Broadcom Inc

F3Q26 Preview: FY27 AI Revs to Top >$100B Framework; FY28 AI Growth Outlook Accelerating; TPU Competitive Concerns Overblown; AI Customer Diversification Unfolds in CY27; Reit OW

Overweight

AVGO, AVGO US
Price (28 Aug 26):$368.79

Price Target (Dec-26):$580.00

Semiconductors & Semiconductor Capital Equipment / IT Hardware

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Broadcom Inc. (AVGO) shares have lagged the broader semiconductor group YTD (SOX +69% vs. AVGO +7%), with much of the underperformance stemming from concerns around potential longer-term share loss at GOOGL and the lack of incremental color around management's FY27 AI revenue guidance, which the company reiterated as >$100B last quarter. Despite this, our channel checks over the last 90 days lead us to believe that investor concerns around AVGO's competitive position at GOOGL are overstated. Instead, we think that the recent partnerships with GOOGL/MRVL and noise around potential suppliers such as Alchip, GUC, and others are more reflective of GOOGL bringing on more partners to support its internal COT team (remember, the COT team has struggled with the rollout of the v8t/Zebra fish program) and to support TPU-attach opportunities. In any case, we do not see any company displacing AVGO's position as GOOGL's core TPU partner, especially given the terms of the 5-year GOOGL-AVGO agreement signed in early April, in which GOOGL committed to annually increasing TPU-related purchases at AVGO and anchored AVGO as the volume partner for the next 4 generations of TPU SKUs (v8-v11; see our takeaways here). Heading into the F3Q print, we think the 2 biggest questions are: **(1)** whether management will provide a more quantitative update to its FY27 AI revenue outlook (vs. the current >$100B framework); and **(2)** what management is willing to say about the durability and trajectory of growth in its AI business into FY28. For FY27, we believe the setup is favorable and we expect management to either raise or provide stronger qualitative support around the AI revenue outlook. Our model suggests AVGO remains on track for $56B+ of AI revenue in FY26 with 2-2.5x Y/Y growth in FY27 (in the $130B+range even when taking into account tight industry supply dynamics), supported by expanding ASIC/XPU ramps across GOOGL, META, OAI, Anthropic, ByteDance/Alibaba, etc. along with continued strength in AI networking (Tomahawk 6 new product cycle). Although management may remain more measured in its messaging (given timing variability across hyperscale ramps), we believe demand, backlog, and customer commitments support FY27 AI revenue materially above the current >$100B framework. Looking further out, we do not expect management to provide a formal FY28 AI revenue target, but we believe commentary should remain strongly constructive, with growth being supported by the ramp of GOOGL TPU v9 2nm in early CY28, incremental Anthropic TPU demand, META's MTIA expansion, OAI Jalapeno 1st/2nd gen ASICs, and broader custom silicon ramps across ByteDance/Alibaba, and others. All told, we see a multi-year AI growth story driven by larger XPU programs, higher networking attach, a broader customer base, and continued strength in Tomahawk 5/6, and expect the print to reinforce that AVGO's AI opportunity is larger, more durable, and less competitively vulnerable than the market appreciates. Reiterate OW and $500 PT.

- **Expect solid July-qtr results and better-than-expected Oct-qtr guidance with FY26 AI revenues >$56B on strong 2H TPUv8i ramp and strong networking demand (Tomahawk 5 and new Tomahawk 6 102T switching**

See page 4 for analyst certification and important disclosures.



platform)... We expect strong July-qtr results on the initial ramp of next-gen TPU v8i, continued strength in TPU v7, the initial ramp of Meta's MTIA Iris ASIC ramp, and strong demand for the Tomahawk 5 switching chipset, augmented by cyclical recovery in non-AI semis and solid infrastructure software demand. October guidance should imply total AI revenues for FY26 >$56B as the TPUv8i ramp continues to accelerate and the Meta MTIA Iris program continues to accelerate, with the initial volume ramp of OpenAI's Jalapeno 1st XPU ASIC ramp. The Tomahawk 6 ramp (102T switching) should also continue to accelerate into the Oct-qtr and be a strong driver in FY27.

- **FY27 AI revenues are likely above management's current >$100B framework, with our model pointing to the $130B+ range, taking into account potential industry supply constraints, as customer commitments, backlog, and order momentum continue to build across ASIC/XPU and AI networking...** We believe AVGO remains on track to deliver $56B+ of AI revenue in FY26 and 2-2.5x Y/Y growth in FY27, driven by continued strength in GOOGL TPU, META MTIA, OAI Jalapeno, Anthropic TPU, ByteDance/Alibaba, and other custom silicon programs. While we acknowledge management may remain measured in its formal FY27 commentary given timing variability across hyperscale ramps, we believe demand trends and customer commitments support an AI revenue opportunity meaningfully above the current > $100B framework. Additionally, AI networking demand remains robust, with Tomahawk 5 demand still exceeding supply and next-gen Tomahawk 6 effectively sold out through next year, reinforcing our view that both custom compute and networking will drive a strong FY27 AI revenue step-up.

- **GOOGL TPU competitive concerns appear overstated, in our view; the market continues to ignore the 5-year agreement committing GOOGL to increasing TPU-related purchases from AVGO across TPUv8, v9, v10, and V11…** We continue to view AVGO as the core TPU volume partner for the next four generations of TPU SKUs under the 5-year GOOGL-AVGO agreement signed in April (see here). Although recent investor concerns have centered on GOOGL's partnerships with MRVL, AMD, Alchip, GUC, and others, our work suggests these partners are being brought in to support GOOGL's internal COT team with broader chip development and TPU-attach ASIC opportunities rather than replacing AVGO's core TPU position. We would once again remind investors that the 5-year GOOGL-AVGO agreement committed GOOGL to annually increasing TPU-related purchases at AVGO and anchored AVGO as the volume partner for TPU v8-v11. We believe AVGO's lead in leading-edge ASIC design, broad IP portfolio, know-how, and 12-year execution history with GOOGL remain underappreciated by investors.

- **Setup for FY28 and beyond looks constructive, supported by larger XPU programs, higher networking attach, and a broader customer base...** While we do not expect management to provide a formal FY28 AI revenue target on the call, we believe commentary should remain strongly constructive, with growth supported by the GOOGL TPU v9 2nm ramp in early CY28, continued TPU v8/v8i scale-up, incremental Anthropic TPU demand, META MTIA expansion, OAI Jalapeno 1st/2nd gen ASICs, and broader custom silicon ramps across ByteDance/Alibaba, and others. Combined with sustained strength in Tomahawk 5/6 and the continued recovery in non-AI semi segments, we believe the print should reinforce that AVGO's AI revenue opportunity is larger, more durable, and less competitively vulnerable than the market appreciates.

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Investment Thesis, Valuation and Risks

Broadcom Inc *(Overweight; Price Target: $580.00)*

Investment Thesis
We see Broadcom as a leader in wireless, data center networking, AI/deep learning ASICs, storage, and infrastructure silicon, hardware, software with broad-based exposure to positive trends in these end markets. Broadcom is a technology infrastructure powerhouse with unmatched scale and technology capabilities in the industry, securing its leadership positions in a diverse set of end markets.

Valuation
Our Dec-26 PT of $580 assumes that AVGO trades at 20-25x (23x) $25.35 of earnings power exiting FY27.

Risks to Rating and Price Target
Broadcom's products are sold into a wide range of end markets and are sold to thousands of customers worldwide. If the global economy or any regional end market suffers unexpected negative shocks that lead to changes in demand for Broadcom's products, we may reassess our estimates and our Overweight rating.