

Advanced Micro Devices, Inc. (AMD)

Post-earnings equity research note | Q2 FY2026 reported 4 August 2026 | Prepared 5 August 2026

WATCHLIST

Unchanged from previous report

Last close (4 Aug 2026, pre-release)	\$518.58
Revenue	\$11.5bn (+50%), gross margin 56%
Data centre revenue	\$6.7bn, more than doubled
Comparable diluted EPS growth	+82% year over year
Long-term target	significantly exceed \$20 annual EPS
Probability-weighted fair value	\$519

What the Quarter Changed

AMD reported a record quarter and, more consequentially, raised the long-term financial model it set at its Financial Analyst Day last November. Revenue of \$11.5 billion grew 50% year over year and 13% sequentially, a sixth consecutive quarter above 30% growth. Gross margin expanded to 56%, up more than 200 basis points year over year. Operating income was \$3.1 billion at a 27% operating margin. Comparable diluted earnings per share grew approximately 82%, well ahead of revenue growth, which is the clearest evidence of operating leverage arriving at scale.

The data centre segment is now the company and is compounding faster than the company. Revenue of \$6.7 billion more than doubled year over year and grew 16% sequentially, reaching roughly 58% of total revenue, with segment operating income of \$2.1 billion at a 31% margin. EPYC server processor sales grew more than 70% with record enterprise sell-through, and Instinct accelerator sales more than doubled on the MI350 ramp.

The single most important statement on the call came from chief executive Lisa Su, and it is a raise of the multi-year framework rather than of a quarter. Describing a market for high-performance and AI computing growing roughly 40% annually and approaching \$2 trillion by 2030, she said AMD is “tracking materially ahead of the long-term financial model we shared at our Financial Analyst Day last November”, and then: “We now expect revenue to grow substantially above our prior target of greater than 35%, and we expect to significantly exceed our \$20 annual EPS target within our strategic timeframe.”

That sentence reframes the valuation question entirely. A company trading at \$518.58 that expects to significantly exceed \$20 of annual earnings per share within its strategic planning horizon is not, in any meaningful sense, a 78-times-earnings share. It is a share whose multiple compresses rapidly if the trajectory holds, and the analytical task becomes assessing the credibility of that trajectory rather than the height of the trailing multiple.

Q2 FY2026 reported results

Measure	Q2 FY26	Change	Note
Total revenue	\$11.5bn	+50% YoY, +13% QoQ	Record; 6th straight quarter above 30%
Gross margin (non-GAAP)	56%	+200bp YoY, +80bp QoQ	Favourable mix toward data centre
Operating expenses	\$3.4bn	+40%	R&D for AI silicon, systems and software
Operating income	\$3.1bn	—	27% operating margin
Comparable diluted EPS	—	+~82%	Outpacing 50% revenue growth

Measure	Q2 FY26	Change	Note
Non-GAAP diluted EPS	\$1.66	—	Beat (\$1.55 est., +7.1%)
GAAP diluted EPS	\$1.38	—	~20% below the non-GAAP figure
Data centre revenue	\$6.7bn	more than doubled	~58% of total; +16% sequentially
Data centre operating income	\$2.1bn	—	31% of segment revenue
EPYC server CPU sales	—	+>70%	Record enterprise sell-through
Instinct accelerator sales	—	more than doubled	MI350 ramp broadening
Client and gaming	\$3.8bn	+6%	Segment operating income \$582m (15%)
Client	\$3.1bn	+23%	Record mobile revenue
Gaming	\$779m	-31%	Semi-custom console cycle; graphics weak
Embedded	\$977m	+19%	Strongest in over three years; 40% margin
Free cash flow	\$1.6bn	—	\$2.4bn cash from continuing operations
Cash and short-term investments	\$13.1bn	—	Inventory up to ~\$8.5bn for data centre demand

Source: AMD Q2 2026 results release and Q2 2026 earnings call transcript via MarketBeat (Quartr), 4 August 2026. Year-over-year comparisons exclude approximately \$800m of inventory and related charges in Q2 2025 associated with US export control restrictions on MI308 shipments to China, per management.

Guidance and the Raised Long-Term Model

Measure	Guidance	Implication
Q3 revenue	~\$13.0bn ± \$300m	+41% YoY, +13% sequentially
Q3 non-GAAP gross margin	~56%	Held flat at the elevated level
Q3 non-GAAP operating expenses	~\$3.65bn	—
Q3 non-GAAP tax rate	13%	—
Q3 diluted share count	~1.66bn	Implies Q3 EPS near \$1.93
Server CPU revenue	+>80% in H2 2026, +>70% in 2027	—
Data centre revenue, 2027	more than double	The central forward claim
Long-term revenue growth	substantially above prior >35% target	Raised
Long-term EPS	significantly exceed \$20 annually	Raised , within strategic timeframe

Applying the guided inputs, third-quarter revenue of \$13.0 billion at a 56% gross margin, less \$3.65 billion of operating expenses, plus \$55 million of other income, taxed at 13% across roughly 1.66 billion shares, implies non-GAAP earnings near \$1.93 per share, up approximately 16% sequentially from \$1.66.

The commercial substance behind the 2027 claim is unusually specific for a forward statement. Helios rack-scale systems using MI450 series accelerators are in production with initial shipments beginning this quarter, ramping through the fourth quarter and into 2027. Management stated that Helios delivers up to 15% more throughput at the same rack power and up to 30% more tokens per dollar than the competition, and that customer pull is tracking ahead of initial

forecasts.

Named commitments now include Anthropic, which will deploy up to 2 gigawatts of MI450 series accelerators in Helios with the first gigawatt beginning in the first half of 2027, alongside a multi-year joint engineering collaboration using Claude to optimise workloads and accelerate ROCm software development. Microsoft will deploy Helios at scale on Azure for frontier model inferencing. These sit alongside existing multi-generation, gigawatt-scale deployments with OpenAI and Meta. Asked about revenue per gigawatt, Su reiterated “double-digit billions”.

Taken together, four of the largest buyers of AI compute in the world have committed to AMD silicon at gigawatt scale, with revenue per gigawatt in the tens of billions. That is a materially different evidence base from a company asserting it will take share.

What Is Genuinely Weak

A report that recited only the data centre figures would be a poor one, because two parts of AMD are deteriorating and management said so directly.

Gaming revenue fell 31% year over year to \$779 million, principally on lower semi-custom console sales at this stage of the cycle. Gaming graphics revenue also declined, and the stated reason matters: higher industry-wide component costs pushed graphics card prices up and weighed on demand. Client and gaming segment operating income fell to \$582 million, or 15% of revenue, from \$767 million and 21% a year earlier.

Management is also planning for a softer personal computer market in the second half as higher memory and component costs weigh on demand, expecting the client business to outperform a weakening market rather than to grow into a strong one. Separately, the server CPU supply chain remains tight, though conditions are expected to improve in 2027.

Memory cost inflation now appears in three separate places in this reporting season: as the driver of AMD's expected PC softness and higher graphics card prices, as the reason Amazon raised its 2026 capital expenditure outlook to approximately \$220 billion from \$200 billion, and as the constraint behind Apple's guided deceleration across iPhone, Mac and iPad. It is a sector-wide condition, and for AMD it cuts both ways: it raises input costs while also constraining the competitors it is taking share from.

Risks

Risk	Probability	Severity	Comment
Valuation and prior share price run	High	High	Up 162% since 12 March. The re-rating for the AI thesis has substantially occurred already.
Memory and component cost inflation	High	Medium	Explicitly driving expected PC softness and higher graphics prices; a direct accelerator input cost
Gaming decline	High	Low	-31% year over year, with a further strong double-digit decline guided for Q3
Execution on the Helios ramp	Medium	High	The 2027 case depends on ramping a rack-scale system through Q4 and into 2027 on schedule
Server CPU supply tightness	Medium	Medium	Management has supply to meet guidance but describes the chain as tight into 2027
Competitive response	Medium	High	The incumbent retains the software ecosystem advantage and can respond on price
Cyclicality	Medium	High	Semiconductors remain cyclical, and this is an unusually strong point in the cycle

Valuation

At \$518.58 across the guided 1.66 billion diluted shares, AMD carries a market capitalisation near \$861 billion. Annualising the second quarter's non-GAAP earnings of \$1.66 gives roughly 78 times, and annualising the implied third-quarter figure of \$1.93 gives roughly 67 times. Both are the wrong frame for a business guiding its largest segment to more than double next year.

A 2027 estimate built from the company's own statements is more useful. If data centre revenue more than doubles from a 2026 base near \$25 billion, and the client, gaming and embedded segments together hold roughly flat around \$20 billion, group revenue approaches \$70 billion against something near \$46 billion this year. At a 57% gross margin, roughly \$17 billion of operating expenses and a 13% tax rate across about 1.68 billion shares, that produces earnings near \$12 per share. On that basis the shares trade at approximately 43 times 2027 earnings.

Extending to the company's own long-term marker, a business that significantly exceeds \$20 of annual earnings per share within its strategic timeframe would, at today's price, be trading below 26 times that figure. Neither number is cheap in absolute terms. Both are a long way from the 78 times that a trailing calculation produces, and the distinction is the difference between a stock that looks priced for perfection and one that looks fully but not unreasonably priced against a credible plan.

The conclusion is that AMD is approximately fairly valued rather than expensive. The probability-weighted fair value of \$519 sits within a dollar of the last close, which is an unusually precise coincidence and should not be over-read, but it captures the position accurately: the market has already priced a great deal of this, and the remaining return depends on the 2027 ramp landing as described.

Metric	Value	Assessment
Last close (4 Aug 2026, pre-release)	\$518.58	Up 7.0% on the session, before reporting
Market capitalisation	~\$861bn	1.66bn guided diluted shares
P/E on annualised Q2 non-GAAP EPS	~78x	A trailing frame; misleading here
P/E on annualised Q3 guided EPS (~\$1.93)	~67x	—
P/E on estimated 2027 EPS (~\$12)	~43x	Built from management's own 2027 statements
P/E on the \$20 long-term EPS marker	<26x	Within the strategic timeframe
Rise since 12 March 2026	+162%	The re-rating has largely happened
Probability-weighted fair value	\$519	Essentially level with the last close

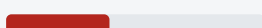
Technical Position

Indicator (as of 4 Aug 2026)	Value	Reading
Close	\$518.58	Sitting between the 20- and 50-day averages
SMA20	\$511.81	Price 1.3% above
SMA50	\$514.33	Price 0.8% above — effectively at the line
SMA100	\$406.06	Price 27.7% above, reflecting the five-month run
SMA200	not computed	Insufficient history in the 100-session series; not estimated
RSI(14)	52.3	Neutral
MACD / signal / histogram	-7.59 / -4.02 / -3.57	Mildly bearish; momentum cooled into the print

Indicator (as of 4 Aug 2026)	Value	Reading
ATR(14)	\$40.39	7.8% of price
100-session range	\$192.27 - \$584.73	Price in the upper third

Indicators computed from 100 daily OHLCV sessions (12 Mar - 4 Aug 2026). These readings predate the earnings release; no post-earnings closing price existed at the time of writing. The 200-day average could not be derived from the available window and has deliberately not been estimated.

Scorecard

Category		Score	Comment
Business quality		9/10	56% gross margin, 27% operating margin, three profitable segments (was 8)
Financial strength		8/10	\$13.1bn cash and short-term investments, \$1.6bn quarterly free cash flow
Competitive advantage		8/10	Gigawatt-scale commitments from Anthropic, Microsoft, OpenAI and Meta (was 7)
Management		9/10	Raised the multi-year financial model, not merely the quarter (was 8)
Growth potential		9/10	Data centre guided to more than double in 2027; EPS compounding at 82%
Valuation		4/10	~43x estimated 2027 earnings after a 162% run (was 3, on a corrected basis)
Risk (higher = safer)		5/10	Better forward visibility, offset by memory costs, gaming decline and cyclicality (was 4)
Technical setup		5/10	Consolidating at the 20- and 50-day averages with a negative MACD

Overall Investment Score: 71/100

Weightings: valuation 18, growth 16, risk 15, business quality 14, competitive advantage 12, management 10, financial strength 10, technicals 5. Six of the eight scores improved once the earnings call was incorporated.

Recommendation: Watchlist (reaffirmed)

The rating is reaffirmed at Watchlist, at a materially higher overall score than before, and the reasoning has changed substantially.

The case for AMD is now considerably stronger than the reported quarter alone conveys. Data centre revenue more than doubling to \$6.7 billion at a 31% segment margin, gross margin expanding to 56%, and comparable earnings per share growing 82% against 50% revenue growth together describe a business converting scale into profit faster than it is adding revenue. Management then raised its multi-year model, guiding data centre revenue to more than double again in 2027 and stating that it expects to significantly exceed a \$20 annual earnings per share target. Underpinning that are gigawatt-scale commitments from Anthropic, Microsoft, OpenAI and Meta at revenue per gigawatt in the double-digit billions.

What holds the rating at Watchlist is price rather than doubt. The shares have risen 162% since mid-March, and on a 2027 estimate built from the company's own guidance they trade near 43 times earnings. The probability-weighted fair value of \$519 sits essentially level with the last close, which means the market has already discounted a successful Helios ramp. An investor initiating today is underwriting execution across 2027 without being paid a discount for the risk

that memory costs, a soft PC market, a 31% decline in gaming, or a tight server supply chain make the path bumpier than the plan.

The conditions for an upgrade are now clearer than they were. Evidence that the Helios ramp is landing on schedule, specifically a fourth quarter showing the step up management described with gross margin holding at 56%, would justify a Buy at a higher price than today's, because it would convert the 2027 estimate from a plan into a trajectory. A retreat toward the \$455-475 area, traded through in late July, would do the same on price alone. A downgrade would follow gross margin compression below the low fifties, which would suggest share is being bought rather than won, or a slip in the Helios schedule.

Scenario analysis

Scenario	Prob.	2027 earnings	Fair value	Conditions
Bull	30%	~\$14.00	\$672	Helios ramps ahead of plan, Anthropic and Microsoft volumes land early, margin pushes above 57%; ~48x
Base	45%	~\$12.00	\$540	Data centre roughly doubles as guided, PC softness contained, gaming stabilises; ~45x
Bear	25%	~\$9.00	\$297	AI digestion or a Helios slip, memory costs compress margin, PC and gaming weakness deepens; ~33x

Probabilities sum to 100%. Probability-weighted fair value: \$519, within a dollar of the 4 August close of \$518.58. Earnings figures are non-GAAP and are estimates built by this analysis from company guidance, not company forecasts.

Final Verdict

AMD did not merely beat a quarter. It raised the multi-year framework it set nine months ago, and it did so with named customers attached.

The reported numbers are excellent on their own terms: revenue up 50%, gross margin at 56%, operating margin at 27%, comparable earnings per share up 82%, and a data centre segment that more than doubled to \$6.7 billion at a 31% margin while EPYC grew over 70% and Instinct more than doubled. But the substance of the quarter is forward. Data centre revenue is guided to more than double again in 2027. Anthropic has committed to up to 2 gigawatts of MI450 in Helios from the first half of 2027, Microsoft will run Helios at scale on Azure, and OpenAI and Meta already have multi-generation gigawatt deployments. At double-digit billions of revenue per gigawatt, those commitments are the reason management now expects to significantly exceed a \$20 annual earnings per share target.

It would be a mistake to read this as an unqualified success. Gaming fell 31%, client and gaming margins compressed from 21% to 15%, management is planning for a softer personal computer market on higher memory and component costs, and the server supply chain remains tight. Those are real and they are the reason the bear case retains a quarter of the probability weight.

The judgement is that AMD is a considerably better business than a trailing multiple suggests and is priced almost exactly for what it has told investors it will become. On a 2027 estimate the shares trade near 43 times, and probability-weighted fair value lands within a dollar of the last close. That is the definition of fairly valued: a company worth owning, at a price that pays you nothing for the execution risk between here and 2027. Watchlist, with \$455-475 and a clean fourth-quarter Helios ramp as the two things that would change it.

Sources

AMD Q2 2026 earnings call transcript, 4 August 2026, via MarketBeat (provided by Quartr) • AMD Q2 2026 results release, 4 August 2026, via StockTitan and Yahoo Finance coverage • Alpha Vantage — daily OHLCV series, 12 Mar to 4 Aug 2026

This document is produced for informational and educational purposes only. It is not financial advice, not a recommendation to buy or sell any security, and does not take account of any individual's circumstances or objectives. Figures are drawn from the sources listed above as at 5 August 2026 and may subsequently change. The earnings call transcript was obtained and reviewed via MarketBeat. The last available closing price predates the release, so the market's response to these results is not reflected in the price data used here. The 2027 earnings estimates are built by this analysis from company guidance and are not company forecasts. This report supersedes an earlier version issued on 5 August 2026 that was prepared without the earnings call transcript.