COMPANIES

SoftBank's Arm cedes control of China operations to local joint venture

Chipmaker's move allows Beijing to secure technology as US bans ZTE

CHENG TING-FANG, Nikkei staff writer

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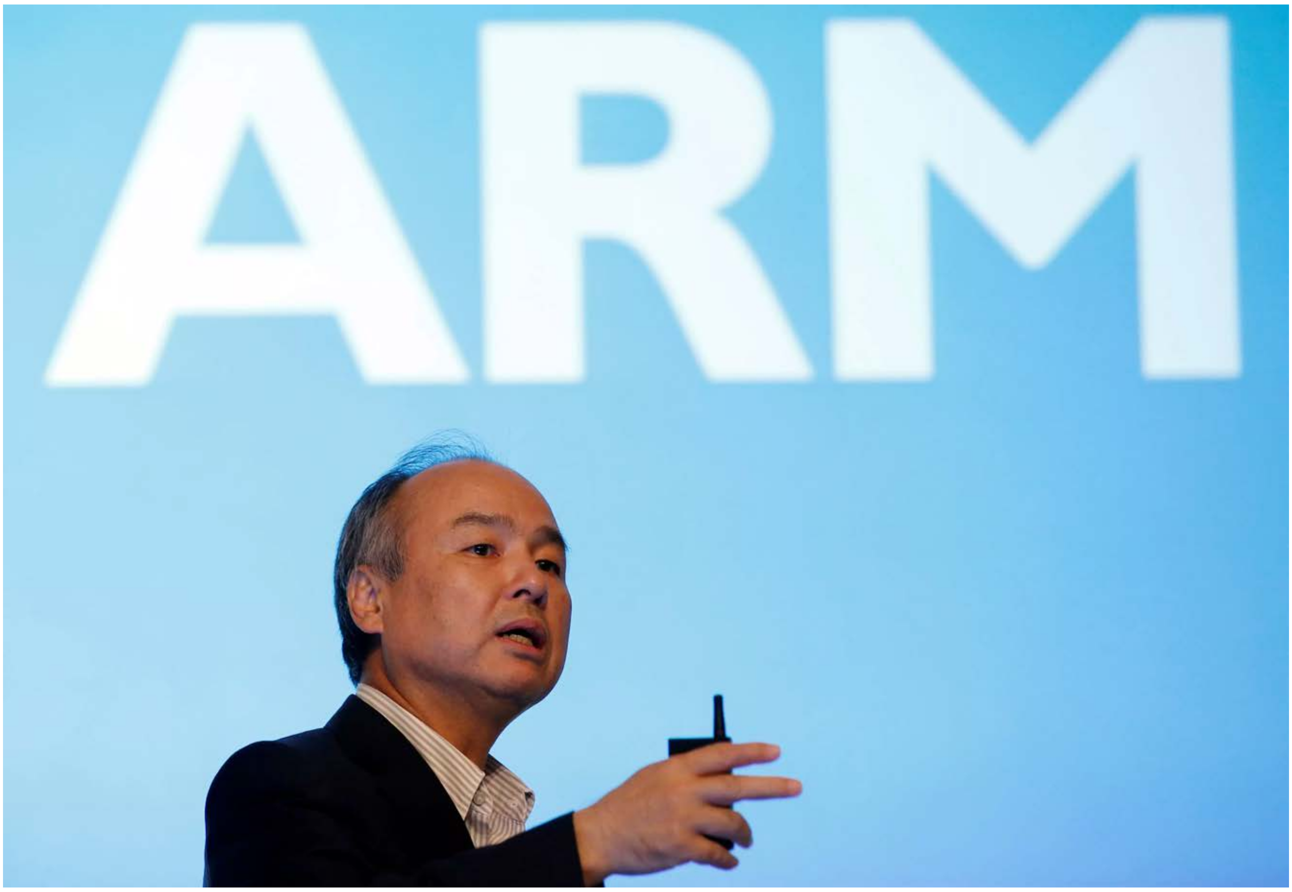


SoftBank Group, led by Chairman and CEO Masayoshi Son, purchased Arm Holdings in 2016 for $32 billion. © Reuters

TAIPEI -- British chipmaker Arm Holdings, a **SoftBank Group** subsidiary, will cede control of its Chinese operations to a new joint venture involving itself and Chinese partners, people with familiar with the matter said.

The joint venture began operations in April and plans for an initial public offering on one of the country's stock exchanges, these people said.

Arm mini China, as the unit will be called, is officially registered in the southern Chinese city of Shenzhen and is 51% owned by Chinese investors, including state-backed entities, with Arm controlling the remaining 49%. It will be responsible for handling all the licensing and royalties business with local partners.

Arm is one of the most influential chip technology providers in the world. The company's chip blueprint is used in roughly 90% of mobile devices globally.

Companies including Apple, **Samsung Electronics**, Huawei Technologies, Qualcomm, Broadcom, **MediaTek** and many others all need to license technology from Arm to develop chipsets for smartphone, tablets, wearables and various connected devices. Developers also need to pay royalties to Arm to sell their chips.

The creation of Arm mini China marks a breakthrough for Beijing. The Chinese government has sought to develop its own semiconductor industry, cut reliance on foreign suppliers and gain control of sensitive chip technologies that come with national security implications.

A number of prospective semiconductor deals involving Chinese funds have been blocked by the U.S. government on security grounds. **Washington has recently moved** to ban Chinese smartphone maker **ZTE** from using American components and **is investigating its larger peer Huawei Technologies**.

These developments have impressed on Beijing the need to localize China's chip supply chain as quickly as possible.

"With this joint-venture, China expects to secure sources of technology, especially for some sensitive chips that later go into government or other security uses," said a Chinese chip industry executive.

"China does not need to worry whether other countries like the U.S. could somehow pressure Arm to provide less support for Chinese companies."

Rene Haas, Arm's executive vice president, **told the Nikkei Asian Review** in May 2017 that the joint venture would be the first for his company to engage in the transfer of technologies. Haas added that it would provide access to a market that had previously been closed to Western companies.

Arm has not disclosed its sales figures for China, but analysts estimate that the country accounts for roughly 25% of its revenue. For the year ended March 2017, the company generated $1.68 billion in revenue. The Chinese market grew faster than any other and could become the company's largest within five years, Haas said in the interview.

It is unclear if the pricing structure of the newly created unit will be different from the parent company, and how many employees will be transferred to it.

The company's plans for an IPO tie in with Beijing's efforts to persuade high-tech companies to list in China.

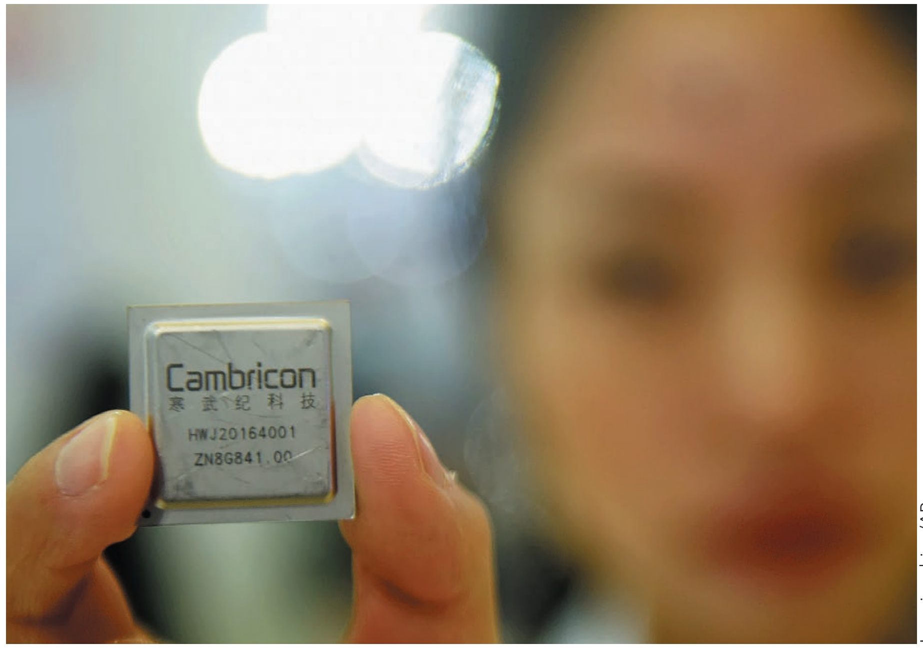
According to the people familiar with the matter, the plan would likely receive fast-track approval from regulators, as did battery maker Contemporary Amperex Technology and Foxconn Industrial Internet, a unit of major iPhone assembler **Hon Hai Precision Industry**.

Hopu-Arm Innovation Fund, also known as Hou An Innovation Fund, will be a key stakeholder in the venture.

The fund's backers include Chinese sovereign wealth fund China Investment Corporation, the Beijing-owned Silk Road Fund, Singaporean sovereign wealth fund Temasek Holdings, Shenzhen government-owned conglomerate Shum Yip Group, and Hopu Investment Management, according to China's Ministry of Science and Technology. Hopu Investment Management is headed by Fang Fenglei, one of the country's most prominent bankers.

Japan's SoftBank bought the British company in a $32 billion deal in 2016. Around 20 billion chips using Arm's intellectual property were shipped in 2017, according to the company.

SoftBank and Arm did not immediately respond to requests for comment.



Imaginechina/AP

China is already the world's biggest semiconductor market, and Beijing seeks to make its chipmaking industry a more powerful contender.

2 Access granted

Arm's new Chinese joint venture aims to ensure a vital link to global semiconductor technology

MICHELLE CHAN and CHENG TING-FANG Nikkei staff writers

HONG KONG/TAIPEI The China joint venture by chip designer Arm Holdings and Chinese investors has big goals: to surpass its British parent in revenue by 2025 and ensure easier access to critical semiconductor technology for the world's No. 2 economy, according to people familiar with the matter.

A document obtained by the Nikkei Asian Review from an industry source familiar with the venture -- known as Arm mini China -- projects revenue of $1.89 billion by 2025, topping parent Arm's fiscal 2016 sales of $1.68 billion, thanks to the booming market for connected devices.

Arm mini China looks to achieve net profit of $30 million for 2018 on sales of around $398 million, the document said. The venture, now valued at $1.52 billion, plans an initial public offering on the mainland as early as 2021.

The Chinese venture began operations in April and would take over all business for SoftBank Group subsidiary Arm of the U.K. involving local partners, according to people familiar with the matter. Chinese and external investors, including Beijing-sponsored entities, control 51% of Arm mini China while the British parent owns 49%.

SoftBank bought Arm in 2016 in a deal worth $32 billion. SoftBank and Arm did not immediately respond to requests for comment.

Hopu-Arm Innovation Fund, also known as Hou An Innovation Fund, will be a crucial stakeholder. The fund's backers include sovereign wealth fund China Investment Corp., the Beijing-owned Silk Road Fund, Singaporean sovereign wealth fund Temasek Holdings, Shenzhen government-owned conglomerate Shum Yip Group and Hopu Investment Management, according to China's Ministry of Science and Technology.

Chinese internet company Baidu, China Merchants Bank, Bank of China Group Investment and the venture capital company Sequoia also are investors, according to the document obtained by Nikkei.

The venture currently involves overseas investors, the document said, but the terms request that backers who wish to transfer shares after the three-year locking period sell only to Chinese investors and not American entities or Arm's competitors. Arm and Hou An inked an investment agreement Sept. 29, the document said.

The creation of Arm mini China is a big victory for Beijing, as the parent ranks among the world's most influential chip technology providers. Arm's intellectual property is used in 90% of mobile devices globally. Companies like Apple, Samsung Electronics, Qualcomm, Broadcom, MediaTek and most developers worldwide require Arm's blueprints to design their own chips for mobile gadgets, tablets and various connected devices.

Arm's key Chinese clients and partners include Huawei Technologies chip unit HiSilicon Technologies, Unigroup Spreadtrum & RDA, Xiaomi, Fuzhou Rockchip Electronics, Semiconductor Manufacturing International Corp. and many other chip startups. Arm licenses technology to these developers and charges royalties after they ship their products.

Crucially, the Chinese venture can receive transfers of intellectual property now controlled by Arm, as well as training and technical support from Arm engineers, according to the document and people familiar with the matter. The joint venture could help Chinese developers secure sources of chip design technology.

To license technology from Arm, companies had to go through Arm's American team, a person familiar with the plan said.

"That somehow worries a lot of Chinese chip designers," the person said. "They are wary whether they could always get good support. But with this joint venture, which is now a Chinese company, they are expected to secure sources of Arm's fundamental IPs that are foundations of their chip products."

China has realized the importance of controlling a competitive homegrown semiconductor industry in order to slash reliance on foreign suppliers ever since the leaks from American whistleblower Edward Snowden in 2013 unveiled a massive U.S. surveillance program.

The current Chinese trade tensions with Washington and the U.S. ban on exports to smartphone maker ZTE provide even stronger incentives for Beijing to swiftly boost self-sufficiency in chips, which serve as the brains of every electronic device and have strong national security implications.

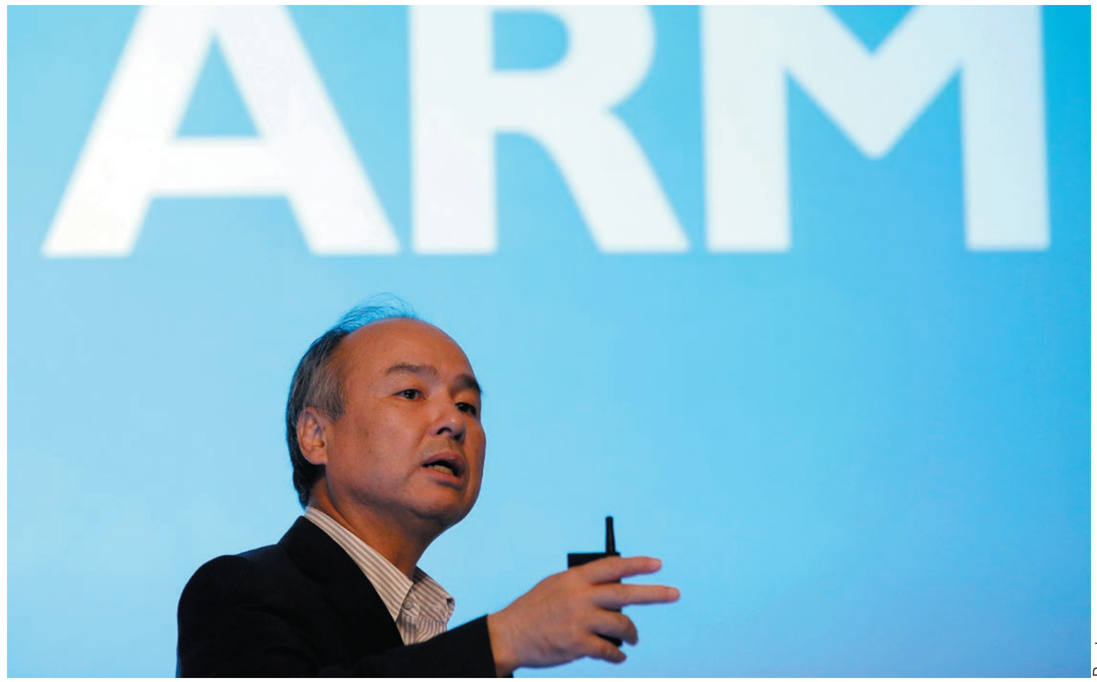
Allen Wu, Arm's executive vice president and president of Arm Greater China, will serve as chairman and CEO of Arm mini China for five years, the document said.

> The creation of Arm mini China is a big victory for Beijing

Arm mini China intends to add 1,000 staffers in Shenzhen, where the entity incorporated, on top of the 300 employees currently in the country. A 30-member research and development team based in the Taiwanese city of Hsinchu will offer exclusive support for the venture, according to the plan. Hsinchu is home to the world's biggest contract chipmaker, Taiwan Semiconductor Manufacturing Co.

China was the largest semiconductor market last year, reaching $131.5 billion, the World Semiconductor Trade Statistics organization said. But the $24.7 billion in revenue generated by mainland China-based chipmakers accounted for just 4.9% of the semiconductor industry value chain last year, trailing rivals from the U.S., South Korea, Taiwan, Japan and Europe, according to IEK, a market research division of the Industrial Technology Research Institute based in Hsinchu.

"Once the Arm China joint venture lists on a Chinese domestic stock exchange, we think it could offer a much higher price-earnings ratio than before Arm was acquired by SoftBank, and that should give SoftBank's [founder and CEO] Masayoshi Son great investment returns," said longtime market watcher Wang Yanghui, secretary general of Shanghai-based Mobile China Alliance. "For Arm, to take in China state-backed investors will help it secure a massive market and the next wave of growth opportunities amid a slowing mobile market." N



Reuters

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