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, data networking and telecommunication equipment, enterprise storage and servers, and factory automation and industrial equipment.

Name	Ticker	Growth	Dividend	D + G
Broadcom Inc.	AVGO	9.67%	3.51%	13.18%

Highlights:

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 cash flow generation remains very strong, as the company continues to reap the benefits of high-IRR investments.

Bull Case:

- ***Above-Average Yielding Semiconductor Company with Strong Capital Allocation Policies*** - AVGO generates $3-$4bn of free-cash-flow each quarter (~50% margin) with a best-in-semis 3% dividend yield, well above semi avg. 1.2%, and with a consistent history of dividend growth (40% dividend compounded growth rate over the last 10 years). Meanwhile, AVGO just announced $10bn stock buyback, which they will execute over the next 5 quarters and can reduce AVGO share count by 3-5%, a tailwind for EPS.
- ***Broadcom's Resiliency is Partially Based on its Non-Cancellable Policy*** – The majority of semiconductor companies have allowed push-outs, 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.
- ***Unjustified Valuation Discount Relative to Peers -*** AVGO's stock is trading at what we consider an unjustified 30% discount (10x CY23E EV/FCF, or just over 7% unlevered FCF yield) vs. semi peers at 18x (or 4-5% FCF yield) despite double-digit EPS growth and best-in-semis profitability, FCF generation, and returns. We attribute discount to software/mainframe cynicism and conglomerate discount, but we believe investors under-value the sum of AVGO's parts. With the recent VMWare acquisition taking the company to 50% software revenue, we believe that the company should no longer trade in parity with other pure-play semiconductor companies.

Bear Case:

- ***End Market Concentration*** – Broadcom has high exposure to certain end-markets which could pose potential risks. For example, Wired Infrastructure represented 42% of net revenue, Wireless Communications represented 31%, Enterprise Storage represented 22%, and Industrial & Other represented 5%. 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. We believe that the VMWare acquisition will create less end market concentration.
- ***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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