Credo Technology Group (CRDO): Strong optical momentum with modest guidance uptick, relative to elevated expectations

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Key stock takeaways: We expect the stock to trade modestly lower following a solid quarter with an uptick to FY27 revenue guidance, relative to elevated investor expectations. We believe investor expectations had been significantly elevated given bullish CapEx commentary from key hyperscaler customers over the past quarter. Credo is rapidly expanding its optical portfolio both organically and with DustPhotonics driving our FY28 numbers higher - although we believe some investors had expected an increase to management's guidance for over $600mn in optical revenue for FY27 (~25% of overall revenue). The company's gross margin remains strong, and its guidance for FY27 reflects the company's strong pricing power. At the same time, OpEx estimates are moving higher as Credo pivots its investment profile to optical products in order to sustain strong revenue growth. We remain Buy-rated on CRDO as we continue to see the company pivoting to optical products while its copper-based solutions remain highly relevant in the datacenter, and we continue to see favorable risk/reward for the stock at current levels.

2Q results were slightly above the Street: CRDO reported revenue of $479 mn, above GS at $470 mn and the Street (Visible Alpha) at $472 mn. Gross margin (ex. SBC) of 68.0% was in line with GS and the Street at 68.0%. Operating margin (ex. SBC) of 48.2% was below GS at 49.2% and the Street at 49.3%. Non-GAAP EPS (ex. SBC) of $1.20 was above GS at $1.15 and the Street at $1.17.

- **Optical traction and uptick to FY27 revenue guidance:** Management maintained its FY27 Optical revenue guidance of over $600 mn, and ticked up its overall FY27 revenue growth guidance to 85% YoY (from 80% YoY earlier). Within its Optical portfolio, management continues to expect (1) Optical DSPs, (2) Silicon Photonics PICs and (3) ZF Optics to contribute >$100 mn each. We expect ZF Optics to be a significantly larger revenue contributor (~$400mn) than DSPs ($100mn) and PICs ($100mn) in FY27. We expect this strength in Optical revenue to sustain in FY28 as the three mentioned product lines continue to grow off of FY27, and we expect Active LED Cables (ALCs) to also become a material contributor in FY28.
- **Customer diversification:** Credo reported 4 customers representing >10% of company revenue in FY1Q, similar to the prior quarter (but with slightly different concentration among them). Management struck a positive tone on customer diversification, and highlighted neoclouds as an attractive and growing opportunity. We believe this is a strong developing opportunity which should

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eventually reduce lumpiness in Credo's revenues.

3Q revenue guidance is above the Street, but OpEx is also higher. Revenue was guided to $530 mn at the midpoint, which is just above GS at $522 mn and above the Street at $512 mn. Gross margin was guided to 68%, in line with GS at 67.9% and the Street at 67.8%. Non-GAAP OpEx was guided to $102.5 mn, above GS at $97.5 mn and the Street at $96.8 mn.

Estimate changes. We raise our 2027-29 EPS estimates by an average of 4% to mainly reflect higher revenue estimates driven by a strong Optical revenue ramp, and modestly higher gross margin assumption. (see detailed estimates below - Exhibit 3).

Price target and risks: Our 12-month price target is $285 (unchanged), which is based on 27X NTM P/E (down from 30X on lower peer multiples) applied to our Q5-Q8 EPS estimate of $10.75 (up from $9.60 on higher estimates and roll-forward by one quarter). Key downside risks: (1) faster than expected adoption of optical solutions at the expense of copper; (2) increased competition in AECs; (3) lumpiness in revenues due to customer concentration.

Exhibit 1: CRDO - Variance summary

Financials ($ mn, except EPS)	CY2Q26 Actual	GS	Street	Actual/GS	Actual/Street
Total Revenue	479	470	472	1.9%	1.5%
QoQ	*9.6%*	*7.5%*	*8.0%*		
YoY	*114.7%*	*110.6%*	*111.6%*		
Gross Margin (excl. SBC)	68.0%	68.0%	68.0%	*+4 bps*	*-1 bps*
Operating Income (excl. SBC)	231	231	232.6	-0.3%	-0.8%
Operating Margin (%)	48.2%	49.2%	49.3%	*-107 bps*	*-112 bps*
EPS (excl. SBC)	$1.20	$1.15	$1.17	4.5%	2.8%

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

Exhibit 2: CRDO - Guidance

Financials ($ mn, except EPS)	CY3Q26 High	Low	Guidance (midpoint)	GS	Street	Guidance/GS	Guidance/Street
Total Revenue	535	525	530	522	512	1.5%	3.5%
QoQ	#####	*9.6%*	*10.6%*	*11.1%*	*8.5%*		
YoY	#####	*95.9%*	*97.7%*	*94.8%*	*91.0%*		
Gross margin (ex SBC)	69.0%	67.0%	68.0%	67.9%	67.8%	*+13 bps*	*+22 bps*
Operating Expenses	105	100	$103	$97.5	$96.8	5.2%	5.9%

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

Exhibit 3: CRDO - Old vs. New Estimates

Financials ($mn, except EPS)	2027E GS	Old	Δ	2028E GS	Old	Δ	2029E GS	Old	Δ
Total Revenue	2,553	2,624	*-2.7%*	4,073	3,869	*+5.3%*	5,016	4,732	*+6.0%*
YoY	*91.2%*	*96.5%*	*-527 bps*	*59.5%*	*47.5%*	########	*23.2%*	*22.3%*	*+88 bps*
Gross Margin (excl. SBC)	68.0%	67.9%	*+14 bps*	67.6%	67.2%	*+42 bps*	67.6%	67.2%	*+42 bps*
Operating Income (excl. SBC)	1,325	1,372	*-3.4%*	2,209	2,060	*+7.3%*	2,744	2,554	*+7.5%*
EPS (excl. SBC)	$6.35	$6.60	*-3.8%*	#####	$9.65	*+7.8%*	#####	$11.80	*+8.0%*

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	Q5-Q8 EPS Estimate	**$10.75**	**$13.44**	**$7.00**
	Multiple	**27.0x**	**40.0x**	**15.0x**
	Valuation	**$285.00**	**$538.00**	**$105.00**
	Upside/Downside	**51.5%**	**186.0%**	**-44.2%**
Price Target	**12-Month Price Target**	**$285.00**	100% P/E	
	Potential Upside/Downside	51.5%		
	Dividend Yield at Current Price	0.0%		
	Potential Total Return	**51.5%**		

Source: Goldman Sachs Global Investment Research

CRDO	12m Price Target: **$285.00**	Price: **$206.63**	Upside: **37.9%**

Buy

Market cap: $40.8bn
Enterprise value: $39.5bn
3m ADTV: $1.7bn
Cayman Islands
Americas Semiconductors & IT Services
M&A Rank: 3

GS Forecast

	4/26	4/27E	4/28E	4/29E
Revenue ($ mn) New	**1,335.1**	**2,553.4**	**4,072.5**	**5,016.5**
Revenue ($ mn) Old	1,335.1	2,623.7	3,868.8	4,731.7
EBITDA ($ mn)	662.1	1,356.9	2,249.4	2,801.8
EBIT ($ mn)	638.8	1,324.9	2,209.5	2,744.4
EPS ($) New	**3.44**	**6.36**	**10.40**	**12.75**
EPS ($) Old	3.44	6.61	9.65	11.81
P/E (X)	36.0	32.5	19.9	16.2
Dividend yield (%)	0.0	0.0	0.0	0.0
Net debt/EBITDA (X)	(2.2)	(1.0)	(1.5)	(2.0)

	7/26	10/26E	1/27E	4/27E
EPS ($)	1.20	1.27	1.58	2.30

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 1 Sep 2026 close.

