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Broadcom Inc (AVGO.O)

F2Q26 Earnings Quick Take

CITI'S TAKE
AVGO reported in-line Apr-Q results with AI sales of $10.8B (up 29% Q/Q), slightly above prior guide of $10.7B (up 27% Q/Q). AI momentum continues to accelerate with Jul-Q AI sales growing 48% Q/Q to $16.0B. We are awaiting commentary on the earnings call at 5pm ET. Please see our preview.

Buy	
Price (03 Jun 26 16:00)	US$479.23
Target price	US$500.00
Expected share price return	4.3%
Expected dividend yield	0.5%
Expected total return	4.8%
Market Cap	US$2,268,995M

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In-Line F2Q26 results — AVGO reported Apr-Q sales/non-GAAP EPS (ex-SBC) of $22.2B/$2.44 vs our estimates of $22.2B/$2.40 and Factset consensus of $22.1B/$2.40. Apr-Q gross margin (ex-SBC) came in at 77.1%, above Citi's estimate of 77.0% and consensus of 76.9%.

Apr-Q Segment Sales

– Semiconductor segment (68% of sales) up 36% Q/Q vs. Citi's/Street's +35%/+34%.
– AI semiconductor segment (49% of sales) up 29% Q/Q vs. Citi's/Street's +30%/+27%.
– Infrastructure Software segment (32% of sales) up 3% Q/Q vs. Citi's/Street's +4%/+4%.

F3Q26 AI sales accelerating — AVGO guided Jul-Q sales to $29.4B (up 33% Q/Q), above our estimate of $29.3B (up 32% Q/Q) and consensus of $28.3B (up 28% Q/Q). AVGO guided Jul-Q AI sales of $16.0B (up 48% Q/Q), below our estimate of $17.5B (up 61% Q/Q) and consensus of $16.3B (up 53% Q/Q). Jul-Q operating margin guide of 67.0% was below our estimate of 68.6% and consensus of 67.5%.

Focus on earnings call — a) Supply update and component lead times, b) Revenue recognition from rack shipments to chip shipments, c) Gross margin impact, d) AI impact on software top-line growth and renewals.

See Appendix A-1 for Analyst Certification, Important Disclosures and Research Analyst Affiliations

Broadcom Inc

Valuation

Our PT of $500, or 20X F28 EPS, is at the low end of recent trading range of 20-40X to reflect intensifying competition.

Risks

We see the following key risks to our target price:

Customer: We estimate it derives ~35-40% of sales from its largest customer, Google. Therefore, any major uptick/downtick in demand for Google's products could result in upside/downside to our estimates and rating for Broadcom.

SG&A target: Broadcom's long-term SG&A target is <3% of revenue (excluding stock-based compensation), one of the lowest among semi peers. However, if Broadcom is unable to reach its SG&A target, it could result in downside to our estimates and rating for Broadcom.

Competition: Any fluctuations in market share between Broadcom and its competitors could result in upside/downside risk to our estimates.

M&A: If Broadcom pursues further acquisitions, it could lead to margin/EPS accretion/dilution and result in upside/downside to our estimates.

If the impact on the company from any of these factors proves to be greater than we anticipate, the stock will likely have difficulty achieving our target price. However, should they be less than anticipated, the stock could trade above our target price.