

Join the ARMHY Now?

Bob:

Have you seen any '03 earnings estimates for ARMHY? Can they do 35-40 cents in a reviving economy next year?

No, I haven't. Yahoo's consensus estimate for 2002 is 19¢ and I think it will be somewhere between 20 and 22¢ based on extrapolation of past data. I believe they will continue to grow revenues at 45% with a net margin of 22% or better for several more years. If my estimate of \$16 an ADS for December 31, 2002 is correct, based on today's closing price of 13.80, that's a 19% annualized return (10 months)

Date	Revenue	% Growth Y/Y	Operating Income	% Op Margin	Net Income	% Net Margin
6/30/98	16,568		3,005	18.1	2,469	14.9
9/30/98	19,022		3,440	18.1	2,722	14.3
12/31/98	20,753		3,602	17.4	3,153	15.2
3/31/99	21,110		4,178	19.8	3,289	15.6
6/30/99	22,787	37.5	5,334	23.4	3,997	17.5
9/30/99	25,850	35.9	6,518	25.2	4,687	18.1
12/31/99	30,482	46.9	9,446	31.0	14,209	46.6
3/31/00	30,115	42.7	9,821	32.6	9,493	31.5
6/30/00	34,995	53.6	11,163	31.9	13,300	38.0
9/30/00	39,028	51.0	11,634	29.8	14,798	37.9
12/31/00	44,560	46.2	13,461	30.2	8,954	20.1
3/31/01	46,211	53.4	14,851	32.1	8,807	19.1
6/30/01	50,619	44.6	15,780	31.2	11,227	22.2
9/30/01	59,074	51.4	18,442	31.2	13,156	22.3
12/31/01	56,925	27.7	18,056	31.7	13,266	23.3
(Y) 12/31/02	307,751	44.6			67,705	22.0
			Shares		342.6	
			EPS		0.20	
			Price (P/E=80)		16.00	

So far I have been reluctant to take a serious position due to the valuation, esp when comparing to someone like a QCOM, which still seems relatively cheap at around 30 times forward earnings. (Companies like BRCM and RFMD really look bloated.)

The stories are so different. Qualcomm is basically in one industry, cellular, with some very formidable political enemies who favor their native son's systems over CDMA. ARM is a story like I have never seen or heard before. Their cores are showing up everywhere. The worlds largest chip makers of all types are adopting ARM as their RISC processor cores. For some reason, ARM does not seem to have political enemies like Qualcomm does. Intel has a second sourcing problem in that it must license the competition to make their chips. ARM's business model gets around the problem without creating any competition for itself. ARM cores are in so many and diverse areas that it is not likely that ARM would be severely affected by a downturn in a particular industry as Intel or Qualcomm might be.

Intel is a wonderful story but the x86 chip is only about 2% of all chips made. The inexpensive yet powerful ARM cores will grab a much larger share of the chip market because they will find their way into all sorts of consumer products, specially consumer electronics: cameras, cell phones, printers, PDAs, DVDs, Wi-Fi and Smart Cards to name a few. It is highly likely that you used one or more ARM cores today.

ARM is a Cinderella story, pure and simple. From the ashes of the Acorn computer and the Apple Newton rises the core that enchanted Prince Charming. My only worry is that someone with very deep pockets will try to buy ARM Holdings. Alone ARM is a gold mine. As part of a conglomerate, the results would be diluted.

I don't know about BRCM but I do know that RFMD does not have gorilla power -- it will be competing with the likes of CNXT and CREE on the basis of price and quality. The kind of multiple that I'm willing to pay for ARMHY is much too high for RFMD.

Denny

["Demand creates queues. Supply gets rid of them."](#)

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