharply higher cores per system). At this stage, the mapping between (1) agentic session growth, (2) token generation growth (xPU-driven), and (3) CPU core requirements remains uncertain – **so we expect TAM estimates to remain sensitive to underlying assumptions in the near term**.

Items to watch

- **Royalties vs. expectations**: whether the recent royalty softness is transitory (e.g., handset production disruption such as DRAM shortages) or indicative of a broader mix shift.
- **Foundry capacity allocation:** visibility on TSMC advanced-node wafer supply and Arm's ability to secure sufficient capacity for the CPU chip ramp.
- **Licensing durability:** follow-through on strong growth in FY26 (including next gen CSS momentum) and H2-weighted licensing conversion.
- **Cloud AI trajectory:** confirmation that Cloud AI royalties can sustain ~2x yy growth and translate into consolidated royalty re-acceleration.

Changes to estimates. We make small changes to our FY27 estimates in line with management updates. We also slightly lift our chip sales to $113mn in FY27 (prior $83mn) and $1.46mn in FY28 (prior $1.18bn) to allow for the possibility of meeting some of the excess demand. All in, we now expect FY27 sales/EPS to come in at $5.90bn/$1.93 vs $5.93bn/$1.96 prior.

Valuation. We value Arm on a SOTP basis to reflect the value of the IP and chip business. We lift our IP EV/EBIT multiple to 50x, towards the upper end of the historical valuation range for Arm's IP business given the emergence of cloud AI as a key growth driver. We maintain our 20x multiple for the chip business (prior 15x), a discount to global chip makers but still reflective of growth potential. The multiple expansion shifts our base case (and price target) to $202.

What was said

Financials

- **Q4 FY26 results:** Arm reported a record quarter, with total revenue up c.20% yy to $1.49bn, above the midpoint of guidance. Licensing revenue rose 29% yy to $819m, while royalty revenue grew 11% yy to $671m – Arm's highest-ever Q4 figure. Data centre royalty revenue more than doubled yy, with no sign of a break in momentum. Non-GAAP operating margin came in at ~49%, and non-GAAP EPS reached a record $0.60 (vs. $0.55 a year ago), aided by slightly lower-than-expected opex.
- **Full-year FY26:** Revenue reached a record $4.92bn, up 23% yy – the third consecutive year of 20%+ growth since the IPO. Full-year royalty revenue was $2.61bn (+21%) and licensing revenue was $2.31bn (+25%). Non-GAAP EPS for the full year were $1.77.
- **Q1 FY27 guidance:** Revenue guided at $1.26bn ±$50m (~20% yy growth at midpoint), with royalty and licensing revenue each expected up ~20% yy. Non-GAAP opex guided at ~$760m, and non-GAAP EPS at $0.40 ±$0.04.
- **Soft FY27 full-year guidance:** Arm's CFO did not issue formal full-year guidance but provided directional colour during Q&A: both royalty and licensing revenue growth are expected at roughly 20% for the year, with licensing skewed ~60% H2 / 40% H1 (consistent with prior years). Opex is expected to grow sequentially each quarter by "a few percent," with incremental margin improvement building through the year – and expenses growing less than revenue by year-end.
- **Long-term target:** The company reiterated the FY31 target of $25bn total sales – $15bn from the AGI CPU + $10bn from the IP business – translating into more than $9 in EPS.

Exhibit 1: Arm Annual Income Statement

Annual Income Statement	2021	2022	2023	2024	2025	2026	2027e	2028e
Revenues	**2,027**	**2,703**	**2,679**	**3,233**	**4,007**	**4,920**	**5,898**	**8,653**
Cost of goods Sold	-145	-131	-106	-154	-121	-121	-268	-1,057
Gross profit	1,882	2,572	2,573	3,079	3,886	4,799	5,630	7,597
R&D	-814	-995	-1,133	-1,979	-2,071	-2,776	-3,222	-3,737
SG&A	-826	-897	-762	-983	-984	-1,115	-1,259	-1,335
Other income/(expenses)	-3	-47	-7	-6	0	-8	0	0
EBIT (reported)	239	633	671	111	831	900	1,148	2,525
Adjusted EBIT	**304**	**731**	**783**	**1,382**	**1,818**	**2,115**	**2,332**	**4,305**
Adjusted EBITDA	**505**	**916**	**953**	**1,544**	**2,001**	**2,364**	**2,601**	**4,435**
Net Financials & other	458	153	0	101	-111	257	234	231
PBT (reported)	697	786	671	212	720	1,157	1,382	2,756
Income Tax	-153	-110	-147	94	72	-253	-200	-386
discont. Ops.	-156	-127	0	0	0	0	0	0
Net Income (reported)	**388**	**549**	**524**	**306**	**792**	**904**	**1,182**	**2,370**
Net Income (non-GAAP)	**595**	**663**	**657**	**1,307**	**1,820**	**1,889**	**2,062**	**3,750**
EPS ($) Adjusted - Basic	0.58	0.65	0.64	1.27	1.73	1.78	1.94	3.53
EPS ($) Adjusted - Diluted	**0.58**	**0.65**	**0.64**	**1.25**	**1.71**	**1.77**	**1.93**	**3.51**
DPS ($)	0.73	0.00	0.00	0.00	0.00	0.00	0.00	0.00

	2021	2022	2023	2024	2025	2026	2027e	2028e
Sales growth - yy	7%	33%	-1%	21%	24%	23%	20%	47%
Gross margin	92.8%	95.2%	96.0%	95.2%	97.0%	97.5%	95.5%	87.8%
EBIT Margin	11.8%	23.4%	25.0%	3.4%	20.7%	18.3%	19.5%	29.2%
Adjusted EBIT Margin	15.0%	27.0%	29.2%	42.7%	45.4%	43.0%	39.5%	49.7%
EBITDA Margin	21.7%	30.3%	31.4%	8.4%	25.3%	23.4%	24.0%	30.7%
Adjusted EBITDA Margin	24.9%	33.9%	35.6%	47.8%	49.9%	48.0%	44.1%	51.3%
PBT margin	34.4%	29.1%	25.0%	6.6%	18.0%	23.5%	23.4%	31.9%
Net margin (reported)	19.1%	20.3%	19.6%	9.5%	19.8%	18.4%	20.0%	27.4%
Net margin - Adjusted	29.4%	24.5%	24.5%	40.4%	45.4%	38.4%	35.0%	43.3%
Effective tax rate	-22%	-14%	-22%	44%	10%	-22%	-14%	-14%

Source: Company data, Morgan Stanley Research estimates (e)

Exhibit 2: Arm Quarterly Income Statement

Quarterly Income Statement	1Q26	2Q26	3Q26	4Q26	2026	1Q27e	2Q27e	3Q27e	4Q27e	2027e
Revenues	**1,053**	**1,135**	**1,242**	**1,490**	**4,920**	**1,279**	**1,357**	**1,551**	**1,711**	**5,898**
Cost of goods Sold	-30	-29	-30	-32	-121	-46	-47	-57	-118	-268
Gross profit	1,023	1,106	1,212	1,458	4,799	1,233	1,310	1,494	1,593	5,630
R&D	-650	-691	-737	-698	-2,776	-737	-791	-824	-870	-3,222
SG&A	-259	-252	-284	-320	-1,115	-327	-313	-305	-314	-1,259
Other income/(expenses)	0	0	-6	-2	-8	0	0	0	0	0
EBIT (reported)	114	163	185	438	900	168	206	365	409	1,148
Adjusted EBITDA	**472**	**522**	**568**	**802**	**2,364**	**559**	**604**	**762**	**877**	**2,601**
Net Financials & other	32	139	43	43	257	43	60	63	68	234
PBT (reported)	146	302	228	481	1,157	211	265	429	477	1,382
Income Tax	-16	-64	-5	-168	-253	-32	-37	-60	-72	-200
disc. Ops.	0	0	0	0	0	0	0	0	0	0
Net Income (reported)	**130**	**238**	**223**	**313**	**904**	**180**	**228**	**369**	**405**	**1,182**
EPS ($) - Basic	0.12	0.22	0.21	0.29	0.85	0.10	0.21	0.35	0.38	1.11
EPS ($) - Diluted	**0.12**	**0.22**	**0.21**	**0.29**	**0.85**	**0.10**	**0.21**	**0.34**	**0.38**	**1.11**
Adjusted EPS ($) - Basic	0.35	0.39	0.43	0.60	1.78	0.41	0.46	0.59	0.67	1.94
Adjusted EPS ($) - Diluted	**0.35**	**0.39**	**0.43**	**0.60**	**1.77**	**0.41**	**0.46**	**0.59**	**0.67**	**1.93**
DPS ($)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	1Q26	**2Q26**	**3Q26**	**4Q26**	**FY26**	**1Q27e**	**2Q27e**	**3Q27e**	**4Q27e**	**FY27e**
Sales growth - qq		7.8%	9.4%	20.0%		-14.2%	6.1%	14.3%	10.3%	
Gross margin	97.2%	97.4%	97.6%	97.9%	97.5%	96.4%	96.5%	96.3%	93.1%	95.5%
EBIT margin (reported)	10.8%	14.4%	14.9%	29.4%	18.3%	13.2%	15.2%	23.5%	23.9%	19.5%
EBIT margin - Adjusted										
EBITDA margin	44.8%	46.0%	45.7%	53.8%	48.0%	43.7%	44.5%	49.1%	51.3%	44.1%
PBT margin	13.9%	26.6%	18.4%	32.3%	23.5%	16.5%	19.6%	27.6%	27.9%	23.4%
Net margin (reported)	12.3%	21.0%	18.0%	21.0%	18.4%	14.0%	16.8%	23.8%	23.7%	20.0%
Net margin - Adjusted										
Effective tax rate	-11%	-21%	-2%	-35%	-22%	-15%	-14%	-14%	-15%	-14%

Source: Company data, Morgan Stanley Research estimates (e)

Exhibit 3: Arm Annual Balance Sheet

Annual Balance Sheet	2021	2022	2023	2024	2025	2026	2027e	2028e
Cash & cash equivalents	1,171	1,004	1,554	1,923	2,085	2,751	5,565	8,794
Financial investments	126	631	661	1,000	740	850	850	850
Accounts receivables	910	1,124	999	781	1,107	1,300	1,516	2,011
Inventory	0	0	0	0	0	0	63	374
Contract assets	81	166	154	336	642	977	411	476
Prepaids & Other	203	167	169	157	256	358	342	433
Total current assets	**2,491**	**3,092**	**3,537**	**4,197**	**4,830**	**6,236**	**8,747**	**12,938**
PP&E	259	188	185	215	394	841	1,253	1,762
Goodwill & Other Intangibles	1,870	1,841	1,758	1,777	1,771	1,853	1,792	1,773
Equity method investments	1,560	736	723	741	565	387	387	387
Financial receivables, net								
Deferred tax assets	90	135	139	282	401	375	375	375
Other non-current assets	609	518	524	715	971	1,011	899	899
Total non-current assets	**4,388**	**3,418**	**3,329**	**3,730**	**4,102**	**4,467**	**4,706**	**5,196**
Total assets	**6,879**	**6,510**	**6,866**	**7,927**	**8,932**	**10,703**	**13,453**	**18,134**
Short-term debt								
Accounts Payable	55	57	65	26	62	0	163	634
Provisions (Contract liabilities)	459	365	319	225	239	333	394	597
Income tax payable	4	129	162	147	124	106	116	188
Other current liabilities (incl accrued li	633	844	817	1,107	535	601	802	853
Total current liabilities	**1,151**	**1,395**	**1,363**	**1,505**	**960**	**1,040**	**1,475**	**2,272**
Long-term debt								
Pensions and commitments								
Deferred tax liabilities	317	279	262	135	41	39	39	39
Provisions (Contract liabilities)	1,028	1,022	1,000	911	1,018	1,145	1,145	1,145
Other non-current liabilities (incl accru	333	266	190	81	105	193	193	193
Total non-current liabilities	**1,678**	**1,567**	**1,452**	**1,127**	**1,164**	**1,377**	**1,377**	**1,377**
Total liabilities	**2,829**	**2,962**	**2,815**	**2,632**	**2,124**	**2,417**	**2,852**	**3,649**
Total net assets	**4,050**	**3,548**	**4,051**	**5,295**	**6,808**	**8,286**	**10,601**	**14,485**
Total equity	**4,050**	**3,548**	**4,051**	**5,295**	**6,808**	**8,286**	**10,601**	**14,485**
Net debt:								
Total Debt	0	0	0	0	0	0	0	0
Total "Cash"	1,171	1,004	1,554	1,923	2,085	2,751	5,565	8,794
Net cash/(debt)	**1,171**	**1,004**	**1,554**	**1,923**	**2,085**	**2,751**	**5,565**	**8,794**

Source: Company data, Morgan Stanley Research estimates (e)

Exhibit 4: Arm valuation matrix and ratio analysis

Valuation Matrix ($m)	2021	2022	2023	2024	2025	2026	2027e	2028e
Share Price ($)	**51.0**	**51.0**	**51.0**	**201.0**	**201.0**	**201.0**	**201.0**	**201.0**
Number of Shares (m)	1,025	1,025	1,025	1,027	1,050	1,061	1,063	1,063
Market Cap ($m) - average	**52,287**	**52,287**	**52,287**	**206,516**	**211,050**	**213,211**	**213,663**	**213,663**
Net debt/(cash) ($m) - average	-1,171	-1,004	-1,554	-1,923	-2,085	-2,751	-5,565	-8,794
Enterprise Value ($m) - average		**51,283**	**50,733**	**204,593**	**208,965**	**210,460**	**208,098**	**204,869**
P/E (x)	87.8	78.9	79.6	160.6	117.4	113.6	104.2	57.3
P/E FY1 (x)	**78.9**	**79.6**	**40.8**	**117.4**	**113.6**	**104.2**	**57.3**	
Price/book value (x)		14.7	12.9	39.0	31.0	25.7	20.2	14.8
Price/FCF (x)	51.6	146.5	92.2	-2294.6	-169.9	-2070.0	137.0	108.9
EV/Sales (x)	0.0	19.0	18.9	63.3	52.1	42.8	35.3	23.7
EV/Sales FY1 (x)	**0.0**	**19.1**	**15.7**	**51.1**	**42.5**	**35.7**	**24.0**	
EV/EBITDA (x)	0.0	56.0	53.2	132.5	104.4	89.0	80.0	46.2
EV/EBITDA FY1 (x)	**0.0**	**53.8**	**32.9**	**102.2**	**88.4**	**80.9**	**46.9**	
EV/IC (x)	0.0	16.6	17.6	74.5	65.1	52.7	46.6	38.8
Dividend yield	1.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF yield	1.9%	0.7%	1.1%	0.0%	-0.6%	0.0%	0.7%	0.9%
Per share data ($):								
EPS - Diluted	**0.6**	**0.6**	**0.6**	**1.3**	**1.7**	**1.8**	**1.9**	**3.5**
Dividends per share	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF per share	1.0	0.3	0.6	-0.1	-1.2	-0.1	1.5	1.8
Book value per share		3.5	4.0	5.2	6.5	7.8	10.0	13.6

Ratio Analysis	2021	2022	2023	2024	2025	2026	2027e	2028e
ROCE		12%	12%	2%	10%	9%	10%	16%
ROIC	17%	25%	28%	2%	23%	30%	32%	56%
ROE		15%	13%	6%	12%	11%	11%	16%
Interest cover (x)	-	-	-	-	-	-	-	-
Cash Conversion	2.4	0.5	0.8	0.7	-0.1	0.6	1.3	0.9
Net debt/Equity	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Dividend/FCF	74%	0%	0%	0%	0%	0%	0%	0%
Payout ratio (DPS/EPS)	126%	0%	0%	0%	0%	0%	0%	0%
Capex/Sales	5%	1%	2%	3%	5%	11%	10%	7%
yy growth:								
Sales growth		33.3%	-0.9%	20.7%	23.9%	22.8%	19.9%	46.7%
EBIT growth		164.9%	6.0%	-83.5%	648.6%	8.3%	27.6%	119.9%
EBITDA growth		81.4%	4.0%	62.0%	29.6%	18.1%	10.0%	70.5%
EPS growth		11.4%	-0.9%	95.3%	36.8%	3.3%	9.1%	81.9%
FCF growth		-64.8%	58.8%	-115.9%	1280.0%	-91.7%	-1613.6%	25.8%
Dividend growth		0.0%	na	na	na	na	na	na
Margin structure:								
Gross margin	92.8%	95.2%	96.0%	95.2%	97.0%	97.5%	95.5%	87.8%
EBIT margin	11.8%	23.4%	25.0%	3.4%	20.7%	18.3%	19.5%	29.2%
EBITDA margin	24.9%	33.9%	35.6%	47.8%	49.9%	48.0%	44.1%	51.3%
PBT margin	34.4%	29.1%	25.0%	6.6%	18.0%	23.5%	23.4%	31.9%
Net margin	19.1%	20.3%	19.6%	9.5%	19.8%	18.4%	20.0%	27.4%

Source: Company data, Morgan Stanley Research estimates (e); na = not applicable

Risk Reward – Arm Holdings plc (ARM.O)

Transition stage as Arm moves into chips

PRICE TARGET US$202.00

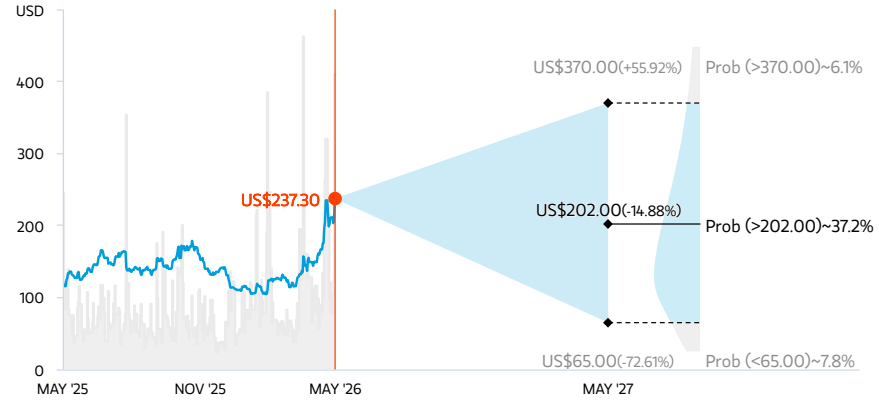
We value Arm on a sum-of-the-parts basis, given the emergence of the new chip business. We apply a 50x EV/EBIT multiple to the IP business (at the upper end of the historical IP valuation range) and a 20x multiple to the chip business (a discount to global chip makers but reflective of growth potential). Discounting FY29 at an 11% WACC, this implies a valuation of $202.

Consensus Price Target Distribution US$81.78 — US$168.94 — MS PT — US$245.00

Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)



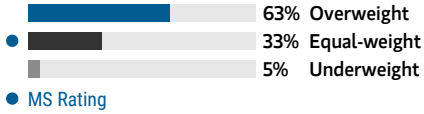
Key: Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 6 May 2026. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology here

EQUAL-WEIGHT THESIS

Arm is the silicon IP leader with 60%+ share of global semiconductor IP sales, including a ubiquitous position in smartphones. Upside revolves around structural growth opportunities in edge/cloud AI, PCs & autos including share gain, royalty rate inflections as customer designs shift to Arm's v9/CSS architecture and upside from the chip transition. We model a c.29% EPS CAGR over FY24-28 amidst the shift to chipmaking. Downside risks include outstanding litigation, geopolitical uncertainty, competition and slowing future China sales.

Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Disruption:	*Positive*
Pricing Power:	*Positive*
Technology Diffusion:	*Positive*

View descriptions of Risk Rewards Themes here

BULL CASE US$370.00

Market de-risks and moves to valuing Arm on FY31

Arm could see better gains than modelled, especially in the infrastructure segment, driven by AI and general cloud growth, as well as a more uniform transition to higher royalty rates than modelled. Near-term upside from the chip business with greater value in the outer years. We value the business on FY31 and apply the 20x EV/EBIT multiple to the chip business and 50x multiple to the IP business.

BASE CASE US$202.00

Long-dated chip business emergence

We value Arm on a sum-of-the-parts basis, given the emergence of the new chip business. Earnings growth is slowing as the company builds out its engineering presence ahead of its new chip strategy. We apply a 50x EV/EBIT multiple to the IP business and a 20x multiple to the chip business. Discounting FY29 at an 11% WACC, this gives us a price target of $202.

BEAR CASE US$65.00

Risk factors impact; no chip impact

Key downside risks include (i) loss-making chip business, (ii) weaker royalty rates in key end markets, (iii) the business impact from an unfavourable litigation outcome and (iv) loss of share to competitors in growing end markets. As such, macro headwinds, slowing AI growth and no upside for the chip business would imply a bear case of $65.

Risk Reward – Arm Holdings plc (ARM.O)

KEY EARNINGS INPUTS

Drivers	2026	2027e	2028e	2029e
Sales growth - yy (%)	22.8	19.9	46.7	30.5
Gross margin (%)	97.5	95.5	87.8	84.5
EBIT Margin (%)	18.3	19.5	29.2	34.4

INVESTMENT DRIVERS

- Strong portfolio positioned for growth (Neoverse, v9)
- Arm on a long-term journey to higher returns
- Structural growth opportunities in automotive and AI
- Competition from emerging open-source ecosystems
- Licensing growth to slow over medium term

GLOBAL REVENUE EXPOSURE



- 0-10% Europe ex UK
- 0-10% Japan
- 0-10% UK
- 20-30% APAC, ex Japan, Mainland China and India
- 20-30% Mainland China
- 40-50% North America

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

5/5 **BEST**	24 Month Horizon	5/5 **MOST**	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

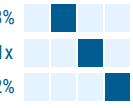
- Arm Neoverse and AI-related compute may ramp up beyond levels modelled
- Higher royalty rates in mobile, PCs and autos
- Better cost control beyond that forecast
- Further long-term CSS commitments with key customers
- Launch of v10 architecture or cloud GPU cores

RISKS TO DOWNSIDE

- New entrant & established competitors
- Reliance on smartphone royalties
- Uncertainty around revenues from China JV
- Outstanding litigation risks

OWNERSHIP POSITIONING

Inst. Owners, % Active	66.8%
HF Sector Long/Short Ratio	2.1x
HF Sector Net Exposure	25.2%



Refinitiv; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Mar 2028e

Sales / Revenue (US$, mn)	7,533	8,653 / 9,859	11,482
EBIT (US$, mn)	3,356	4,305 / 4,178	5,060
EBITDA (US$, mn)	3,608	4,435 / 4,399	4,898
Net income (US$, mn)	2,852	3,750 / 3,794	4,553
EPS (US$)	2.66	3.51 / 3.56	4.29

◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

Risk Reward Reference links

1. View explanation of Options Probabilities methodology - Options_Probabilities_Exhibit_Link.pdf

2. View descriptions of Risk Rewards Themes - RR_Themes_Exhibit_Link.pdf

3. View explanation of regional hierarchies - GEG_Exhibit_Link.pdf

4. View explanation of Theme/Exposure methodology - ESG_Sustainable_Solutions_External_Link.pdf

5. View explanation of HERS methodology - ESG_HERS_External_Link.pdf

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(as of April 30, 2026)

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	Coverage Universe		Investment Banking Clients (IBC)			Other Material Investment Services Clients (MISC)	
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	1546	42%	467	51%	30%	709	44%
Equal-weight/Hold	1568	43%	358	39%	23%	715	44%
Not-Rated/Hold	4	0%	0	0%	0%	1	0%
Underweight/Sell	555	15%	84	9%	15%	202	12%
Total	3,673		909			1627	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

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Not-Rated (NR). Currently the analyst does not have adequate conviction about the stock's total return relative to the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

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Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

Analyst Industry Views

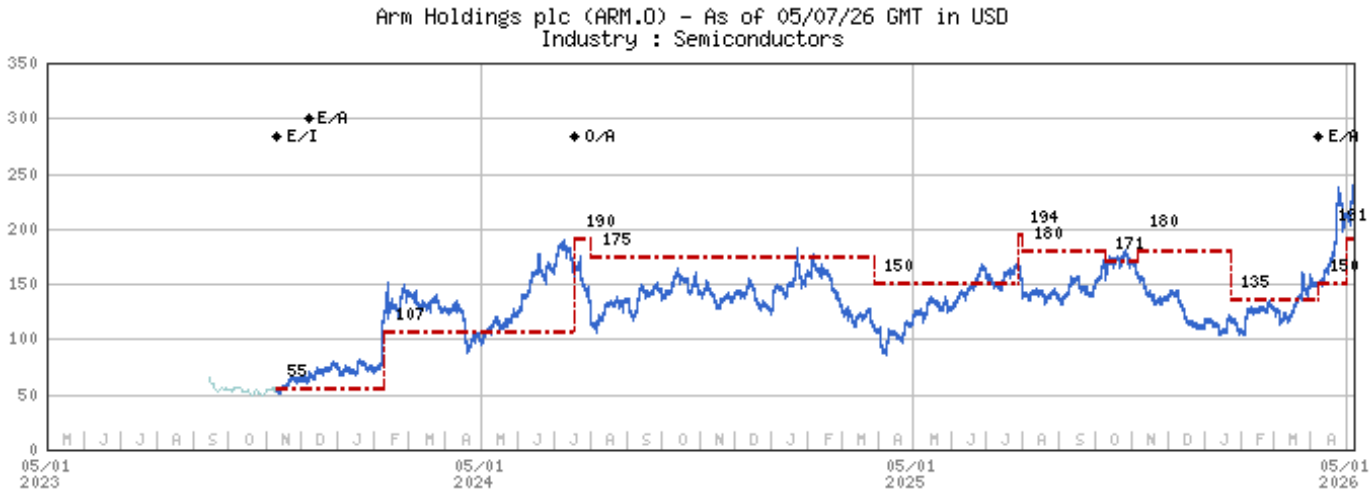
Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

Stock Price, Price Target and Rating History (See Rating Definitions)



Stock Rating History: 11/10/23 : E/I; 12/7/23 : E/A; 7/19/24 : O/A; 4/7/26 : E/A

Price Target History: 11/10/23 : 55; 2/9/24 : 107; 7/19/24 : 190; 8/1/24 : 175; 3/28/25 : 150; 7/28/25 : 194; 7/31/25 : 180; 10/9/25 : 171; 11/6/25 : 180; 1/23/26 : 135; 4/7/26 : 150; 5/1/26 : 191

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target No Price Target Assigned (NA)

Stock Price (Not Covered by Current Analyst) Stock Price (Covered by Current Analyst)

Stock and Industry Ratings (abbreviations below) appear as ◆ Stock Rating/Industry View

Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)

Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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INDUSTRY COVERAGE: Semiconductors

COMPANY (TICKER)	RATING (AS OF)	PRICE* (05/06/2026)
Joseph Moore		
Advanced Micro Devices (AMD.O)	E (06/09/2024)	US$421.39
Aeva Technologies Inc (AEVA.O)	E (07/19/2021)	US$16.57
Allegro Microsystems Inc (ALGM.O)	O (02/13/2026)	US$51.37
Ambarella Inc (AMBA.O)	O (03/29/2016)	US$75.48
Amkor Technology Inc (AMKR.O)	E (11/08/2023)	US$77.22
Analog Devices Inc. (ADI.O)	O (11/16/2023)	US$415.63
Astera Labs Inc (ALAB.O)	O (05/11/2025)	US$213.91
Broadcom Inc. (AVGO.O)	O (06/09/2024)	US$425.44
GlobalFoundries Inc (GFS.O)	E (10/28/2024)	US$72.30
Intel Corporation (INTC.O)	E (02/22/2023)	US$113.01
IonQ Inc (IONQ.N)	E (04/25/2023)	US$52.57
Marvell Technology Group Ltd (MRVL.O)	E (09/14/2015)	US$172.15
Microchip Technology Inc. (MCHP.O)	E (07/10/2024)	US$102.92
Micron Technology Inc. (MU.O)	O (10/06/2025)	US$666.59
Navitas Semiconductor Corp (NVTS.O)	U (04/06/2025)	US$16.68
NVIDIA Corp. (NVDA.O)	O (03/16/2023)	US$207.83
NXP Semiconductor NV (NXPI.O)	O (02/11/2025)	US$303.55
ON Semiconductor Corp. (ON.O)	E (05/11/2025)	US$105.77
Qorvo Inc (QRVO.O)	E (10/28/2025)	US$88.94
Qualcomm Inc. (QCOM.O)	U (02/10/2026)	US$192.57
SanDisk Corporation. (SNDK.O)	O (03/03/2025)	US$1,409.98
Semtech Corp. (SMTC.O)	E (04/06/2025)	US$119.19
Silicon Laboratories Inc. (SLAB.O)	E (01/19/2021)	US$216.54
Skyworks Solutions Inc (SWKS.O)	E (11/28/2018)	US$64.97
Texas Instruments (TXN.O)	U (04/13/2020)	US$289.44
Wolfspeed, INC (WOLF.N)	NR (04/06/2025)	US$43.08
Lee Simpson		
Arm Holdings plc (ARM.O)	E (04/07/2026)	US$237.30
Cadence Design Systems Inc (CDNS.O)	O (02/14/2024)	US$354.90

Synopsys Inc. (SNPS.O)	E (02/27/2026)	US$504.42

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* Historical prices are not split adjusted.

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