Company Description:

Broadcom ("AVGO") is a leading global semiconductor company. It designs and develops analog, digital, mixed signal ICs and SoCs. Broadcom's product portfolio is focused on four market segments: wireless communication, wired infrastructure, enterprise storage, and industrial & other. Broadcom Limited's end markets include smartphones, tablets, cellular base stations, hard disk drives, computer servers, enterprise storage and servers, and factory automation and industrial equipment.

Name	Ticker	Yield	Growth	D + G
Broadcom Inc.	AVGO	0.96%	15.00%	15.96%

Highlights:

The AI part of the business appears set to continue its run into next year, with the company seemingly suggesting AI sales next year in the ballpark of ~$30B, $4-5B above current sell-side consensus and suggesting potential for numbers to inflect higher amid a continued solid engagement pipeline. This (far) more than offsets persistent core semi weakness (which itself presumably should start to get better eventually). And VMware continues to over-deliver, with solid growth set for next year as well. That being said, the AI narrative is clearly strengthening; overall the story still has legs.

Bull Case:

- ***Broadcom has the Best SerDes Technology on the Market and Remains Very Favorably Positioned Against Lower-IP Competition for Custom ASICs –*** While industry feedback suggests volumes for Broadcom's main custom ASIC customer will only be up incrementally this year YoY, and could be down slightly next year as volume gets split with Mediatek, Broadcom is guiding for a sequential revenue acceleration for AI XPU revenue in Q3 following a Q2 slowdown. In our view, Meta XPU volumes remain minimal, with likely subdued units throughout next year and a rebound expected in 2027 driven by a new high-performance AI training custom ASIC comparable on paper to GB300. Net, we think 2026 AI XPU revenue will be primarily driven by new customer ramps. We model an acceleration in AI networking revenue in 1H26, driven by the initial volume ramp of Tomahawk 6.
- ***Broadcom's Resiliency is Partially Based on its Non-Cancellable Policy –*** The majority of semiconductor companies have allowed pushouts, enabling it to maintain its backlog while guiding weaker than expected. It has been reassuring to hear that AVGO's management team is not planning on changing this policy "anytime soon" as it speaks to their belief in the resiliency of demand despite the recent woes from some companies, mostly exposed to China and consumer, whereas Broadcom is mostly exposed to tier-1 customers.
- ***We Continue to Contend that GPUs Will Continue to Play a Primary Role Including in Inferencing –*** Pre-AI, only Google's TPU was a performance match for Nvidia's Ampere, with all other ASIC-based accelerators well below in terms of performance. A number of new custom ASIC deployments have already been pushed out (Meta, Microsoft), and/or volumes are lower than expected (Trainium2 production forecasts are coming down, in our view, Google TPU units flattish YoY...). Some custom ASIC upcoming deployments face higher risks, inherent to being first-generation architectures along with lack of software libraries (needed for GPUs but also for ASICs targeting training) while Nvidia maintains a performance leadership and dominates the ecosystem. All of this benefits Broadcom's competitive moat in ASIC.

Bear Case:

- ***End Market Concentration –*** Broadcom has high exposure to certain end markets which could pose potential risks. In F2024, Wired Infrastructure represented 35% of net revenue, Wireless Communications represented 14%, Enterprise Storage represented 7%, and Industrial & Other represented 2%. This exposure could make Broadcom more susceptible to potential market share shifts in the company's target end markets and more dependent on the timing of new technology cycles.
- ***Mis-execution with Company's M&A Strategy –*** Broadcom's strategy of frequent acquisitions poses potential mis-execution risks for the combined company including cost-cutting, talent departure, misfits, and potential under-investments in research & development.
- ***Semiconductor Industry Cyclicality –*** The semiconductor industry is highly cyclical, with rapid technology change, price erosion, frequent new product introduction, short product life cycle and wide range of fluctuation in product supply and demand. Broadcom Limited may experience revenue and gross margin decline if it cannot keep gaining share in market downturn.

Overall Thesis:

We continue to view Broadcom as a defensive name with diversified revenue flows, notably a stable infrastructure software business. Management is accelerating R&D spending in its RF and WiFi technologies, boding well for future growth in the segment. Broadcom's ASIC programs continue to offer growth potential notably in AI. Free cashflow generation remains very strong. We believe that Broadcom as a play for the "cyclically nervous," given better visibility and control in their semiconductor business, software that supports margins and lowers volatility, free cash potential and margin performance, cash return, and inexpensive valuation, with the VMware deal poised to drive further upside. And as the sector progresses, we think that the thesis looks better and better.

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