Americas Technology: Hardware: Communacopia + Technology 2026 — Key Takeaways on Day 1

Michael Ng, CFA
+1(212)902-8618 | michael.ng@gs.com
Goldman Sachs & Co. LLC

Katherine Murphy
+1(212)902-1151 | katherine.a.murphy@gs.com
Goldman Sachs & Co. LLC

Yash Goenka, CFA
+1(212)934-6312 | yash.goenka@gs.com
Goldman Sachs India SPL

Lindsey Shema
+1(212)902-6506 | lindsey.shema@gs.com
Goldman Sachs & Co. LLC

Communacopia + Technology
September 8-11, 2026 | San Francisco
Explore >

We are hosting 13 companies from the Networking and Hardware sector at the Goldman Sachs Communacopia + Technology Conference in San Francisco on September 8-11. In this note, we discuss key themes and takeaways emerging from the first day of the conference, where we hosted **Arista Networks, Inc.** (ANET), **Axon Enterprise, Inc.** (AXON), **NetApp, Inc** (NTAP), **Cisco Systems, Inc** (CSCO), **HP, Inc** (HPQ), **Celestica, Inc** (CLS), and **Ingram Micro** (INGM).

Key Takeaways: Networking & Hardware

AI-driven networking demand remains robust. Companies across our coverage are experiencing robust, multi-year demand tailwinds catalyzed by AI workloads. CSCO highlighted that the shift toward agentic AI is driving a 5x increase in network bandwidth consumption, underpinning a durable networking supercycle across hyperscale, neocloud, and enterprise customers. The company reiterated its fiscal 2027 outlook, which includes 15% revenue growth at the midpoint with $7.5 bn in hyperscale AI revenue supported by $9.3 bn in fiscal 2026 hyperscaler AI orders. Similarly, ANET is observing accelerating demand across complex back-end and scale-across deployments, as power, cooling, and space constraints force customers to expand clusters across multiple locations. Furthermore, ANET views scale-up Ethernet as a significant medium-term growth vector as the market transitions toward open standards, anticipating material volume by early 2028. Additionally, CLS noted that to support this massive AI-driven compute and networking demand, it is actively expanding capacity. CLS noted that its networking portfolio is rapidly transitioning to higher speeds, with 1.6T programs coming online in 4Q26 and expected to surpass 800G revenue in 2027.

Networking vendors are seeing margin resilience and operating leverage despite lingering supply chain constraints. Despite ongoing supply chain challenges and inflationary pressures, networking companies are successfully defending margins through operating leverage, pricing actions, and strategic business models. ANET maintained its 62% to 64% gross margin guidance for 2026, utilizing targeted price

Goldman Sachs does and seeks to do business with companies covered in its research reports. As a
should be aware that the firm may have a conflict of interest that could affect the objectivity of th
Investors should consider this report as only a single factor in making their investment decision. Fo
certification and other important disclosures, see the Disclosure Appendix, or go to
www.gs.com/research/hedge.html. Analysts employed by non-US affiliates are not registered/qua
analysts with FINRA in the U.S.



increases and supply chain efficiencies to offset higher component costs, while leveraging $9.7 bn in multiyear purchase commitments to secure long-lead components. CLS similarly committed operating margins to expand into the mid-to-high 8% range over the next 1-2 years, driven by operating leverage and productivity gains, even as supply constraints persist for memory and Tomahawk silicon. For CSCO, while the company is navigating slight near-term gross margin compression as it leans into hardware-heavy hyperscale and enterprise AI deployments, management emphasized record operating efficiency, noting that a recent decline in gross margins was more than offset by a nearly 4 point reduction in OpEx margins as a percentage of revenue.

Enterprise AI hardware demand remains robust and is broadening beyond initial deployments. (1) NTAP highlighted that demand in its most recent quarter was stronger than expected and expanding beyond dedicated AI storage into broader database, analytics, streaming, and data infrastructure upgrades, with customers increasingly moving from pilot projects to production AI deployments, supporting its raised FY27 outlook. (2) HPQ's PC portfolio is skewing more toward higher-end commercial devices, with customers increasingly favoring hybrid AI architectures and local AI-capable PCs rather than cloud-only computing because of more favorable token costs & security/privacy. (3) INGM is seeing robust GPU and AI infrastructure project demand, as well as emerging cloud infrastructure-as-a-service demand from SMBs.

Hardware vendors are helping customers navigate component cost increases through the breadth of their portfolios. (1) NTAP is helping customers navigate flash prices increases through sophisticated tiered-storage architectures where customers can optimize data storage across flash and disk storage. (2) HPQ's Workforce Experience Platform (WXP) gives customers operational insights that helps them configure their equipment purchases specifically to the needs of its employees. (3) INGM noted that memory-driven component inflation continues to lift ASPs across the industry, but the company's scale, sourcing capabilities, and broad vendor portfolio allow it to secure supply, offer alternative products, and pass higher costs through to customers rather than absorb them.

Arista Networks, Inc. (ANET)

Presenters: ANET's President & CTO, Ken Duda, and CFO, Chantelle Breithaupt, presented at the Communacopia + Technology Conference.

Bottom Line: ANET reiterated its 2026 revenue and margin guidance, supported by improved supply chain visibility and demand across its two strategic focus areas: AI infrastructure and enterprise campus deployments. First, Arista is leveraging its best-in-breed data center networking capabilities to address demand across front-end and back-end including scale-out and scale-across deployments. Second, the company is successfully extending its data center expertise into the enterprise campus market, utilizing its unified EOS software stack to capture its fair share within campus. Third, price increases and supply chain efficiencies could help Arista achieve similar gross margins in 2027E, despite lapping tariff refunds (30 bps in 2026E).

Key Takeaways

Reiterated revenue guidance and stable margin trajectory supported by supply chain visibility. Management noted that ANET raised its 2026E revenue guidance in 2Q26 to $12.6 billion, aided by easing supply chain constraints and improved demand visibility. Management maintained its gross margin guidance of 62% to 64% despite inflation and mix shifts, helped partly by ~30 bps of tariff refunds this year and targeted price increases intended to offset higher component costs. Furthermore, large multiyear purchase commitments of $9.7 billion in 2Q26 reflect robust demand rather than just component inflation, and Arista is willing to lean into long-lead components because its portfolio flexibility and customer roadmap visibility limit obsolescence risk.

ANET differentiated by EOS software quality and single-stack architecture. First, ANET's EOS operating system is unique in the industry as it runs as a single image across ANET's entire portfolio of products (v. different OS for different products at competitors). Second, EOS delivers high reliability and consistency across hyperscaler routing, neoclouds, and enterprise environments. For neoclouds and enterprises, the value proposition centers on the manageability and quality of a single software stack across both campus and cloud use cases. Third, operating at scale mandates best-in-breed solutions, allowing ANET to win against turnkey alternatives that are typically relegated to low-volume customers.

AI networking demand accelerating across complex back-end and scale-across deployments. ANET is seeing strong demand across its AI networking domains, particularly in back-end networks that connect GPU accelerators. Scale-across deployments are seeing significant demand as customers face power, cooling, and data center space constraints, requiring them to expand clusters across multiple locations. Additionally, management noted that deferred revenue tied to newer AI deployments may continue to convert unevenly; recognition depends on customer acceptance and performance validation, and deployment timing can be delayed by data-center readiness issues such as construction, power, cooling, and cabling. Finally, while neocloud customers are an attractive growth segment that values open, best-of-breed AI networking, management noted that Arista is monitoring customer credit risk.

Scale-up Ethernet represents a new growth vector for the medium term. While scale-up Ethernet is still an early opportunity, Arista expects the market transition away from proprietary interconnects toward open standards to create a significant new growth vector. The company anticipates this market to begin ramping in the later part of 2027, with more material volume expected in early 2028.

Opportunity to extend ANET's best-in-breed solutions into the enterprise campus. ANET is successfully extending its data center networking expertise into the enterprise campus market, representing a significant growth opportunity. The value proposition remains consistent with its data center offerings, providing quality and the same EOS software and cloud vision management stack built by the same engineering team. This growth is supported by a dual-pronged go-to-market motion: successful cross-selling into existing data-center customers and a growing number of "campus-first" wins driven by customers who are dissatisfied with legacy incumbents.

Valuation and key risks

Valuation. We are Buy-rated on ANET with a 12-month target price of $225 based on 36X our NTM+1Y EPS.

Key downside risks include slower cloud capex spending; customer concentration, with META and MSFT representing 16% and 26% of total revenue in 2025 respectively; competition, including from Cisco, major Chinese providers Huawei & H3C and whitebox switching solutions; margin degradation from investment in enterprise sales force, elevated costs associated with supply chain headwinds; broader pricing pressure from commoditization of networking hardware; inability to execute on enterprise/campus strategy & development of new SD-WAN platform.

Investment thesis summary. As the leading branded provider of switches to US hyperscalers, ANET is well positioned to capitalize on the ongoing growth in data, the continued digital transformation driving workloads from on-premise to public and hybrid-cloud, and the growing demand for higher bandwidth, faster speed, and lower latency. ANET has the most revenue exposure to cloud spending among our coverage universe with 48% of its 2025 revenue from its Cloud Titans segment (META was 16%, MSFT was 26%) and 20% from tier 2 cloud and service providers. In addition, ANET is leveraging its dominant position in data center switches to other networking solutions, particularly in enterprise (e.g., campus switching, wireless, routing, telemetry).

ANET should deliver strong double-digit revenue and EPS growth over the several years reflecting strong growth in data center and expansion into enterprise, as well as continued R&D and S&M investments particularly as ANET builds out its enterprise go-to-market capabilities.

Axon Enterprise, Inc. (AXON)

Presenters: AXON's Chief Financial Officer & Chief Operating Officer, Brittany Bagley, presented at the Communacopia + Technology Conference.

Bottom Line: Axon is demonstrating strong business momentum across its interconnected ecosystem, reiterating full-year 2026 revenue guidance of 32-34%. AXON reiterated that 2H26 revenue growth will be weighted toward 4Q, similar to last year. The company remains underpenetrated in its ~$160 billion TAM, capturing only 1-5% of police budgets today, providing a long runway for growth as it increases share of wallet through continuous innovation and value-add pricing.

Key Takeaways

Robust bookings momentum and expanding share of wallet: Management noted that AXON introduced a new five-year normalized bookings metric in 2Q26, normalized for contract duration, which grew over 30% in 2Q26. Gross bookings grew 20% yoy in 2Q26, comping a 50% growth rate in the prior year. Management expects normalized bookings to grow 30%-plus for the full year, with future contracted bookings growing above that rate. AXON currently captures roughly 1% to 5% of state and local police budgets (averaging ~3%). The company sees runway to increase its share of wallet by solving

mission-critical problems and driving departmental ROI.

Revenue and gross margins dynamics: Axon reiterated its full-year 2026 revenue guidance to 32-34% yoy, supported by strong future contracted bookings and a fourth quarter that is expected to be the highest growth period of the year. On margins management noted that Software-only margins remain steady at over 80%, with any fluctuations in the broader segment driven by the mix and deployment costs of services across its various products. Furthermore, within Connected Devices, management noted that margins are influenced by three primary drivers: First, TASER margins remain stable with no material changes. Second, camera margins are facing headwinds from increased memory costs. Third, the rapid scaling of the Dedrone requires upfront hardware investments that act as a near-term drag on connected device margins. However, management emphasized this is not a permanent headwind as they optimize scaling efficiencies over time.

Core products remain strong alongside rapid AI software adoption: AXON's core TASER business remains highly resilient, highlighted by the largest individual TASER order in company history in 2Q26 - an upgrade to TASER 10 occurring three-plus years into the refresh cycle. Meanwhile, software adoption is accelerating, with non-evidence software such as 911, Fusus, and the AI Era Plan growing. The AI Era Plan is a standout, that includes high-ROI tools like Draft One, which saves officers up to 4 hours per week, as well as Form One and Translation. AXON views the subscription bundle as future-proofing AI for departments, allowing them to seamlessly adopt new features as they are released.

Opportunity in nascent markets including Enterprise, International, and Counter-Drone: AXON is seeing significant traction across adjacent, more nascent markets. Enterprise bookings are being driven by trials and phased rollouts of the Axon Body Workforce and the newly launched ABW Mini, alongside the Axon 911 ecosystem - leveraging the Carbyne and Prepared acquisitions to deliver sticky, cloud-native AI overlays that seamlessly integrate with legacy CAD providers. International bookings also tripled year-over-year in 2Q26, supported by TASER 10 adoption and large AI Era Plan deals (three of the top five AI Era Plan deals last quarter were international). Furthermore, management noted that the Counter-Drone business (Dedrone) is emerging as a massive opportunity, as drone mitigation becomes a standard requirement for major events and federal agencies.

Valuation and key risks

Valuation. We are Buy-rated on AXON with a 12-month target price of $715 based on 17X our NTM+1Y EPS.

Key risks: patent expiry, anti-trust lawsuits, new product innovation, slower-than-expected international expansion, changes in TASER regulation, changes in public perception, government budget volatility, and near-term supply chain constraints.

Investment thesis summary. AXON is the manufacturer of the TASER, the leading conducted energy weapon in the United States and globally. AXON's market leadership with TASER has resulted in deep customer relationships with state and local

law enforcement (e.g., 17k of 18k US law enforcement agencies) and a highly valuable installed base of law enforcement personnel. In addition to opportunities for TASER upgrades and installed base expansion, AXON is well positioned to cross-sell sensors, such as body cameras and fleet cameras, and related software and cloud storage and analytics services. Growing demand for body cameras, fleet cameras, and less-lethal weapons against the backdrop of initiatives to improve accountability and effectiveness in public safety and alongside AXON's 10+ year future contracted revenue provides visibility into revenue growth. In addition, AXON should benefit from the expansion into new geographies, new customer segments (e.g., federal, consumer), and adjacent products and services.

NetApp, Inc (NTAP)

Presenters: NTAP's Chief Executive Officer, George Kurian, presented at the Communacopia + Technology Conference.

Bottom Line: NTAP reiterated its F2027 guidance (+17% revenue, +22% EPS growth at midpoint) driven by strong, broad-based demand, including both AI-specific configurations and non-mission critical upgrades. First, Product segment gross margin outlook is improved (v. initial F2027 guidance) as the company increases visibility into supply & takes pricing actions, though strong growth in Product may weigh on overall corporate gross margins. Second, NTAP is bullish on Public Cloud growth remaining strong in the high teens to low 20s% growth rate. Third, NTAP will introduce new products addressing the needs of high end neoclouds at its INSIGHT event later this month, which could expand the company's addressable market between enterprise storage buyers.

Key Takeaways

Product margin outlook better than 90 days ago, though mix (i.e. strong Product growth) may weigh on corporate gross margins. NTAP's raised its Product gross margin expectations on earnings relative to its initial FY27 guidance reflecting better cost visibility and more confidence in recovering component inflation through pricing actions. The company is helping customers navigate prices increases by (1) optimizing mix of flash/disk storage; and (2) optimizing compute usage across cloud and on-prem. NTAP works with suppliers across a broad range of commercial vehicles including buying in the open market as well as through long-term agreements to assure access to available supply at competitive cost structures.

Public Cloud momentum should remain robust. The company remains constructive on sustaining high teens-low 20s% growth in the Public Cloud segment from (1) secular growth in hyperscalers; (2) broader product offerings; and (3) go-to-market improvements. The company views AI use cases as an incremental driver of demand as enterprises look to utilize data across hybrid environments.

Neocloud use cases could expand NTAP's TAM. NetApp expects to make further product announcements at its annual INSIGHT event later this month around new products addressing the needs of higher-end neoclouds and frontier-model training environments. The company attributed its right-to-win with neocloud buyers to: (1)

track record of hyperscale level data management infrastructure; (2) go-to-market models that supports collaboration between vendors & sales; and (3) hybrid/sovereign capabilities.

Valuation and key risks

Valuation. We are Buy rated on NTAP with a 12-month target price of $210 reflecting 19x our NTM+1Y EPS.

Key risks: (-) Key supply shortages or pricing increases that weigh on product gross margins; (-) structural declines in demand for on-premise enterprise storage appliances; (-) increased competitiveness of storage market from legacy players & new-entrants, particular in growth areas like parallel file systems; (-) evolving demand for as-a-service offerings like Keystone in a changing interest rate environment; (-) impact of global macro weakness on demand for storage

Cisco Systems, Inc (CSCO)

Presenters: CSCO's CFO, Mark Patterson, and President & Chief Product Officer, Jeetu Patel, presented at the Communacopia + Technology Conference.

Bottom Line: CSCO is well positioned to capitalize on a multi-year, AI-driven networking supercycle, with demand across all customer types and its entire product portfolio. AI demand is driving tailwinds across hyperscale, neocloud, and enterprise, as well as data center switching, routing, security, observability, and campus networking. CSCO reiterated its F2027 revenue outlook, which includes 15% revenue growth at the midpoint with $7.5 bn of hyperscale AI revenue.

Key Takeaways

Agentic AI driving a multi-year networking supercycle: Management highlighted a secular shift driven by AI agents. Agentic AI is driving a 5x increase in network bandwidth consumption, catalyzing a durable networking demand cycle across all of CSCO's customer segments including hyperscale, neocloud, and enterprise, as well as its product segments. For instance, this includes back-end and front-end networking, security & observability, as well as campus networking, where growth has accelerated from historical 3-4% levels to double-digits. Physical AI likely will drive an additional vector of growth.

Reiterated fiscal 2027 guidance driven by core refresh and AI momentum: CSCO's fiscal 2027 guidance implies 15% total revenue growth at the midpoint, supported by an estimated double-digit ex-AI baseline growth. This acceleration is underpinned by a >$100 billion end-of-life/end-of-support infrastructure refresh opportunity over the next few years.

Hyperscaler AI orders scale rapidly alongside vertical integration strategy: CSCO secured $9.3 billion in fiscal 2026 hyperscaler AI orders, an acceleration from nearly zero just two years prior. The company is leveraging a vertically integrated, co-designed full stack, deploying scale-out systems powered by the G300 Silicon One chip and

scale-across P-Series chips. Management noted that by 2029, CSCO will be completely independent of merchant silicon providers.

Navigating near-term margin compression offset by operating leverage while maintaining robust shareholder returns: CSCO's F1Q27E gross margins guidance of 65%-66% reflects a slight headwind as the company leans into hardware-heavy hyperscale and enterprise AI deployments where revenue is recognized on day one, while attached software and services are recognized ratably. However, management emphasized record operating efficiency, noting that in F4Q26, gross margins declined ~2 points year-over-year, but OpEx margins declined by almost 4 points as a percentage of revenue, driving record operating margins.

Fusing security into the network fabric to capture machine-scale defense: CSCO reiterated F2027 security revenue growth to accelerate to high single-digits yoy, driven by the lapping of Splunk's cloud transition, >30% firewall growth over the past two quarters, and new product customers momentum. The company is leveraging its unique position to integrate Data Processing Units (DPUs) and Neural Processing Units (NPUs) directly onto top-of-rack smart switches, significantly reducing latency and embedding security into the network architecture to monitor behavioral drift and secure agentic AI at runtime.

Strategic partnerships expanding the Secure AI Factory: CSCO is simplifying the deployment of on-premises AI workloads through its expanded Secure AI Factory partnership with NVIDIA and Supermicro. By integrating Supermicro's rack-scale compute capabilities, CSCO can deliver full-stack solutions (server, networking, security, observability, and data) with favorable net margin treatment, avoiding the historical margin headwinds of the compute business while driving significant cross-sell potential across its proprietary technologies.

Valuation and key risks

Valuation. We are Neutral-rated on CSCO with a 12-month target price of $125 based on 25x our NTM+1Y (Q5-Q8) EPS.

Key upside risks include secular tailwinds including hybrid work, multi-cloud network architecture adoption, broader roll-out of WiFi 6/6E and 5G, increasing edge compute use cases; New disaggregated consumption models to target previously underserved cloud providers, near-term revenue visibility from elevated backlog; **downside risks** include competition, including from major Chinese providers Huawei & H3C and White Box solutions; margin degradation from mix shift into more cloud customers, elevated costs associated with supply chain headwinds; broader pricing pressure from commoditization of networking hardware; dilutive acquisitions.

Investment thesis summary. CSCO is the global market share leader of networking equipment and solutions with a comprehensive platform of offerings across networking, security, collaboration, applications, and cloud. As a leading #1 or #2 incumbent in nearly every product type and category it participates in, CSCO has been subject to market share losses over the last decade, particularly due to lower cost competitors (e.g., White Box) and smaller, more nimble companies with specific vertical solutions (e.g., ANET in data center switching, FFIV in ADC). That said, CSCO has the widest

offering of networking solutions among any of its key competitors, cementing its role as a trusted networking solutions provider, as well as a key procurement partner for its suppliers. Product backlog, RPO, and ARR provide ample revenue visibility even if order growth slows in the near term as customers absorb previously placed orders & more closely scrutinize IT budgets in a challenging macro environment.

HP, Inc (HPQ)

Presenters: HPQ's Chief Financial Officer, Karen Parkhill, presented at the Communacopia + Technology Conference.

Bottom Line: HPQ re-affirmed its expectations for Personal Systems margins to trough in F4Q before recovering sequentially back into the company's long-term range (5-7%) in F2027. HPQ continues to execute against its 4-pillar strategy to mitigate the impacts of input costs on margins by (1) securing supply; (2) portfolio mix shift (i.e., more premium); (3) operational levers like repricing LT enterprise contracts and product redesign. The company is also prioritizing growth in Print in key areas including Big Tank (low-to-mid 20s% market share in big tank v. 30s% share in overall print) and industrial.

Key Takeaways

PC portfolio mix-shifting towards premium categories. HPQ's ~40% year-over-year increase in ASPs last quarter was largely driven by mix-shift towards more premium PC categories like AI PCs and workstations. Demand for AI PCs is no longer just driven by future-proofing, but by enterprises looking for an alternative to conducting AI entirely in the cloud because of the (1) significant risk in token costs; (2) higher security/privacy from running AI locally. HPQ is also seeing strength in its peripherals & services offering including its Workforce Experience Platform (WXP) where customers can monitor and optimize their equipment.

Personal Systems margins to recover from 4Q trough based on (1) repricing long-term enterprise contracts (subset of HPQ's ~70% commercial business), (2) redesigning products to lower memory usage (i.e., de-speccing), and (3) continued mix towards premium PC categories and peripherals, which should benefit ASPs. HPQ has secured the supply required to reach F2026 guidance and is working towards securing supply for F2027, including through qualifying new suppliers like CXMT, which can address HPQ's PC portfolio in China and some other countries.

Prioritizing high-value & growth areas in print including Big Tank, industrial. First, HPQ gained ~4 points of share in Big Tank in F3Q as the company more aggressively goes after the market. Big Tank printers represented ~1/3 of the 17 mn global printers sold last quarter. HPQ is currently under indexed in Big Tank relative to the rest of its portfolio, with low-to-mid 20s% market share in Big Tank as compares to low-to-mid 30s% market share overall. Second, HPQ's core competencies in home & office print should position the company to go after the industrial print opportunity as (1) the market transitions from analog to digital; and (2) AI-enabled workflow management tools like HP Neo add value to large enterprise customers like Shutterfly.

Most remaining tariff benefits should be recognized in F4Q26, thought some benefit may fall into F1Q27.

Valuation and key risks

Valuation. We are Sell rated on HPQ with a 12-month target price of $22 based on 6.5x our NTM+1Y EPS.

Key risks: (+) Better-than-expected industry PC demand; (+) Better-than-feared impact of higher input costs on margins; (+) Market share gains in PC, especially in higher-margin categories like gaming PCs and peripherals; (+) Recovery in office and consumer industry demand; (+) Print portfolio shift towards growth opportunities, such as Big Tank (profit up front model), consumer subscriptions (e.g., Instant Ink, Instant Paper, HP+), and industrial print.

Celestica, Inc (CLS)

Presenters: CLS's CFO, Mandeep Chawla, presented at the Communacopia + Technology Conference.

Bottom Line: CLS has successfully transitioned from a traditional EMS provider to a higher-value ODM Plus model, positioning itself as a strategic co-development partner to capitalize on AI-driven networking and compute demand. Management reiterated confidence in accelerating revenue growth through 2027 driven by core networking demand and major program wins with OpenAI and AMD, and expects operating margins to expand into 2027E and beyond, supported by operating leverage, recent capacity expansions, and a healthy balance sheet despite ongoing supply chain constraints.

Key Takeaways

- **Accelerating revenue growth supported by robust demand and new program wins.** Management reiterated its 2026 revenue growth guidance of 65% yoy, with expectations for further acceleration in 2027 driven by strength across both networking and compute. To support this demand, CLS is actively bringing new capacity online across Texas, Thailand, and Malaysia, with growth driven by: (1) strong networking demand from three large hyperscalers ; (2) steady 400G scale-up demand alongside scaling 800G programs; (3) accelerating 1.6T ramps expected to surpass 800G revenue; (4) mass production for OpenAI Jalapeno accelerator in 2027; (5) the ramp of CLS's scale-up networking switch for AMD's Helios rack; and (6) major next-generation program wins on the compute side.
- **Networking portfolio transitioning rapidly to 800G and 1.6T.** CLS is experiencing volume growth in high-speed networking driven by massive AI workloads. While 400G demand remains robust and is expected to grow yoy in 2026 (and remain flat in 2027), 800G revenue is expanding and will continue growing in 2027. Furthermore, the transition to 1.6T is accelerating, with 10 programs won and starting to come online in 4Q26; management expects 1.6T revenue to ramp at a rate that will surpass 800G revenue in 2027. Regarding co-packaged optics (CPO) switch adoption, management anticipates mass adoption alongside 3.2T switches, though it is not expected to be a meaningful contributor until 2029-2030.

- **Strategic capital allocation and equity raise to fund multi-year growth.** To support demand visibility extending into 2029, CLS executed an equity raise last month. Management reiterated its capital expenditures guidance of $1 billion for the current year and expects capex to increase to the high-end of $1.5 billion to $2 billion in 2027.
- **OpenAI consignment model progressing with a path to strong long-term margins.** CLS is currently the sole partner for its current OpenAI custom ASIC rack-scale program, operating under a consignment model where silicon is provided. While management noted that compute margins are currently dilutive compared to accretive networking margins, management remains comfortable with the profitability profile. As a multi-generation partner, CLS expects additional opportunities over time as it works on next-generation designs and adds services revenue.
- **Operating margin expansion expected despite ongoing supply chain constraints.** Management sees room for operating margins to expand from the low 8% range in 2Q26 to the mid-to-high 8% range in the next 1-2 years. This expansion is driven by operating leverage, productivity gains on R&D spend, and margin opportunities within the Advanced Technology Solutions (ATS) segment. Supply constraints persist, particularly for memory (which is sold out for next year) and Tomahawk silicon (which currently has lead times extending well over a year).

Valuation and key risks

Valuation. We are Buy rated on CLS (on America's Conviction List) with a 12-month target price of $505, reflecting 18X our NTM+1Y EPS.

Key downside risks include: (-) continued competition from branded data center equipment OEMs and ODMs, which could pressure market share; (-) AI server market competitive intensity, which can pressure AI server margins; (-) high customer concentration could cause revenue volatility; (-) potential declines in data center investment demand; (-) reductions in CLS's ability to win higher margin design-deals, which could limit CLS' ability to grow EBIAT margins over time; and (-) volatility in end-market demand within CLS' ATS segment.

Celestica supplies, designs, and manufactures IT hardware and industrial tech solutions for hyperscale and OEM customers. CLS delivers solutions under two segments: (1) Connectivity and Cloud Solutions (CCS, ~75% of 2025 revenue), which comprises both Communications (Networking, ~58% of total revenue), and Enterprise (Servers and Storage, 17% of 2025 revenue); and (2) Advanced Technology Solutions (ATS, 26% of 2025 revenue), which delivers various industrial solutions across its subverticals including (a) Industrial & Smart Energy; (b) Aerospace & Defense; (3) Capital Equipment; and (4) Health Tech. We view Celestica as a winner amongst growing AI data center build deployments due to their competitive advantage against other ODMs and EMS players in engineering, as well as the company's ability to quickly and reliably scale production. As such, Celestica should benefit from (a) ongoing growth amongst hyperscale and large tier-2 cloud data center spend, where the company has demonstrated its ability to win customer programs; and (b) as Celestica gains traction within higher-margin ODM server

business, relative to its traditional position as an EMS server player.

Ingram Micro (INGM)

Presenters: INGM's CFO, Michael Zilis, presented at the Communacopia + Technology Conference.

Bottom Line: (1) AI-related demand driven both by GPU and AI infrastructure deals (doubled YoY) and emerging investment from SMB in infrastructure-as-a-service; (2) INGM's proprietary xVantage platform is helping the company to grow above market with margin expansion opportunities in the future; (3) INGM announced that its primary sponsor Platinum Equity is to sell 13.1 mn shares, its third follow-on offering of 2026; and (4) at its analyst day next week, INGM will provide a financial update with long term expectations.

Key Takeaways

AI-related demand driven both by (1) GPU and AI infrastructure deals; and (2) emerging investment from SMBs, largely on the infrastructure-as-a-service side. First on GPU and AI infrastructure deals, INGM is well positioned to address this net-new vector of demand from large enterprise/neoclouds because of its global scale and reach. While these fulfilment-type deals are gross margin rate dilutive, they carry a very low cost to serve and are accretive to operating profit margins & ROIC. Second, SMBs are starting to ramp their investments in AI-ready capabilities primarily through IaaS offerings, though it is still early days (driving 44% growth in Cloud segment last quarter). Cloud as <1% of revenue but high-teens share of profit dollars in the 1H26.

Proprietary xVantage platform is helping INGM grow above market. Through xVantage, INGM has been able to remove ~$200 mn in annualized opex from its business (late 2023-2025) and grow above market (particularly in regions like APAC) driven by differentiated capabilities in automation. Over time, INGM expects xVantage to drive gross margin accretion through dynamic pricing models, demand optimization, and AI learning.

Further refresh opportunity in the PC market. INGM sees further runway in the PC refresh opportunity, with an estimated ~30% of the global installed base of PCs still running aged equipment. INGM expects that growing adoption of AI PCs (~30% of PC sales) could smooth some of the typical seasonality in the market.

Continuing to execute against capital allocation strategy, which prioritizes investment into the business (both organic and inorganic), opportunistically paying down debt, and shareholder returns (dividends, eventually buybacks). INGM announced that its primary sponsor Platinum Equity is to repurchase 13.1 mn shares, its third follow-on offering of 2026.

Analyst day planned for September 15. At its analyst day next week, INGM expects to provide a financial update with long term expectations.

Valuation and key risks

Valuation. We are Neutral rated on INGM with a 12-month target price of $33 based on 9x our NTM+1Y EPS.

Key risks: (-) OEMs may shift more of their sales to direct-to-end user or 1-tier distribution models, altogether bypassing the distributor layer in which Ingram Micro operates; (-) INGM's gross margins are low, magnifying the impact of supply chain disruption and price competition on operating income; (-) Ability to execute on capital allocation strategy, where INGM's capital allocation strategy is dependent on tuck-in M&A, maintaining a favorable net leverage ratio, and dividends, and INGM may be challenged in identifying M&A targets in line with their targets (e.g., cybersecurity, cloud, deeper geographic presence in market like Japan); (-) INGM's ability to delever may be at risk if the company is unable to generate sufficient free cash flow (e.g., lower levels of IT spend, market share loss, margin compression from business mix shift); (+) Upgraded outlook from credit rating agencies could drive down interest expense, ultimately benefiting profitability & shareholder returns; (+) Better-than-expected IT spending environment driven by ongoing refresh on traditional data center and campus equipment; (+) INGM's broader participation in AI-related demand via the sale of GPU servers.