Posted to the Guilder Forum - 12/19/1999

ARMHY overvalued?

I did not know how to answer OT's question of whether ARM Holding is still a buy so I decided to do some research. The only way we can see the future is by looking at the past and making some inferences. I had a look at the performance of the "Magnificent Seven" plus EMC, the storage company. I calculated their "baggerness" since their IPO (in IBM's case, since the low in Gerstner's command). The results are revealing.

As GG has rightly said, execution trumps patents. Intel, despite Andy Grove being paranoid to survive, placed 6th with a 92 bagger while 5th place goes to DELL with an incredible 479 bagger, more than 6 times as productive for the investor as the highly touted Intel. Top dog is AOL with an 738 bagger since March 1992. If we take time into consideration, AOL was 14 times as productive, on an annual basis, as Intel!

It is curious that newer companies seem more productive than older ones. There is too few data to be certain but that seems to be the indication.

Back to ARMHY. If we compare it to Intel, it is overvalued. If we compare it to DELL, it is undervalued. So let's look at the stories. Intel is inside mainly personal computers and servers while ARMHY is inside everything mobile and intelligent and therefore ARM should ship many more units than Intel. Intel has bricks and mortar and fabs while ARM does not and therefore ARM should be able to earn higher margins. Customers like to have second sources for their products and Intel has no choice but to have competition. I believe they have licensed the manufacture of Pentiums to IBM and others and there are several competitors such as AMD. Since ARM is fabless and it has several "partners" who do the manufacturing, it has a better solution to the second source problem. Finally, I love ARM's marketing, it is what I call "Marketing by Name Dropping." When I had a management consulting firm that is the way we did our marketing. We determined which were the most powerful families in Venezuela and we practically gave away our work to the first two that were willing to hire us. After that we used their names in our advertising: "Join the Happy Family of Satisfied G&S Clients." and we then gave out a list of customers and their telephone numbers. ARM is doing something similar. Visit their home page and see all the name dropping they do. Their customers are a Who is Who in Telecosm.

My take is that ARMHY is not overvalued. Yours?

BUT, look at the charts of the Magnificent Seven and you will see that most of them had a 50% drop in share price at one time or another, so don't expect ARMHY to go up like an elevator. Be prepared for a roller coaster ride and enjoy it.

- AOL --> 95.2 annual bags
- 1999 = 434%
- 738 since March 1992
- http://quote.yahoo.com/q?s=AOL&d=mym

- CSCO --> 60.8 annual bags
- 1999 = 262%
- 592 bagger since March 1990
- http://quote.yahoo.com/q?s=csco&d=mym

- EMC --> 47.0 annual bags
- 1999 = 253%
- 517 bagger since December 1988
- http://quote.yahoo.com/q?s=emc&d=mym

- MSFT --> 43.1 annual bags
- 1999 = 184%
- 593 bagger since March 1986
- http://quote.yahoo.com/q?s=msft&d=mym

- DELL --> 42.3 annual bags
- 1999 = 175%
- 479 bagger since August 1988
- http://quote.yahoo.com/q?s=DELL&d=mym

- INTC --> 6.8 annual bags
- 1999 = 179%
- 92 bagger since July 1986
- http://quote.yahoo.com/q?s=INTC&d=mym

- LU --> 2.9 annual bags
- 1999 = 181%
- 11 bagger since April 1996
- http://quote.yahoo.com/q?s=LU&d=5ym

- IBM (new since Gerstner) --> 1.7 annual bags

- 1999 = 172%
- 11 bagger since August 1993
- http://quote.yahoo.com/q?s=IBM&d=mym

- ARMHY --> 10.9 annual bags
- 1999 = 1287%
- 18 bagger since April 1998
- http://quote.yahoo.com/q?s=ARMHY&d=2ym

NOTE: I used simple interest in calculating "annual bags" so the numbers are not strictly correct but their relative position should be accurate.

Denny