THE CHINA SYNDROME

ARM’s decision to buy US-based Artisan Components for a 50% premium has alarmed shareholders, but Chris Edwards believes the UK processor designer may be looking eastwards – not to the west – for the justification for its deal.

HIGH-PROFILE acquisitions by UK companies in the US are often unhappy affairs. Business pages have been littered with the stories of companies that bought big and lost big as problems with the US target came to the fore. In the case of Ferranti, it was the victim of a massive fraud that resulted in the collapse of the company.

In a deal that could be worth more than $900m (£500m), ARM Holdings has bid for another semiconductor Intellectual Property (IP) specialist, Artisan Components. When announced, the deal valued Artisan at almost 50% higher than its market capitalisation, a premium that raised eyebrows in both the UK and US.

The companies barely compete with each other, although they lead their respective parts of the IP market. Artisan sells cell libraries, the building blocks of most custom digital chip designs, as well as memories and some analogue and I/O functions. ARM’s mainstay remains its processor cores, which are built on top of cell libraries from Artisan and others.

In a conference call with analysts, ARM and Artisan were keen to underline how the companies complement each other and how the combination would provide better growth than if the two were run separately. Sir Robin Saxby, chairman of ARM, said power-management technology developed by ARM would be combined with Artisan’s cell libraries to allow it to be implemented in silicon.

Jordan Selbum, principal analyst at iSuppli, said some claims over what the combination could do were overblown: “ARM already has full access to the Artisan technology without buying the company. You don’t have to buy a cow when the milk is free.” He added that tying the two lines together too much could alienate customers and other library suppliers.

Jim Tully, chief of research at Gartner, said some Artisan customers might quit in the short term if they feared what the combined company would do, making it look like a bad deal. The benefits would come later from combined offerings in specific areas, although there were risks associated with being seen to shut out other cell-library vendors.

“ARM pretty much dominates the wireless field but wants to grow in other sectors, especially consumer. It does open opportunities with fabless vendors,” said Tully. Those fabless customers are less likely to be those in the business already but rather a new crop of companies in the Far East and South Asia.

“The idea of putting together a nice pre-designed, pre-verified big block will be quite attractive to companies in the fabless area who are less experienced, particularly those in India and China.”

Aside from the theoretical advantage of being a player better placed to sell to a new community of users in the Far East and South Asia, ARM may be attracted to Artisan just for the money. Artisan, like ARM, has become highly profitable during the current boom. Tully added: “Whatever ARM wants to do with the company, it still has this very healthy cash-generating business.”

As long as that cash keeps rolling in, ARM should fare better than many of its stock market-listed peers have in previous forays into the US.