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Broadcom Inc. (AVGO): Strong AI revenue momentum for 2027, despite modest near-term shortfall relative to elevated expectations

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Key stock takeaways: We would be aggressive buyers of the stock following a pullback as Broadcom reiterated its very strong growth outlook for 2027 and beyond, but delivered in-line 2H26 AI revenue guidance set against very elevated expectations heading into the quarter. We remain bullish on the stock at current levels as our confidence on Broadcom's growth in 2027 and beyond is underpinned by multiple factors. First, Broadcom continues to expect FY27 AI semiconductor revenue significantly in excess of $100bn across 10GW of datacenter deployments. Second, management provided additional clarity on its custom silicon engagements beyond Google, which are all still expected to ramp strongly into FY27. Third, management reiterated that it has secured supplies of all key components needed to support its revenue forecast through FY27 and beyond. We remain Buy rated (on CL) as we believe Broadcom's leadership in AI networking and custom silicon enables the lowest inference cost for key hyperscaler customers, and we see it delivering ongoing cost reductions on pace with market leader Nvidia (Buy).

Quarterly results were in line with the Street: Broadcom reported revenue of $22.2 bn, in line with GS at $22.2 bn and the Street at $22.1 bn. Gross margin of 77.1% was just above GS at 77.0% and the Street at 76.8%. Operating margin of 67.3% was in line with GS at 67.4% and above the Street at 66.9%. Operating EPS of $2.44 was just below GS at $2.50 but above the Street at $2.39. AI Semiconductor revenue grew 143% YoY to $10.8 bn, and compares to GS at $10.9 bn and the Street at $10.7 bn. Semiconductor Solutions revenue of $15.0 bn was in line with GS at $15.0 bn and just above the Street at $14.8 bn. Infrastructure Software revenue of $7.2 bn was in line with GS and the Street at $7.2 bn.

- **AI semiconductor revenue outlook:** Broadcom continues to see accelerating demand for its AI semiconductor solutions across both networking and XPUs. Based on increased visibility and backlog from multiple customers (see below), Broadcom continues to expect that it can deliver AI semiconductor revenue significantly in excess of $100 bn in FY27 across up to 10GW of datacenter deployments - and the company expects to deliver significant growth in FY28 off this elevated base. In the short term, the company expects its AI revenue to grow ~100% H/H to $56bn for FY26 - in line with the Street but below our expectations - as we believe there is some modest delay in the ramp of new customers. Our revised AI semiconductor revenue estimates now stand at $57bn/$133bn/$193bn for FY26/27/28.

- **Custom silicon customers:** The company now has six custom silicon engagements where Broadcom expects to ramp revenue, including Google, Meta, Anthropic, OpenAI, and others. Broadcom had previously announced a multi-year, multi-generation engagement with Google for its TPU programs which represent very large commitments - although Broadcom did note it expects some modest supplier diversification given the magnitude of demand upside from that customer. With Anthropic, Broadcom is already ramping its initial GW of capacity - and it expects to deploy an additional 5GW of capacity beginning in FY27. Broadcom is also ramping its custom XPU solution with Meta, and expects to deliver 1 GW in 2H27 with 3 GW shipped through FY28. Broadcom is engaged with OpenAI to ramp its custom XPU solution to deliver initial product in FY26, and deploy 1.3GW in FY27. Finally, Broadcom expects shipments to other two XPU customers to begin in late 2026, and accelerate into 2027 — with $6 bn of purchase orders already secured.
- **Software strength, driven by Agentic AI:** Broadcom delivered 9% Y/Y software growth in 2Q26, in line with guidance. The company released its VMWare Cloud for Enterprise v9.1, which is driving some level of renewals with 31% Y/Y revenue growth expected in 3Q26. Management noted that increasing core count deployment is driving significant on-premise virtual machine uptick across the customer base for a range of computing solutions from Nvidia, Intel, and AMD.
- **Supply chain assurance and inventory:** Having anticipated significant potential shortages across a wide range of components (memory, lasers, packaging, etc.), Broadcom announced that it has been able to secure all of the components it needs to support its revenue forecast through FY27 - and it is currently working to secure supply for FY28. Given the company's strong revenue ramp in the coming quarters, Broadcom's inventory increased from $3.0bn in 1Q26 to $4.3bn in 2Q26. We believe management's commentary on supply assurance is a positive in light of increased shortages across the competitive landscape, and view the inventory increase as reasonable in light of the 100% HoH AI revenue ramp in 2H26.
- **Networking momentum:** Broadcom continues to see very strong deployments of its leading Ethernet technology across a wide range of customers in both scale-out and scale-up applications. Its switch products continue to lead the market with Tomahawk 6, and the company expects to see a very strong ramp with its forthcoming Tomahawk 7 product. The company continues to see its SERDES leadership driving copper-based networking solutions for 1.6 Tb/s and beyond. In addition, within AI semiconductors, the company now expects an increased contribution from its networking products - with 40% contribution delivered in 2Q, which is expected to revert toward 30%-40% contribution in the longer term.

3Q guidance is above the Street, but AI revenue is slightly below. Broadcom guided 3Q revenue and adjusted EBITDA margin above the Street. Revenue was guided to $29.4 bn, which is in line with GS at $29.5 bn but well above the Street at $28.2 bn. AI Semiconductor revenue was guided to $16.0 bn, which is below GS at $17.4 bn and the Street at $16.4 bn. Adjusted EBITDA margin guidance of 68% is in line with GS at 68.1% and below the Street at 69.1%.

Estimate changes. We modestly reduce our FY26 estimates in line with company guidance, but increase our average EPS estimates by 3% to reflect higher AI revenue relative to our previous assumptions (see detailed estimates below).

Price target and risks: We are Buy rated on AVGO. We raise our 12-month target price to $525 from $500, based on 30X (unchanged) our normalized EPS estimate of $17.50 (up from $17.00 given higher estimates). Key downside risks include: (1) slowdown in AI infrastructure spending, (2) share loss in custom compute franchise, (3) persistent inventory digestion in non-AI; (4) increased competition in VMware.

Exhibit 1: AVGO - Variance summary

	FY2Q26				
Financials ($ mn, except EPS)	Actual	GS	Street	Actual/GS	Actual/Street
AI Semis	10,800	10,900	10,740	-0.9%	0.6%
Non-AI Semis	4,209	4,138	4,126	1.7%	2.0%
Semiconductor Solutions	15,009	15,038	14,838	-0.2%	1.2%
Infrastructure Software	7,178	7,202	7,231	-0.3%	-0.7%
Total Revenue	22,187	22,240	22,065	-0.2%	0.6%
QoQ	*14.9%*	*15.2%*	*14.3%*		
YoY	*47.9%*	*48.2%*	*47.1%*		
Gross Margin (excl. SBC)	77.1%	77.0%	76.8%	*+10 bps*	*+29 bps*
Operating Income (excl. SBC)	14,928	14,995	14,758	-0.4%	1.2%
Operating Margin (%)	67.3%	67.4%	66.9%	*-14 bps*	*+40 bps*
EPS (excl. SBC)	$2.44	$2.50	2.39	-2.2%	2.0%

Source: Company data, Goldman Sachs Global Investment Research, Visible Alpha Consensus Data

Exhibit 2: AVGO - Guidance

	FY3Q26				
Financials ($ mn, except EPS)	Guidance	GS	Street	Guidance/GS	Guidance/Street
AI Semiconductor Revenue	16,000	17,436	16,355	-8.2%	-2.2%
Total Revenue	29,400	29,500	28,244	-0.3%	4.1%
QoQ	*32.5%*	*32.6%*	*28.0%*		
YoY	*84.3%*	*84.9%*	*77.1%*		
Adjusted EBITDA margin (%)	68.0%	68.1%	69.1%	*-6 bps*	*-108 bps*

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 3: AVGO - New vs Old Estimates

	FY2026E			FY2027E			FY2028E		
Financials ($mn, except EPS)	GS	Old	Δ	GS	Old	Δ	GS	Old	Δ
AI Semis	57,052	60,804	*-6.2%*	133,045	132,564	*0.4%*	192,889	173,649	*11.1%*
Non-AI Semis	18,071	17,674	*2.3%*	18,954	18,681	*1.5%*	19,408	19,436	*-0.1%*
Infrastructure Software	32,107	30,024	*6.9%*	34,987	31,923	*9.6%*	36,960	33,505	*10.3%*
Total Revenue	107,230	108,502	*-1.2%*	186,986	183,168	*2.1%*	249,257	226,590	*10.0%*
YoY	*67.8%*	*69.8%*	*-199 bps*	*74.4%*	*68.8%*	*+556 bps*	*33.3%*	*23.7%*	*+960 bps*
Gross Margin (excl. SBC)	75.0%	75.2%	*-23 bps*	72.2%	72.6%	*-41 bps*	71.4%	71.9%	*-55 bps*
Operating Income (excl. SBC)	72,004	73,170	*-1.6%*	126,243	124,184	*1.7%*	168,848	153,789	*9.8%*
EPS (excl. SBC)	$11.95	$12.15	*-1.7%*	$21.40	$21.00	*1.9%*	$28.85	$26.25	*9.9%*

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 4: Price target

PRICE TARGET AND RISK/REWARD SUMMARY				
Method	**Metric**	**Base**	**Bull**	**Bear**
P/E Method	Normalized EPS Estimate	$17.50	$21.00	$11.38
	Multiple	30.0x	35.0x	20.0x
	Valuation	$525.00	$735.00	$228.00
	Upside/Downside	25.0%	75.0%	-45.7%
Price Target	**12-Month Price Target**	**$525.00**	100% P/E	
	Potential Upside/Downside	25.0%		
	Dividend Yield at Current Price	0.54%		
	Potential Total Return	**25.5%**		

Source: Goldman Sachs Global Investment Research

AVGO	12m Price Target: **$525.00**	Price: **$479.23**	Upside: **9.6%**

Buy CL

Market cap: $2.4tr
Enterprise value: $2.4tr
3m ADTV: $9.2bn
United States
Americas Semiconductors, Telecom & IT Services
M&A Rank: 3

GS Forecast

	10/25	10/26E	10/27E	10/28E
Revenue ($ mn) New	**63,887.0**	**107,230.3**	**186,986.3**	**249,256.8**
Revenue ($ mn) Old	63,887.0	108,501.9	183,167.7	226,590.3
EBITDA ($ mn)	35,477.0	64,456.8	118,291.3	160,641.2
EBIT ($ mn)	34,429.0	63,488.8	117,491.3	159,741.2
EPS ($) New	**5.39**	**10.36**	**19.88**	**27.35**
EPS ($) Old	5.39	10.53	19.49	24.74
P/E (X)	45.7	46.3	24.1	17.5
Dividend yield (%)	1.0	0.5	0.6	0.7
Net debt/EBITDA (X)	1.3	0.4	(0.4)	(0.9)

	4/26	7/26E	10/26E	1/27E
EPS ($)	2.05	2.94	3.73	4.04

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 3 Jun 2026 close.