BROADCOM INC.

INVESTMENT MEMO | NASDAQ: AVGO | Sector: Semiconductors / Infrastructure Software | May 1, 2026

Rating	**BUY**
Current Market Price	$417.43
Target Price (12-mo)	**$485**
Implied Upside (12-mo)	+16.2%
5-Year Price Objective (FY30E)	$760-820
Total Return (5-yr)	85-100% incl. dividends
Investment Horizon	5 years (compound thesis)
Market Cap / Shares Out	$1.98T / 4.73B
Methodology	Triangulated: DCF + EV/EBITDA + P/E (independent analyses)

Executive Summary

Broadcom is the highest-quality, most under-discussed beneficiary of the AI infrastructure supercycle. It designs custom AI chips (XPUs) for the world's largest cloud companies (Google, Meta, Anthropic, OpenAI, ByteDance) and runs the dominant enterprise virtualization software platform (VMware), producing semiconductor-scale revenue at software-like margins (68% adjusted EBITDA in FY25). We initiate with a BUY rating built on a 5-year investment thesis (FY26-FY30) anchored to four pillars: (1) $73B of contractually-locked AI orders extending through 2027 with management guiding to $100B+ FY27 AI revenue, (2) Q1 FY26 AI revenue grew 106% YoY to $8.4B with Q2 guided to $10.7B (+140% YoY), (3) deep structural moats including 18-36 month customer co-design cycles, multi-year supply contracts, and 80% Fortune 500 VMware penetration that lock in the cash flow trajectory, and (4) CEO Hock Tan's compensation contractually tied to AI revenue achievement through FY30 (zero payout below $60B, 300% at $120B+).

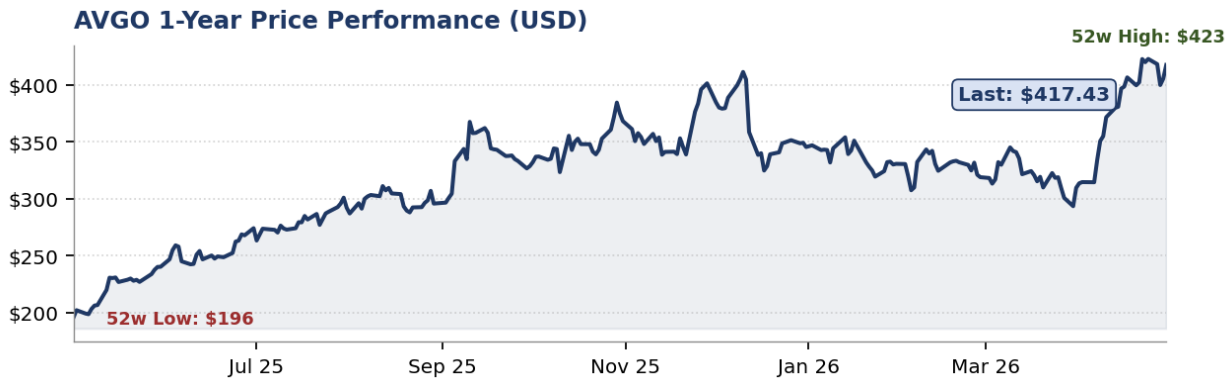
Our 12-month target of $485 (16.2% upside) is anchored on FY27E earnings power. Our 5-year price objective of $760-820 (~85-100% total return including dividends) reflects compound growth through FY30 as AI semiconductor revenue scales toward management's $120B target and software ARR continues expanding. Risks are real (hyperscaler capex moderation, customer concentration, Marvell competitive encroachment), but the company's structural moats are strong enough to compound through them.

Key Financial Summary

($M)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue	51,574	63,887	89,000	112,000	132,000
AI Semi Revenue	12,200	20,100	38,000	56,000	67,000
Adj. EBITDA Margin (%)	61.9%	67.3%	67.6%	68.0%	68.5%
Free Cash Flow	19,414	26,900	38,000	49,000	58,500
Non-GAAP EPS ($)	4.87	6.66	9.50	12.20	14.80
P/E at CMP (x)	85.7x	62.7x	43.9x	34.2x	28.2x

Source: Broadcom 10-K (FY24, FY25), Q1 FY26 8-K (March 4, 2026), analyst estimates.

Business at a Glance



Source: Yahoo Finance, market data as of April 30, 2026 close.

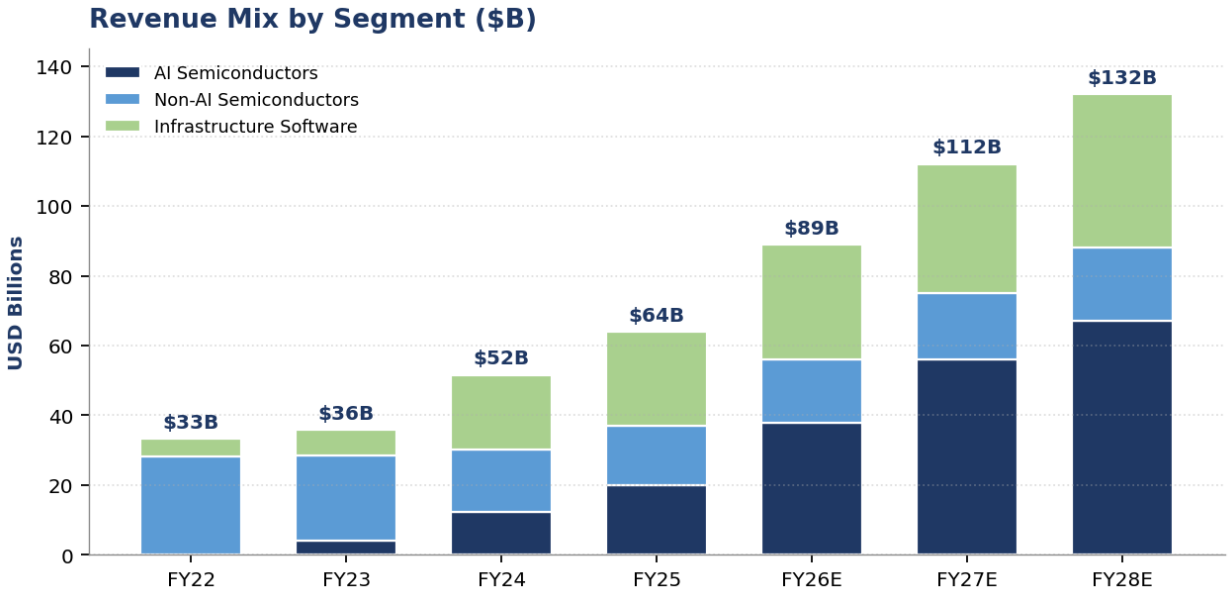
Broadcom Inc. is a semiconductor and infrastructure software company headquartered in Palo Alto, California, with approximately 33,000 employees globally. The company operates two reporting segments: Semiconductor Solutions (58% of FY25 revenue) and Infrastructure Software (42%). The strategic logic is clear: own the chips that power AI clusters and the software that orchestrates the data centers that run them. This dual-engine structure produces semiconductor-scale revenue with software-like margins, a combination no other peer matches at scale.

Semiconductor Solutions Segment (FY25: $36.9B revenue, +22.5% YoY)

AI Semiconductors generated $20.1 billion in FY25, up from $12.2 billion in FY24 and $4.2 billion in FY23. The business consists of custom chips (XPUs) co-designed with hyperscaler customers over 18- to 36-month engagement cycles and locked into multi-year supply agreements. Named AI customers include Google (TPU), Meta (MTIA), ByteDance, Anthropic ($10B order placed December 2025), OpenAI (sixth customer), plus two undisclosed engagement partners. AI Networking grew 60% YoY in Q1 FY26 and now represents one third of AI revenue, with Tomahawk 6 (102 Tbps) and 200G/400G SerDes capturing hyperscaler demand. Non-AI Semiconductors generated $16.8 billion in FY25, covering wireless (notably Apple iPhone RF filters), broadband, enterprise networking, and storage; mature with stable margins.

Infrastructure Software Segment (FY25: $27.0B revenue, +25.8% YoY)

VMware (acquired November 2023 for $69 billion) is the dominant enterprise virtualization platform, running 80%+ of Fortune 500 data centers. Broadcom is converting VMware customers from one-time perpetual licenses to recurring subscription contracts; in Q1 FY26, VMware revenue grew 13% YoY, ARR grew 19% YoY, and the business booked $9.2 billion in total contract value in a single quarter. The segment operates at a 78% non-GAAP operating margin and a 93% gross margin. Beyond VMware, Infrastructure Software includes mainframe (CA Technologies acquisition) and cybersecurity (Symantec acquisition).



Source: Broadcom 10-K FY25, Q1 FY26 earnings release (March 4, 2026).

EMPLOYEES	AI BACKLOG	AI CUSTOMERS	FY25 R&D	Q1 FY26 FCF
33,000	$73B	7+	$11.0B	$8B

Investment Thesis (5-Year Horizon: FY26-FY30)

The investment thesis on Broadcom is fundamentally a multi-year compound growth story, not a 12-month trade. The AI infrastructure supercycle has a 5- to 7-year capital deployment runway based on currently announced hyperscaler commitments (Google TPU through 2031, Meta MTIA through 2029, Anthropic 3.5 GW expansion). Broadcom's contractual position in this cycle is established and durable; the question for investors is not whether AI capex will continue, but whether Broadcom's specific moats will hold long enough to materially compound shareholder value through FY30. Our four-pillar thesis is structured to address this question, with each pillar evaluated on a 5-year basis rather than a quarterly catalyst basis.

1. Locked-In AI Demand: $73B Backlog Through 2027 Compounding to $100B+ Run-Rate by FY28

Broadcom does not sell off-the-shelf chips. Each AI chip (XPU) is co-designed with a specific cloud customer over 18-to-36 months and embedded in multi-year supply agreements that lock in pricing, volume, and roadmap commitments. Total AI backlog stood at $73 billion as of Q4 FY25, with shipments scheduled across FY26 and FY27. In April 2026, AVGO secured a long-term agreement with Alphabet covering future TPU generations and Google's AI rack networking through 2031, as well as a Meta partnership covering MTIA accelerators through 2029. CEO Hock Tan stated on the Q1 FY26 call that AVGO has 'fully secured component supply' through 2028. By FY28-FY30, this base extends to a $100-120 billion AI run-rate, supported by named contracts already in place. The investment is in a contractual revenue stream, not a hopeful market opportunity.

2. Software-Like Margins on Semiconductor-Scale Revenue: VMware as Strategic Asset

The November 2023 VMware acquisition transformed Broadcom's economic profile. VMware grew 13% YoY in Q1 FY26 with ARR up 19% and quarterly bookings of $9.2 billion in TCV. The segment runs 78% operating margin and 93% gross margin. Critically, VMware Cloud Foundation has become the deployment layer enterprises use to pull AI workloads back from the public cloud, creating a structural tailwind that few investors model. The combined business produces 68% consolidated adjusted EBITDA margin, the highest among $50B+ revenue semiconductor companies. Through FY30, we project margins remain in the 68-69% range as the software mix continues expanding and operating leverage on AI revenue compounds.

3. Operating Leverage Compounds: 27% Revenue CAGR Drives 30% EPS CAGR Through FY28

From FY25 to FY28E, revenue compounds at 27% annually while non-GAAP EPS compounds at 30%. The wedge comes from three forces. First, EBITDA margin expansion from 67.3% (FY25) to 68.5% (FY28E). Second, R&D as a percentage of revenue is declining from 17.2% to 14.0% despite absolute R&D dollars rising from $11.0B to $18.5B. Third, software mix shift as Infrastructure Software grows toward 33% of revenue at 90%+ gross margin. FCF scales from $26.9B (FY25) to $58.5B (FY28E), a 30% CAGR. Through FY30, FCF compounds further toward the $75-85B range, supporting the 5-year price objective of $760-820 even at moderating exit multiples.

4. Capital Returns and CEO Skin in the Game Through FY30

AVGO returned $10.9B to shareholders in Q1 FY26 alone ($3.1B dividends, $7.8B buybacks); the Board authorized an additional $10B buyback through end-2026. Through FY30, we model cumulative capital returns of $130B+ ($55B dividends + $80B+ buybacks), reducing share count by ~15%. CEO Hock Tan's PSU award covers 610,521 shares, vesting based on cumulative AI revenue between $ 90B and $120 B in FY28-FY30. Below $60B AI revenue, the award pays zero. At $120B+, it pays 300%. Tan owns ~$425M of AVGO outright and is contractually locked in through FY30 with incentives directly aligned to the 5-year thesis we are underwriting. This is the strongest CEO-investor alignment in the AI peer set.

Variant View and Structural Moat Analysis

Bears on AVGO argue the company is over-earning on a cyclical AI capex peak that will normalize, that customer concentration creates fragility, and that Marvell is taking incremental TPU share at Google. Our variant view is that the market is mispricing the durability of Broadcom's structural moats. The right question for investors is not whether AI capex stays flat or doubles in any given year; it is whether Broadcom's specific competitive position holds through a 5-year compound period. Below, we unpack the five structural moats that we believe protect the FY26-FY30 cash flow trajectory, ranked by durability.

Co-Design Lock-In	Each AI chip is an 18-to-36 month engineering partnership co-designed with one specific customer. Once AVGO is designed in for one generation, the next generation overwhelmingly returns to AVGO due to switching costs (engineering team continuity, IP integration, validation overhead). Hyperscalers cannot cleanly leave mid-roadmap.
Multi-Year Contractual Backlog	$73B of AI backlog is contractually committed, not aspirational. Even in a hyperscaler capex pause, existing contracts must be honored. In Q1 FY26, AVGO disclosed that component supply is secured through 2028, implying that capacity is pre-allocated and partially prepaid by customers.
VMware Enterprise Lock-In	80%+ Fortune 500 penetration with infrastructure that cannot be migrated without years of effort and downtime risk. ARR is up 19% YoY despite a 300% price increase from perpetual-to-subscription conversions. Customer alternatives (Nutanix, Red Hat) lack feature parity for mission-critical workloads.
Networking Silicon Lead	Tomahawk 6 (102 Tbps) is the only switching silicon in volume production at this bandwidth. Competitors (Marvell, NVIDIA) are 18-24 months behind in networking specifically. Networking now accounts for 33% of AI revenue and grew 60% YoY in Q1 FY26.
Capital Allocation Track Record	Hock Tan's M&A playbook (LSI, BCM, Brocade, CA, Symantec, VMware) has compounded shareholder value at ~25% CAGR for 20 years. The track record is itself a moat for capital deployment optionality (future M&A, special distributions). PSU lock-in through FY30 reinforces this.

What Would Invalidate the Moat (5-Year Tail Risks)

Three scenarios would meaningfully damage our thesis. First, hyperscaler vertical integration into silicon design (e.g., Google acquiring an external chip team or building a fully internal design house) would gradually erode AVGO's co-design economics. Second, Marvell winning two-source positions at three or more AVGO customers would compress AI pricing power 200-300 basis points. The April 2026 disclosure of MRVL winning a slice of Google TPU work was one such event; the next two years are critical to monitor. Third, Hock Tan's retirement without a strong successor would remove the architect of the strategy. We monitor these signals quarterly. Crucially, even in adverse scenarios, the existing $73B backlog alone is sufficient to support our base case through FY27.

Valuation: Three Independent Methods (Triangulated, Not Averaged)

We evaluate AVGO using three independent valuation methods, each appropriate for a different aspect of the franchise. We do not use a percentage-weighted blend because that approach implies false precision; the right question is which method best captures AVGO's specific value drivers, not what weights to assign each method. Below, we evaluate each method with reasoning, then triangulate to a 12-month tactical target and a 5-year strategic objective.

Method 1: Discounted Cash Flow (DCF): The Most Informative Method for AVGO

Why DCF matters here: For a high-FCF compounder with multi-year revenue visibility, DCF captures long-duration value that multiples cannot. Particularly important for AVGO, as much of the value lies in years 3-5+ as AI revenue scales toward $100B+ and software ARR continues to compound. AVGO generates $26.9B FCF today, scaling to ~$58.5B by FY28E and ~$80B by FY30E, with a long-duration moat protecting that compounding. DCF is the only method that fully values the FY28-FY30 ramp.

DCF Inputs	Bear	Base	Bull
FY26-30E Revenue CAGR	16%	21%	26%
FY28E EBITDA Margin	65.0%	68.5%	71.0%
Terminal Growth Rate	3.5%	4.5%	5.5%
WACC	11.5%	9.95%	8.5%
Implied Share Price (12-mo)	**$365**	**$485**	**$615**

Source: Analyst DCF model. Base case implied EV $2,346B; sensitivity across WACC and terminal growth.

DCF analysis: Our base case applies a 9.95% WACC (4.5% risk-free + 5.5% equity risk premium x 1.10 beta, blended with after-tax cost of debt) and 4.5% terminal growth rate. Both inputs are defensible: the WACC reflects current rates and AVGO's beta; the 4.5% terminal growth is above GDP but justified by AI-driven structural growth extending into the next decade. Sensitivity is meaningful: WACC moves of ±100 bps change the implied price by ±$70, and terminal growth moves of ±100 bps change the price by ±$45. The key insight: even in our bear case (11.5% WACC, slower margins), DCF supports $365, only 13% below today's price. The asymmetry favors the bull. DCF base supports a 12-month target of $485.

Method 2: EV/EBITDA: Capital Structure Agnostic, Useful for AI Peer Anchoring

Why EV/EBITDA matters here: This metric is capital structure-agnostic, which matters because AVGO carries $66B in net debt from the VMware acquisition, while NVDA holds net cash. EV/EBITDA also smooths through one-time acquisition charges that distort EPS comparisons through FY24-FY25. For AVGO, the key debate is whether the company should trade at pure-semi multiples (~14-18x) or hybrid semi/software multiples (~22-25x).

EV/EBITDA Reference Points	Multiple Range	Implied AVGO Price
Pure semi peers (TXN, QCOM)	14.0x - 16.0x	$200 - $235
AI semi peers (NVDA, AMD)	18.0x - 25.0x	$280 - $390
Pure software (MSFT, ORCL)	22.0x - 28.0x	$345 - $445
Hybrid blend appropriate for AVGO (58/42)	20.0x - 24.0x	$310 - $380
Our base case for AVGO	**22.0x**	**$345**

Source: Bloomberg consensus estimates as of April 2026. Multiples on FY27E EBITDA.

EV/EBITDA analysis: AVGO's revenue mix is 58% semiconductor / 42% software. A blended multiple of 20-24x is most appropriate, computed as (0.58 x ~17x) + (0.42 x ~25x) = ~21x base. Adding ~1-2x for AI exposure premium gives 22-23x. Our base case of 22.0x on $76.16B FY27E EBITDA implies $345 per share. This method suggests today's $417 price is somewhat stretched, the bear case argument. The key insight: EV/EBITDA undervalues AVGO's moat because it does not capture multi-year locked-in revenue or the franchise-quality premium. We therefore lean less heavily on this method, but it provides a useful 'fairness check' against the bull-case enthusiasm.

Method 3: P/E: Standard Equity Multiple, Best Peer Cross-Check

Why P/E matters here: P/E is the most-used multiple by equity investors, particularly for high-quality compounders. It also is the cleanest way to compare AVGO to other high-growth franchises. For AVGO, the PEG ratio (P/E divided by EPS growth rate) is the most informative variant.

P/E Reference Points	FY27E P/E	PEG Ratio	AVGO Comparison
NVIDIA (NVDA)	24.5x	0.57	Lower P/E, but PEG worse
AMD	30.0x	0.49	Comparable P/E, worse PEG
Marvell (MRVL)	30.0x	0.55	Comparable, worse PEG
Microsoft (MSFT)	32.0x	1.20	Slightly lower, much worse PEG
Oracle (ORCL)	28.0x	0.85	Lower P/E, worse PEG
S&P 500 average	22.0x	n.m.	AVGO premium justified by growth
AVGO at $417 CMP	33.8x	0.26	Highest P/E, best PEG in cohort

Source: Bloomberg consensus estimates, April 2026. PEG = P/E / 3-year forward EPS CAGR.

P/E analysis: AVGO trades at 33.8x FY27E EPS today. Bears argue this is expensive vs NVIDIA at 24.5x. This comparison is misleading because NVDA's P/E is depressed by its outsized recent earnings surge (EPS more than tripled in two years), making its base look low. On a PEG basis, AVGO at 0.26 is the cheapest in the cohort and meaningfully below NVDA at 0.57 and AMD at 0.49. AVGO's premium P/E relative to the broader market is justified by a 27% revenue CAGR (vs S&P 500 ~5%), a 68% EBITDA margin (vs S&P ~20%), and locked-in multi-year visibility. Our base P/E of 40x on $12.20 FY27E EPS implies $488. Bull case at 48x implies $586; bear case at 32x implies $390.

Valuation Triangulation and Price Targets

The three methods produce different views: DCF supports $485 base, EV/EBITDA supports $345, P/E supports $488. We do not average these; instead, we weight our judgment based on which method best captures AVGO's value drivers.

Method	Bear	Base	Bull	Weight in Our Judgment
DCF	$365	$485	$615	Highest. Captures multi-year compounding
P/E	$390	$488	$586	High. Clean peer-relative cross-check
EV/EBITDA	$280	$345	$408	Moderate. Undervalues franchise quality

Our reasoning: For AVGO specifically, DCF is the most informative method because the entire investment thesis is about multi-year compounding from a moated business; DCF is the only framework that fully captures the FY28-FY30 AI revenue ramp and software ARR compounding. P/E provides the cleanest peer-relative anchor, and the PEG ratio analysis is decisive for a high-growth franchise. EV/EBITDA is structurally biased against AVGO because it does not account for moat quality or contractual revenue visibility. We therefore anchor our 12-month target on the DCF and P/E centerpoints (both ~$485), with the EV/EBITDA $345 as a downside reference if the multiple compresses to pure-semi levels.

12-Month Target: $485 (+16.2%): Anchored on FY27E Earnings Power

5-Year Price Objective: $760-820 (+85-100% Total Return)

Our 5-year price objective extrapolates the thesis through FY30. Inputs: FY30E non-GAAP EPS of $20-22 (extending the 21% revenue CAGR and 68-69% EBITDA margin); applied exit multiple of 35-38x (declining from current 33.8x as growth normalizes but supported by AI compounding into the next decade). This gives FY30E price target of $760-820. Total return, including dividends ($3.00-$3.50 per share annually compounding) and buyback share count reduction (~15% over 5 years) brings total return to ~85-100%, equivalent to ~13-15% annual compound rate, meaningfully above the S&P 500's long-term ~10% return for a high-quality franchise compounder.

12-mo Target $485 (+16%) | 5-yr Objective $760-820 (+85-100%) | Annualized 13-15% compound

Key Risks and Mitigants

We address the five risks most likely to challenge our 5-year thesis, ordered by probability-weighted impact, and explain the respective mitigants.

1. Hyperscaler Capex Normalization (Highest Probability)

Hyperscaler 2026 capex is projected at $400+ billion. April 28, 2026 OpenAI demand report caused 4% one-day drop in AVGO. If capex moderates in 2H FY27, AI growth could decelerate from 47% YoY to 25-30%, reducing target price by $60.

Mitigant: $73B backlog with shipments through FY27 is contractually committed; capex pauses delays new orders, not existing ones. Even at 30% AI growth, AVGO compounds EPS at 20%.

2. Customer Concentration and Marvell Encroachment

The top 5 customers represent ~40% of total revenue. The April 2026 disclosure that Marvell won a slice of Google's TPU work is a real competitive concern. If MRVL builds credible second-source positions at multiple hyperscalers, AVGO's pricing power could compress 200-300 bps over FY26-FY28.

Mitigant: AVGO has expanded its customer count from 3 to 7+ since FY24. The April 2026 Alphabet renewal locks Google through 2031, signaling the primary relationship is intact.

3. Supply Chain Bottlenecks (HBM, CoWoS-L Packaging)

TSMC's advanced packaging capacity is the binding constraint for both NVIDIA and AVGO. TSMC delays, quality issues, or NVDA capacity reservations could throttle AVGO shipment volumes.

Mitigant: Hock Tan stated on Q1 FY26 call that AVGO has 'fully secured' component supply through 2028, implying capacity has been pre-allocated and prepaid.

4. Valuation Discipline (Forward P/E Above 80x on TTM Basis)

On TTM (trailing) earnings, AVGO's P/E is 82x, which is high. Bears argue these prices are in perfection.

Mitigant: TTM is depressed by FY24 VMware acquisition charges; on forward FY27E P/E is 33.8x, in line with high-quality compounders, and PEG of 0.26 is the lowest in the AI peer set. The math gets easier each quarter as FY24 charges roll off.

5. Hock Tan Succession Risk (5-Year Tail Risk)

Hock Tan has been CEO for 20 years and is widely viewed as the strategy architect. AVGO's premium valuation partly reflects management quality.

Mitigant: The new PSU award contractually locks Tan through FY30. Internal succession planning is reportedly active, with several internal candidates groomed, including Charlie Kawwas (COO).

Management, Governance, and Final Case

Hock Tan, CEO since March 2006

Tan has compounded shareholder value at approximately 25% annually over his 20-year tenure, far ahead of the S&P 500 (~12%). His operating playbook (acquire established franchises, eliminate non-core SKUs, raise prices on stickiest products, reinvest savings into core R&D) has been applied successfully across LSI, Broadcom Corp, Brocade, CA Technologies, Symantec Enterprise, and VMware. Total FY25 compensation was $205.3M, of which 99% was equity awards. He owns approximately $425M of AVGO stock outright; the new PSU award (vesting based on $90B-$120B in cumulative FY28-FY30 AI revenue) is the largest single equity grant in Broadcom's history.

Board and Institutional Ownership

9-member Board, 8 independent (exceeding NASDAQ standards). Henry Samueli (Chairman, co-founder of legacy Broadcom) and Hock Tan are the only non-independent directors. Diane Bryant (ex-Intel EVP) and Gayla Delly bring deep expertise in technology and finance. PricewaterhouseCoopers serves as the auditor. Institutional ownership is 76% across 4,727 holders (Vanguard 9.92%, BlackRock 8.03%, State Street 4.0%); insider ownership is 1.89%.

▲ KEY CATALYSTS	▼ KEY RISKS
• Q2 FY26 print (~June 5): $22B revenue / $10.7B AI guidance	• Hyperscaler capex moderation (April 28 OpenAI report)
• OpenAI XPU production ramp into 2H FY27	• Customer concentration: top 5 = ~40% of total rev
• Anthropic 3.5GW expansion delivery milestones	• Marvell winning 2nd-source TPU work at Google
• $10B buyback authorization deployment	• TSMC CoWoS-L packaging supply bottleneck
• Re-rating catalyst on $100B+ AI revenue print	• VMware enterprise migration churn (>10%)
• Hock Tan PSU vesting on $90B+ AI revenue (FY28+)	• Hock Tan succession risk (key-man dependency)

Conclusion: Why Allocate Capital to AVGO Now

Three forces converge to make AVGO our highest-conviction multi-year position in AI infrastructure. First, the demand is contractually locked: $73B backlog through 2027 with all major component supply secured. Second, the moats are structural: co-design lock-in, multi-year supply contracts, VMware enterprise penetration, and a leading position in networking silicon. Third, the alignment is demonstrable: Hock Tan's compensation through FY30 is contractually tied to the same AI revenue ramp our thesis underwrites. At $417, AVGO offers 16% upside to our 12-month target of $485 and 85-100% total return to our 5-year price objective of $760-820.

BUY | 12-mo TP $485 | 5-yr Objective $760-820 | Position Size: 4-5% of Portfolio