US Semiconductors and Semi Equipment

SemiBytes: AI Headlines, QCOM, ON, NVDA

Equities

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Our collective (with SW analyst Karl Keirstead) thoughts on recent AI headlines

Following a series of negative headlines in recent weeks around data center permitting, the industry now faces new headlines and concerns around safety controls - most significantly blog posts and comments over the weekend from top executives at many of the leading AI companies. The call for independent safety boards and auditors is not a new one, but we admit - these concerns are now coming against a backdrop where we estimate revenue expectations in semis that imply something on the order of ~380GW of capacity to be added in the 5yr period from C2026 (~30GW) to C2030 (~120GW). In the out-years, this is already a number that requires one to underwrite a bull case in terms of conversion of currently unpermitted grid-connected capacity as well as heavy off-grid capacity adds. Even using C2028 as a base, the conclusion is similar - one has to underwrite a solid upside scenario in terms of infrastructure to be able to hit what is currently baked into semis expectations. If our analysis is right, semis stocks can't afford any slowdown in powered shell infrastructure deployment so this is clearly a big new risk factor. At the same time though, major frontier labs have very recently moved forward with large new AI infrastructure commitments. Ergo, it is hard to argue that this will drive a big fundamental slowdown in compute procurement and infrastructure deployment - even if it may drive multiples to compress. Lastly, we would note that unless other countries take similar approaches to gate the pace of deployment, there would seem to be a limit as to how much the U.S. government and these 3rd party standards boards would be willing to slow things down.

QCOM/AMZN deal - our thoughts

Last week QCOM became the latest chip company to sign a multi-year framework deal with a major hyperscaler that includes warrants – in this case a $60B framework deal over 10yrs in exchange for stock warrants equal to ~2% of the company. This is obviously positive for QCOM (and we now know that AMZN is one of the two hyperscalers to which QCOM will ship custom silicon in F2027 (we think META could be the other)), but at ~$6B/yr annualized, we do not see this materially altering the revenue opportunity that QCOM had already laid out at its June Analyst Day (here). Rather, the significance of the announcement is that it provides incremental visibility and validity of the scale and duration of one of these programs. The warrant structure is tied to up to $60B of purchases and extends through 2036, suggesting a multi-generational collaboration rather than a one-off custom silicon engagement. Amazon received warrants for up to 25MM shares at a strike price of $161.26, representing roughly $4B of equity value and ~2.4% of QCOM's share count, with 3.75MM shares vesting immediately and the balance tied to future purchase commitments and shipments. The collaboration includes not only customized AI silicon but also advanced optical connectivity solutions, suggesting QCOM is targeting a broader content opportunity around hyperscale AI deployments. In our view, this is particularly notable when combined with MRVL's increasingly bullish commentary around the XPU attach market. Historically, investors have largely viewed the custom silicon opportunity through the lens of MRVL and AVGO, but QCOM is now clearly establishing itself as another credible participant, while AMD and INTC, we think, are also pursuing similar opportunities. In light of the $60B AWS agreement and the recent $120B Google/MRVL warrant deal (which was ~3x the size of this deal on an annualized basis), we think this points to an XPU attach market that is ultimately much larger than MRVL's estimates of $15B in C2025 growing to $40B in C2028. At a minimum, we think the current framework looks conservative.

ON Analyst Day Preview - laying a path to $8-10 EPS by 2030E

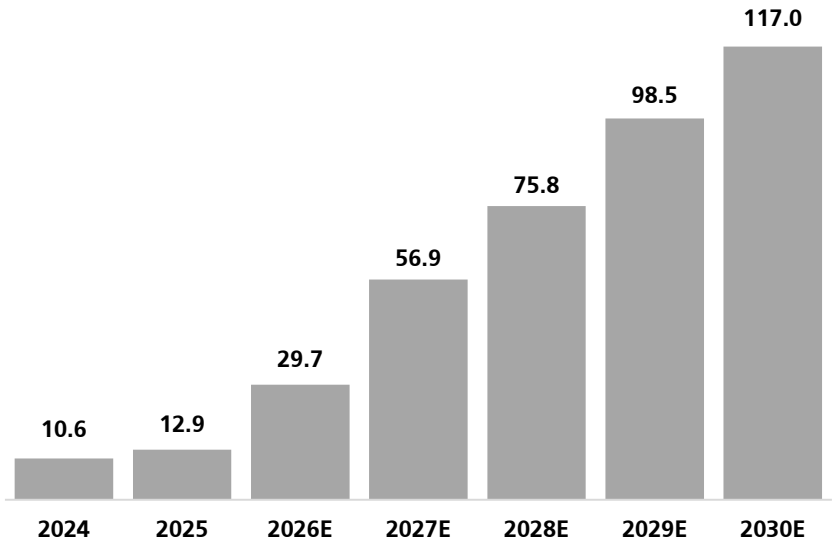
This report has been prepared by UBS Securities LLC. **ANALYST CERTIFICATION AND REQUIRED DISCLOSURES, INCLUDING INFORMATION ON THE QUANTITATIVE RESEARCH REVIEW PUBLISHED BY UBS, BEGIN ON PAGE 5.**

We expect ON Analyst Day this Wednesday to lean more heavily towards the company's LT data center opportunity - which continues to become a bigger story as the company's AI Data Center TAM is now $47.5B by 2030. In particular, we expect incremental updates on ON's portfolio across the power tree, including in SiC and vertical GaN, resulting in a broadening of customer wins coupled with increasing content per rack. Beyond the data center, we expect updates on incremental Physical AI opportunities through the Synaptics acquisition - which is expected to be margin accretive within 18 months of closure. Within autos, we expect additional commentary on share gains and incremental customer ramps driven by an expanding SiC opportunity within EVs - especially as the company laps the transition of China customers purchasing dies over SiC modules. Notably, Treo's $1B 2030 revenue target trajectory, qualified pipeline and design-win value, and sampling to production timing are key focuses for a differentiated platform. We believe gross margin will be the biggest point of contention, and it would be surprising to us if ON were to maintain its previous 53% GM target given the bridge required from the current ~39% level. Overall, we anticipate a LT model implying CY30E revenue of ~$10B and EPS in the range of $8-10.

NVDA's Investment Activities

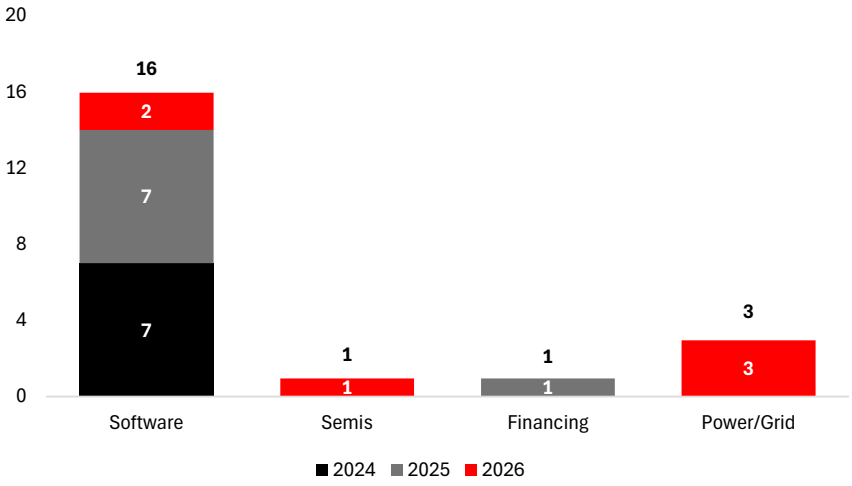
We have been receiving increasing investor questions around NVDA's investment and M&A strategy. We have summarized and categorized NVDA's recent investment activity in Figure 2, which shows that since 2024, NVDA's deal activity has been heavily concentrated in software. Since the start of 2026, however, Power/Grid has emerged as the largest category of NVDA's investments, with more deals in this area recently than those even in software. As we mentioned previously (here), we believe recent deals across power and infrastructure suggest the company is increasingly targeting areas that could become key bottlenecks for AI deployment, thereby pushing NVDA into even deeper levels of vertical integration where it will control key technologies ranging from power and grid all the way down to the model layer – ultimately expanding NVDA's TAM far beyond its traditional compute roots.

Figure 1: Assumed AI Data Center Capacity Additions (GW)



Source: UBS estimates

Figure 2: NVDA's M&A Activities (2024-2026)



Source: Pitchbook

Valuation Method and Risk Statement

We use various valuation techniques such as P/E, EV/FCF for valuing the companies in this report. Risk factors include but are not limited to macroeconomic factors such as a downturn in the economy, a disruption of international trade, technological disruption due to new inventions, or business model innovation whereby structural changes in the industry alter the future course of unit sales, ASPs, and revenues.

