Broadcom Inc. (AVGO): Strong AI revenue forecast through 2028 with increasing customer diversification should drive the stock higher

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Key stock takeaways: We would be buyers of the stock following Broadcom's very strong AI revenue outlook through FY28 -which we expect it to exceed. We remain bullish on the stock at current levels as our confidence on Broadcom's growth over the coming years is underpinned by multiple factors. First, Broadcom expects its AI semiconductor revenue to double in FY27 to $115bn across 10GW of datacenter deployments, and double again to $230bn across 20 GW. Second, management provided additional clarity on its custom silicon engagements beyond Google, expecting Anthropic to be the largest customer in FY27 and OpenAI and Meta to be material in FY28 - even as its business at Google continues to grow. Third, management reiterated that it has secured supplies of all key components needed to support its revenue forecast through FY28. Although management noted that its forecast is constrained by available datacenter land/power/shell and other factors, we ultimately expect Broadcom to deliver upside to this forecast as it works with supply chain partners. Although we expect some level of investor skepticism around supplier diversification at Google and gross margin dilution, we ultimately expect the company's very strong growth and customer diversification to move the stock meaningfully higher. Finally, we see compelling value at current levels with the stock trading at just 12X management's EPS guidance for FY28. We remain Buy rated 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 $29.6 bn, in line with GS at $29.6 bn and the Street at $29.5 bn. Gross margin of 75.0% was above GS and the Street at 74.1%. Operating margin of 67.9% was above GS at 67.0% and the Street at 66.9%. Operating EPS of $3.32 was in line with GS at $3.33 but above the Street at $3.24. AI Semiconductor revenue grew 221% YoY to $16.7 bn, and was above GS and the Street at $16.1 bn. Semiconductor Solutions revenue of $20.8 bn was in line with GS and the Street at $20.6 bn. Infrastructure Software revenue of $8.8 bn was in line with GS and the Street at $8.9 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 now expects to deliver AI semiconductor revenue in excess of $115 bn in FY27 (up from over $100 bn previously, and up ~100% yoy) across 10GW of datacenter deployments. Management also provided guidance for AI revenue of

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over $230bn in FY28, doubling again relative to FY27. In the short term, the company expects its AI revenue to grow over ~100% H/H to $58bn (up from $56bn prior) for FY26 - above the Street and in line with our expectations. All in, Broadcom expects to drive EPS of over $30.00 in FY28. Our revised AI semiconductor revenue estimates now stand at $58bn/$125bn/$240bn for FY26/27/28.

- **Custom silicon customers:** Broadcom has six custom silicon engagements where it expects to ramp revenue, including Google, Meta, Anthropic, OpenAI, and others. For Google, Broadcom noted that it has started to ship its next-generation TPU V8I ahead of MediaTek's shipment of TPU V8T - and it expects shipments to Google to continue to grow while maintaining majority share in the coming years. For Anthropic, Broadcom is already ramping its initial 1 GW of capacity - and it expects to deploy an additional 5GW of capacity in FY27, with line of sight to an incremental 10GW of demand in FY28. For OpenAI, Broadcom is ramping its Jalapeno custom XPU solution, and expects to deploy 1.3GW in FY27 and 5GW in FY28. Broadcom is also ramping its custom XPU solution with Meta, and expects to deliver 1 GW in 2027 and 3 GW through FY28. Broadcom expects shipments to other XPU customers to begin in late 2026, and accelerate into 2027 and beyond.
- **Margin performance:** Broadcom delivered gross margin of 75% in 3Q, and guided to 73% in 4Q given the dilutive impact of custom silicon programs relative to its merchant silicon and software businesses. Management guided 4Q operating margin to 66%, flat yoy despite this gross margin dilution. Management noted that its gross margin will continue to face dilution given both the mix of custom silicon and the impact of other component costs (such as HBM) which are shipped alongside its XPU products. However, we expect some level of partial positive offset to this dilution given its merchant networking business, as well as product cost reductions over time. The company expects to maintain operating margins as it drives significant revenue leverage over its fixed cost base.

FY4Q guidance is just below the Street: Broadcom guided 4Q revenue in line but adjusted operating margin below the Street. Revenue was guided to $34.8 bn, which is below GS at $36.2 bn but in line with the Street at $35.2 bn. AI Semiconductor revenue was guided to $21.7 bn, which is in line with GS at $21.7 bn and above the Street at $21.3 bn. Adjusted operating margin guidance of 66.0% is below GS at 67.5% and the Street at 66.8%.

Estimate changes. We modestly reduce our FY27 but meaningfully increase our FY28 estimates consistent with company guidance, with our average EPS estimates moving higher by 4% to reflect higher AI revenue relative to our previous assumptions (see detailed estimates - Exhibit 3).

Price target and risks: We are Buy rated on AVGO. We raise our 12-month target price to $540 from $525, based on 30X (unchanged) our normalized EPS estimate of $18.00 (up from $17.50 given higher estimates). Key downside risks include: (1) infrastructure spending, (2) share loss in custom compute franchise, (3) inventory digestion in non-AI; (4) increased competition in VMware.



Exhibit 1: AVGO - Variance summary

Financials ($ mn, except EPS)	FY3Q26 Actual	GS	Street	Actual/GS	Actual/Street
AI Semis	16,700	16,096	16,109	3.8%	3.7%
Non-AI Semis	4,139	4,544	4,484	-8.9%	-7.7%
Semiconductor Solutions	20,839	20,640	20,599	1.0%	1.2%
Infrastructure Software	8,752	8,931	8,883	-2.0%	-1.5%
Total Revenue	29,591	29,571	29,477	0.1%	0.4%
QoQ	*33.4%*	*33.3%*	*32.9%*		
YoY	*85.5%*	*85.4%*	*84.8%*		
Gross Margin (excl. SBC)	75.0%	74.1%	74.1%	*+85 bps*	*+87 bps*
Operating Income (excl. SBC)	20,095	19,823	19,707	1.4%	2.0%
Operating Margin (%)	67.9%	67.0%	66.9%	*+87 bps*	*+105 bps*
EPS (excl. SBC)	$3.32	$3.33	3.24	-0.3%	2.3%

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

Exhibit 2: AVGO - Guidance

Financials ($ mn, except EPS)	FY4Q26 Guidance	GS	Street	Guidance/GS	Guidance/Street
AI Semiconductor Revenue	21,700	21,730	21,327	-0.1%	1.7%
Total Revenue	34,800	36,162	35,175	-3.8%	-1.1%
QoQ	*17.6%*	*22.3%*	*19.3%*		
YoY	*93.2%*	*100.7%*	*95.3%*		
Operating margin (%)	66.0%	67.5%	66.8%	*-155 bps*	*-84 bps*

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 3: AVGO - New vs Old Estimates

Financials ($mn, except EPS)	FY2026E GS	Old	Δ	FY2027E GS	Old	Δ	FY2028E GS	Old	Δ
AI Semis	57,838	57,052	*1.4%*	125,477	133,045	*-5.7%*	240,306	192,889	*24.6%*
Non-AI Semis	16,854	18,071	*-6.7%*	16,982	18,954	*-10.4%*	17,540	19,408	*-9.6%*
Infrastructure Software	31,438	32,107	*-2.1%*	34,545	34,987	*-1.3%*	36,528	36,960	*-1.2%*
Total Revenue	106,130	107,230	*-1.0%*	177,004	186,986	*-5.3%*	294,374	249,257	*18.1%*
YoY	*66.1%*	*67.8%*	*-172 bps*	*66.8%*	*74.4%*	*-760 bps*	*66.3%*	*33.3%*	*+3301 bps*
Gross Margin (excl. SBC)	75.1%	75.0%	*+12 bps*	72.2%	72.2%	*+2 bps*	70.4%	71.4%	*-95 bps*
Operating Income (excl. SBC)	71,085	72,004	*-1.3%*	118,658	126,243	*-6.0%*	197,650	168,848	*17.1%*
EPS (excl. SBC)	$11.73	$11.95	*-1.9%*	$20.20	$21.40	*-5.6%*	$34.25	$28.85	*18.7%*

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	**$18.00**	**$21.60**	**$11.70**
	Multiple	**30.0x**	**35.0x**	**20.0x**
	Valuation	**$540.00**	**$756.00**	**$234.00**
	Upside/Downside	**47.1%**	**106.0%**	**-36.2%**
Price Target	**12-Month Price Target**	**$540.00**	100% P/E	
	Potential Upside/Downside	47.1%		
	Dividend Yield at Current Price	0.61%		
	Potential Total Return	**47.8%**		

Source: Goldman Sachs Global Investment Research

AVGO	12m Price Target: **$540.00**	Price: **$367.24**	Upside: **47.0%**

Buy

Market cap: $1.8tr
Enterprise value: $1.8tr
3m ADTV: $9.9bn
United States
Americas Semiconductors & IT Services
M&A Rank: 3

GS Forecast

	10/25	10/26E	10/27E	10/28E
Revenue ($ mn) New	**63,887.0**	**106,130.3**	**177,004.2**	**294,373.7**
Revenue ($ mn) Old	63,887.0	107,230.3	186,986.3	249,256.8
EBITDA ($ mn)	35,477.0	63,893.8	111,094.9	189,848.1
EBIT ($ mn)	34,429.0	62,758.8	110,294.9	188,948.1
EPS ($) New	**5.39**	**10.16**	**18.67**	**32.77**
EPS ($) Old	5.39	10.36	19.88	27.35
P/E (X)	45.7	36.2	19.7	11.2
Dividend yield (%)	1.0	0.7	0.8	0.9
Net debt/EBITDA (X)	1.3	0.3	(0.2)	(0.6)

	7/26	10/26E	1/27E	4/27E
EPS ($)	2.94	3.53	3.88	4.26

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 2 Sep 2026 close.