

# BROADCOM INC.

NASDAQ: AVGO

Equity Research • Independent Investment Analysis

Semiconductors &amp; Infrastructure Software

| RECOMMENDATION                   | 12-MONTH TARGET RANGE                 | INVESTMENT SCORE         |
|----------------------------------|---------------------------------------|--------------------------|
| <b>BUY</b>                       | <b>\$500 – \$560</b>                  | <b>75 / 100</b>          |
| Reaffirmed — unchanged from July | Probability-weighted fair value \$464 | Unchanged; technicals +1 |

|                     |                          |                      |                 |                  |                          |
|---------------------|--------------------------|----------------------|-----------------|------------------|--------------------------|
| Price (Aug 5, 2026) | <b>\$418.28</b>          | Market Cap           | <b>\$1.99 T</b> | 52-Week Range    | <b>\$281.87–\$495.00</b> |
| Change since Jul 22 | <b>+5.4%</b>             | Enterprise Value     | <b>\$2.04 T</b> | Beta (5Y)        | <b>1.47</b>              |
| Trailing P/E (GAAP) | <b>69.6x</b>             | FY26E P/E (adj.)     | <b>36.0x</b>    | FY27E P/E (adj.) | <b>21.5x</b>             |
| Revenue (TTM)       | <b>\$75.5 B (+32%)</b>   | Free Cash Flow (TTM) | <b>\$32.8 B</b> | Net Debt         | <b>\$45.3 B</b>          |
| Dividend / Yield    | <b>\$2.60 / 0.62%</b>    | Shares Out.          | <b>4.76 B</b>   | Short Interest   | <b>1.44% of shares</b>   |
| Next Earnings       | <b>Sep 2, 2026 (AMC)</b> | Consensus Target     | <b>\$527.88</b> | Analyst Rating   | <b>Strong Buy (48)</b>   |

## Investment Thesis

Broadcom remains a Buy, but the reason has shifted. Two weeks ago the case rested on a stock that had fallen roughly 20% from its June high, creating an entry point in a franchise whose quality was never in question. That discount has largely closed: shares have advanced 5.4% to \$418.28 and now sit above every moving average this analysis can compute. What replaces the discount is a materially higher earnings trajectory. Consensus fiscal 2027 revenue now stands at \$173 B against roughly \$130–\$135 B assumed in the prior base case, and fiscal 2027 adjusted EPS at \$19.49. On those numbers the stock trades at 21.5x FY2027 earnings despite a 69.6x trailing multiple — the entire valuation argument now depends on a forecast rather than on a price dislocation.

Three developments since the last review reinforce the operating case. A memorandum of understanding with Samsung Electronics, announced 25 July and framed as exceeding \$200 B through 2030, covers sub-2nm foundry, high-bandwidth memory and advanced packaging — directly addressing the single-foundry dependence on TSMC flagged as a risk in the prior report. Reporting on Google's \$200 B financing programme for Anthropic, of which more than \$150 B is tied to TPUs, places Broadcom inside the demand structure for the largest custom-silicon commitment yet disclosed. And Apple reaffirmed on its own earnings call that its multi-year Broadcom agreement will exceed \$30 B, its largest American Manufacturing Program commitment.

The offsetting facts are real. Goldman Sachs removed Broadcom from its US Conviction List on 3 August while retaining a Buy rating, arguing the market rally is broadening beyond AI infrastructure. The EU General Court ruled on the same day that Broadcom cannot invoke US legal privilege to withhold documents from the Commission's VMware antitrust inquiry, keeping regulatory pressure on the segment that supplies roughly a third of revenue and most of its recurring cash flow. And Broadcom's participation in vendor-linked financing for TPU hardware converts what was an abstract 'circular AI financing' concern into a concrete balance-sheet exposure. The verdict is unchanged; the entry is less attractive than it was at \$397, and this report resets the published levels accordingly.

## Analytical Framework — What Drives Returns Over 1–2 Years

Five variables govern shareholder returns over the next eight quarters, unchanged in substance from the previous review but repriced in weight. First, conversion of the disclosed backlog into recognised revenue and the credibility of the >\$100 B fiscal 2027 AI target, which consensus has now effectively underwritten. Second, customer concentration

— Google, Meta, Apple, OpenAI and Anthropic drive the overwhelming share of AI upside, and the newer arrangements embed financing as well as supply risk. Third, gross and operating margin durability as mix shifts toward custom silicon. Fourth, deleveraging of the VMware debt alongside resolution of the EU inquiry. Fifth, the multiple the market will pay, which remains the most volatile input and the one that has moved most since July.

## 1. Business & Competitive Position

Broadcom operates two segments. Semiconductor Solutions spans custom AI accelerators, AI and datacentre networking, broadband, wireless, storage and industrial. Infrastructure Software, built around VMware and complemented by mainframe and security assets, is sold increasingly as subscription bundles with very high renewal economics. The economic engine is AI custom silicon, where Broadcom holds roughly 70% of the hyperscaler co-design market and pairs that silicon with the leading merchant Ethernet fabric.

The moat rests on three legs: SerDes, packaging and networking intellectual property that makes Broadcom the default partner for a hyperscaler building its own accelerator; multi-generation roadmap lock-in that makes migration slow and costly once a programme starts; and a software segment whose recurring cash flow funds research and the dividend through semiconductor cycles. The Samsung agreement adds a fourth consideration that did not exist a fortnight ago — supply optionality. Sole reliance on TSMC for leading-edge capacity has been the most-cited structural vulnerability in the franchise; a credible second source at sub-2nm reduces both geopolitical and pricing exposure. The caveat matters: the arrangement is a memorandum of understanding rather than a binding contract, and Samsung's foundry yields at advanced nodes remain unproven at Broadcom's required volumes.

| Peer           | Relationship to Broadcom                                                    | AI Exposure | Relative Moat      | Valuation |
|----------------|-----------------------------------------------------------------------------|-------------|--------------------|-----------|
| NVIDIA (NVDA)  | Merchant GPU leader; the platform Broadcom customers supplement or displace | Very high   | Very strong (CUDA) | Rich      |
| Marvell (MRVL) | Direct custom-ASIC rival; the only genuine co-design competitor at scale    | High        | Strong             | Rich      |
| AMD (AMD)      | Merchant GPU/CPU challenger; limited custom-silicon overlap                 | High        | Moderate           | Rich      |
| Arista / Cisco | Compete in AI datacentre Ethernet switching against Broadcom silicon        | Moderate    | Moderate           | Moderate  |

*The durable edge is the combination of custom-silicon design share and networking attach. The persistent vulnerability is that Broadcom's largest customers retain in-house design teams and remain its most credible long-run competitors.*

## 2. Financial Analysis

| Metric            | FY2024   | FY2025   | TTM (Aug 2026)    | FY2026E   | Comment                        |
|-------------------|----------|----------|-------------------|-----------|--------------------------------|
| Revenue           | \$51.6 B | \$63.9 B | \$75.5 B          | \$106.0 B | +66% consensus growth          |
| Gross margin      | 75.2%    | 77.3%    | 76.3%             | 75.1%     | Mix: software + custom silicon |
| Operating margin  | 30.6%    | 41.3%    | 44.2%             | —         | GAAP; EBITDA margin 55.0%      |
| Net income        | \$5.9 B  | \$23.1 B | \$29.3 B          | \$44.2 B  | FY24 hit by VMware charges     |
| EPS               | —        | \$6.82*  | \$6.01            | \$11.63*  | *adjusted; TTM is GAAP         |
| Free cash flow    | \$28.5 B | \$25.0 B | \$32.8 B          | \$50.2 B  | FCF margin 43.4%               |
| ROE / ROIC        | —        | —        | 37.3% / 24.2%     | —         | ROIC above 12.1% WACC          |
| Cash / total debt | —        | —        | \$19.6 / \$64.9 B | —         | Debt/EBITDA 1.56x              |

*Fiscal year ends late October / early November. Forward figures are S&P Global consensus as of 28 July 2026 (43 analysts). Trailing figures are as reported through the most recent quarter.*

One presentational correction is worth making against the previous report, which quoted operating margin near 67%. That was an adjusted EBITDA measure. On a GAAP basis trailing operating margin is 44.2% and the EBITDA margin is 55.0% — still exceptional for a business of this size, but the higher figure overstated profitability. Free cash flow of \$32.8 B on \$75.5 B of revenue, with capital expenditure of only \$860 M, is the more telling statistic: this is a fabless design house with software attached, and it converts revenue into cash at a rate almost no hardware company matches.

Leverage has improved. Net debt of \$45.3 B against trailing EBITDA of \$41.5 B gives 1.56x gross leverage with interest coverage of 10.4x and an Altman Z-score of 11.25. That is comfortable, and it removes balance-sheet stress from the list of near-term worries. The dividend of \$2.60 represents a 43% payout with fifteen consecutive years of growth; buybacks remain secondary, and share count has drifted up 1.0% year-over-year. The effective tax rate of 3.8% is unusually low and unlikely to persist, which is a modest headwind to forward net income that consensus may not fully capture.

### 3. Management & Capital Allocation

Hock Tan's record of disciplined acquisition, cost extraction and free-cash-flow growth remains among the strongest in semiconductors, and guidance has been reliably met or exceeded through the AI ramp. The Samsung and Apple arrangements are consistent with that record: both secure long-duration supply and demand commitments without diluting shareholders. Insider ownership stands at 1.11% of a \$1.99 T company, roughly \$22 B, which aligns interests despite persistent programmatic selling by executives over the past year.

The item to watch is newer. Broadcom's role in the Anthropic financing structure — taking transfer of TPU hardware before it moves into a special-purpose vehicle funded by Apollo, Blackstone and others — is a departure from the pure design-and-supply model. Anthropic has no credit rating, which is why the structure exists. Whatever the accounting treatment, Broadcom is now closer to the credit risk of its end customers than it was, and that is a change in the character of the business rather than merely its scale.

### 4. Growth Drivers and Key Risks

| Catalyst                                                        | Horizon   | Likelihood | Impact    |
|-----------------------------------------------------------------|-----------|------------|-----------|
| AI XPU ramp toward the >\$100 B FY2027 target                   | Short–Med | High       | Very High |
| Samsung sub-2nm / HBM partnership converting from MOU to volume | Med       | Medium     | High      |
| Google–Anthropic TPU programme scaling beyond the first tranche | Short–Med | High       | High      |
| AI Ethernet and networking attach on every cluster shipped      | Short     | High       | High      |
| VMware subscription conversion and margin lift                  | Short–Med | High       | Medium    |
| Q3 FY2026 results on 2 September as the next scheduled catalyst | Immediate | Certain    | Medium    |

| Risk                                                                    | Type        | Probability | Severity | Change vs July |
|-------------------------------------------------------------------------|-------------|-------------|----------|----------------|
| Valuation compression — 69.6x trailing, forward case rests on consensus | Valuation   | High        | High     | Worse          |
| Consensus FY27 revenue of \$173 B proves too optimistic                 | Estimate    | Medium      | High     | New            |
| Customer concentration; hyperscalers in-source XPU design               | Competitive | Medium      | High     | Unchanged      |
| Vendor-linked financing exposure to unrated AI customers                | Financial   | Medium      | High     | Worse          |
| EU antitrust action on VMware licensing practices                       | Regulatory  | Medium      | Medium   | Worse          |

| Risk                                                  | Type        | Probability | Severity | Change vs July |
|-------------------------------------------------------|-------------|-------------|----------|----------------|
| Single-foundry dependence on TSMC                     | Operational | Low         | High     | Better         |
| AI capex digestion or a cyclical air-pocket in orders | Industry    | Medium      | High     | Unchanged      |

*The risk profile has not improved on net. Foundry concentration eased; estimate risk, financing exposure and regulatory pressure all increased. The dominant near-term risk remains valuation, and it is now more acute because the multiple is being justified by a forecast two fiscal years out rather than by a discount to recent trading.*

## 5. Valuation

At \$418.28 Broadcom trades at 69.6x trailing GAAP earnings, 36.0x consensus fiscal 2026 adjusted EPS of \$11.63, and 21.5x consensus fiscal 2027 adjusted EPS of \$19.49. Enterprise value to trailing EBITDA is 49.0x and price to trailing free cash flow is 60.7x, falling to roughly 39.6x on the fiscal 2026 free-cash-flow estimate of \$50.2 B. The PEG ratio of 0.56 makes the stock look inexpensive; that figure is arithmetic applied to a growth rate that must be delivered, not observed.

The honest characterisation is that Broadcom is not expensive against consensus and is demanding against anything else. Consensus requires two consecutive years of better than 60% revenue growth from a base above \$60 B, which would be close to unprecedented at this scale. The scenarios below therefore apply a haircut to consensus in the base case rather than adopting it wholesale, and the fair-value estimates use earnings multiples appropriate to the growth rate each scenario implies rather than a single multiple applied throughout.

| Scenario    | Prob. | FY27 Revenue | FY27 Adj. EPS | Multiple | Fair Value   | Path                                                                     |
|-------------|-------|--------------|---------------|----------|--------------|--------------------------------------------------------------------------|
| <b>Bull</b> | 28%   | ~\$180 B     | ~\$20.50      | 30x      | <b>\$615</b> | Consensus met or beaten; margins hold; multiple re-rates                 |
| <b>Base</b> | 50%   | ~\$160 B     | ~\$18.25      | 26x      | <b>\$475</b> | Ramp roughly on plan but below consensus; multiple stable                |
| <b>Bear</b> | 22%   | ~\$120 B     | ~\$13.00      | 19x      | <b>\$247</b> | Capex digestion or in-sourcing; estimates and multiple compress together |

*Probabilities sum to 100%. The probability-weighted fair value is \$464, approximately 11% above the current price. Fair values are analytical estimates derived from scenario earnings and plausible forward multiples; they are not price predictions. Note the width of the sell-side distribution — targets range from \$215.88 to \$675 against an average of \$527.88 — which is itself evidence that the outcome is genuinely uncertain.*

## 6. Market Sentiment and Positioning

| Indicator                        | Reading                                            | Interpretation                                      |
|----------------------------------|----------------------------------------------------|-----------------------------------------------------|
| <b>Analyst consensus</b>         | Strong Buy; 37 Strong Buy, 7 Buy, 4 Hold, 0 Sell   | Crowded to the long side                            |
| <b>Average price target</b>      | \$527.88 (+26.2%); range \$215.88–\$675            | Wide dispersion signals real disagreement           |
| <b>Recent actions</b>            | J.P. Morgan \$580, Bernstein \$550, Barclays \$500 | Targets reiterated or raised in late July           |
| <b>Goldman Conviction List</b>   | Removed 3 Aug; Buy rating retained                 | Rotation call, not a thesis break                   |
| <b>Short interest</b>            | 68.6 M shares, 1.44% of shares out                 | Down from 70.1 M; little bearish positioning        |
| <b>Institutional ownership</b>   | 79.1% of shares outstanding                        | High and stable                                     |
| <b>Insider ownership</b>         | 1.11%; executives persistent net sellers           | Largely programmatic; monitor                       |
| <b>News flow (moomoo digest)</b> | Net constructive                                   | Supply and demand wins outweigh the Goldman removal |

*Positioning is one-sided. With essentially no sell ratings, minimal short interest and 79% institutional ownership, there is little marginal buying power in reserve and limited short-covering support if sentiment turns. That is a structural fragility rather than a prediction.*

## 7. Technical Setup

| Indicator        | Value               | Reading                              | Versus July report |
|------------------|---------------------|--------------------------------------|--------------------|
| Price            | \$418.28            | —                                    | \$396.81 (+5.4%)   |
| SMA 20           | \$389.49            | Price above — short-term uptrend     | Was above          |
| SMA 50           | \$394.95            | Price above — resistance reclaimed   | Was below          |
| SMA 100          | \$386.00            | Price above — intermediate support   | Was above          |
| EMA 20 / EMA 50  | \$391.37 / \$390.31 | Price above both                     | Was above both     |
| SMA 200          | Not computed        | Series too short; see note below     | Not computed       |
| RSI (14)         | 61.8                | Constructive, not overbought         | 53.6               |
| MACD (12,26,9)   | 3.88 / signal -0.37 | Histogram +4.25; crossover confirmed | Crossover forming  |
| ATR (14)         | \$17.07 (4.1%)      | Elevated daily volatility            | \$16.84 (4.2%)     |
| Volume 20d / 50d | 19.8 M / 28.0 M     | Advance on lighter volume            | 23.4 M / 27.6 M    |
| 20-day range     | \$357.80–\$427.00   | Breakout from July consolidation     | \$357–\$407        |

Indicators computed directly from the daily OHLCV series of 100 sessions (13 March – 5 August 2026). The 200-day average requires a longer series than was retrievable and is reported as not computed; third-party sources place it near \$367, comfortably below the current price.

The chart has improved on every measure since the last review. Broadcom has reclaimed the 50-day average that acted as resistance in July, completed the MACD crossover that was only forming then, and printed its highest close since 4 June. Immediate resistance sits at the 4 June gap zone around \$419–\$427, then the June high of \$495. Support has firmed at the 50-day near \$395, with the July low of \$357.80 the structural level that defines the stop. The one caution is that the advance has come on volume roughly 30% below the 50-day average, which is characteristic of a relief rally rather than accumulation. Technicals inform timing only and do not override the fundamental view.

## 8. Scorecard

| Component             | Score (0–10)           | Weight | Rationale                                                        |
|-----------------------|------------------------|--------|------------------------------------------------------------------|
| Business Quality      | <div><div></div></div> | 9 15%  | Elite dual-engine franchise; AI silicon plus sticky software     |
| Financial Strength    | <div><div></div></div> | 8 15%  | 76% gross margin, \$32.8 B FCF; 1.56x leverage, 10.4x coverage   |
| Competitive Advantage | <div><div></div></div> | 9 15%  | ~70% custom-ASIC design share; multi-generation lock-in          |
| Management            | <div><div></div></div> | 8 10%  | Exceptional allocator; new financing role adds complexity        |
| Growth Potential      | <div><div></div></div> | 9 15%  | Backlog plus TPU and Samsung programmes underwrite the ramp      |
| Valuation             | <div><div></div></div> | 4 15%  | 69.6x trailing; forward case depends entirely on consensus       |
| Risk Profile          | <div><div></div></div> | 5 10%  | Foundry risk eased; estimate, financing and regulatory risk rose |
| Technical Setup       | <div><div></div></div> | 7 5%   | All computable averages reclaimed; MACD crossover confirmed      |

Weighted investment score: 75 / 100, unchanged from July. Only one component moved — Technical Setup from 6 to 7, reflecting the reclaimed 50-day average and confirmed MACD crossover. Valuation and Risk were each considered for a change and left in place: the forward multiple improved while the trailing multiple worsened, and the reduction in foundry concentration was offset by new estimate, financing and regulatory exposure. The tension in the scorecard is deliberate — an outstanding operating business held at a demanding price.

## 9. Recommendation — BUY (Moderate Conviction, Reaffirmed)

The recommendation is unchanged from July, but it now rests on different ground and the published levels have been reset. In July the case was a quality franchise available roughly 20% below its June high. That discount has closed. The

case today is that consensus earnings power has risen faster than the share price, leaving the stock at 21.5x fiscal 2027 earnings with supply and demand commitments — Samsung, Apple, the Google–Anthropic TPU programme — that are more concrete than they were a fortnight ago. It is not a Strong Buy because that valuation depends on a forecast requiring two consecutive years of better than 60% growth, and because the risk/reward at \$418 is materially thinner than it was at \$397.

| ENTRY (SPOT)    | IDEAL BUY RANGE      | CUT-LOSS              | RISK / REWARD              |
|-----------------|----------------------|-----------------------|----------------------------|
| <b>\$418.28</b> | <b>\$390 – \$405</b> | <b>\$355</b>          | <b>~1.8 : 1</b>            |
| TAKE-PROFIT 1   | TAKE-PROFIT 2        | HOLDING HORIZON       | POSITION SIZE              |
| <b>\$500</b>    | <b>\$560</b>         | <b>12 – 24 months</b> | <b>3 – 4% of portfolio</b> |

| Published level        | July report   | This report   | Reason for the change                                             |
|------------------------|---------------|---------------|-------------------------------------------------------------------|
| <b>Ideal buy range</b> | \$360 – \$400 | \$390 – \$405 | Price now above the old range; reset to the 20/50/100-day cluster |
| <b>Cut-loss</b>        | \$348         | \$355         | Raised to sit just below the 17 July swing low of \$357.80        |
| <b>Take-profit 1</b>   | \$470         | \$500         | FY27 consensus EPS raised; base-case fair value moved to \$475    |
| <b>Take-profit 2</b>   | \$520         | \$560         | Bull case now \$615 on \$180 B FY27 revenue at 30x                |

Expected upside is 19.5% to the first target and 33.9% to the second, against 15.1% downside to the stop. That is roughly 1.3:1 to the first target and 2.2:1 to the second, against 2.0:1 to the first target in July. The deterioration is entirely a function of the share price advancing while the stop must remain anchored below a fixed structural low. The practical implication is straightforward: existing holders should hold, but new capital is better deployed into the \$390–\$405 band on a pullback than committed at \$418. The 2 September results are the next scheduled catalyst and a plausible source of that pullback.

What would change the view. An upgrade toward Strong Buy would require a pullback into the high \$300s with estimates still rising, or evidence in the 2 September results that fiscal 2027 AI revenue is tracking above \$100 B with margins intact. A downgrade to Hold or Watchlist would follow evidence of AI order digestion, a flagship hyperscaler bringing XPU design in-house, gross-margin erosion below the low seventies, a material cut to fiscal 2027 consensus, or a decisive break below \$357.80 on rising volume.

## 10. Final Verdict

Would an investor commit their own capital to Broadcom at \$418 today? Yes, but with less enthusiasm than at \$397 three weeks ago, and preferably in instalments rather than at once. The business case has strengthened: the Samsung agreement meaningfully addresses the foundry concentration that was the franchise's most-cited structural weakness, the Google–Anthropic programme anchors demand for the custom-silicon roadmap on a scale no competitor can match, and consensus fiscal 2027 earnings have been revised up sharply. Broadcom converts 43% of revenue into free cash flow, earns a 24% return on invested capital against a 12% cost of capital, and holds roughly 70% of a market growing faster than merchant GPUs. Those are not ordinary attributes.

The single biggest concern is that the valuation argument has become circular. The stock looks reasonable at 21.5x fiscal 2027 earnings only if fiscal 2027 earnings arrive as forecast, and that forecast now embeds two consecutive years of better than 60% revenue growth from a \$60 B base. If consensus proves 20% too high, the multiple and the estimate compress together and the bear case at \$247 is not remote. The Goldman removal, whatever its merits, is a reminder that the marginal institutional buyer for AI infrastructure is no longer guaranteed. Add the newer complication that Broadcom is now financially entangled with an unrated customer through the TPU vehicle, and the risk profile is subtly different from the one described in July.

The thesis is invalidated by decelerating AI bookings, a cut to fiscal 2027 consensus, gross-margin erosion, or the loss of a flagship XPU programme. Held at 3–4% of a portfolio, accumulated into weakness rather than strength, with a

defined stop at \$355 and a willingness to let the 2 September results provide a better entry, the risk/reward remains favourable over a one-to-two-year horizon. It is a Buy, not a table-pounding one.

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