LONG-TERM INVESTMENT THESIS

$AVGO — THE LONG HOLD

Why Broadcom Is the Next Core Position

By InvestmentGuru

THE ONE-LINE THESIS

Broadcom is no longer a diversified chip company with an AI kicker — it is the toll booth on custom AI silicon and AI networking, with a software annuity attached. AI semiconductor revenue is tripling, the order book stretches for years, and the stock has lagged the market in 2026. That is a load zone, not a warning.

3–5 years INVESTMENT HORIZON	**~$110B+** CONSOLIDATED BACKLOG	**+221%** AI SEMICONDUCTOR REVENUE YOY

Snapshot (September 26, 2026)

~$353
Price | Market cap: ~$1.69T | P/E: ~44x | Beta: 1.49

$290 – $495
52-week range: sitting ~29% below the high

+1.9%
YTD vs S&P 500 +12% — lagging the index it should be leading

~1,965%
10-year return — this management team compounds

Why Now: The Setup

On September 2, Broadcom reported a monster fiscal Q3 — revenue up 86% to $29.6B, adjusted EPS up 96% to $3.32 (ninth straight beat), AI chip revenue up 221% — and the stock fell.

Why? Q4 guidance of ~$34.8B came in a touch below the Street's $35.0B, and gross margin is guided down to ~73% from 78% as higher-memory XPUs take mix share. The market sold a 0.7% guidance miss and ignored a tripling AI business.

> **That dislocation is the opportunity.** Weakness on great numbers is where long-term positions get built.

01 Custom Silicon — The XPU Franchise

Broadcom co-designs custom AI accelerators (XPUs/ASICs) for six customers including Google, Anthropic, OpenAI, and Meta. CEO Hock Tan on the Q3 call:

> Broadcom will deliver "tens of billions of dollars of processors to Google each year for the next several years" (TPU Ironwood/TPU 8i ramp, including Anthropic's 5GW 2027 deployment with line of sight to 10GW more).

- OpenAI's custom "Jalapeno" chip: 1.3GW deployment targeted for 2027, line of sight above 5GW; second-gen taping out, third-gen in planning.
- Meta's custom MTIA inference accelerator entering production shipments at scale.

> **The market opportunity:** The custom AI accelerator market is projected at ~$500B by 2028, with custom processors taking roughly a quarter of it.

Hyperscalers are diversifying away from Nvidia on cost and supply — and Broadcom is first in line every time. Bank of America models Broadcom revenue at $63B (2025) → $88B (2026) → $120B (2027).

PILLAR 2

Networking — The Connectivity Toll

Every XPU cluster needs a fabric. Broadcom's Ethernet portfolio (Jericho, Tomahawk) is the networking standard inside AI data centers, and the AI buildout's "second wave" is a connectivity story — Deutsche Bank's highest-conviction hardware picks are optical/networking names for exactly this reason.

AI networking revenue scales with every accelerator shipped, regardless of whose logo is on the chip.

PILLAR 3

VMware — The Software Annuity

Infrastructure software did $8.8B in Q3 (+29% YoY) as the VMware subscription transition compounds. This is high-margin, recurring, deeply embedded enterprise revenue — the ballast that lets Broadcom fund chip R&D through cycles and convert ~$13.7B quarterly free cash flow (a record) into buybacks and dividends.

Hardware grows the story; software pays for it.

This is the picks-and-shovels layer of the $5 trillion compute thesis:

Silicon → **Network** → **Data Center** → **Power** → **Compute**

The Numbers That Matter

$16.7B
AI semiconductor revenue in FQ3, +221% YoY — the fastest-growing part of the business

$13.7B
Free cash flow, a quarterly record

$13.09B
Net income, more than tripled YoY

~$110B+
Consolidated backlog with multi-year visibility on XPU shipments

Non-AI semiconductors: +5% YoY — the legacy business is stable, not decaying.

Valuation: Paying Up, But for What?

At ~44x earnings, AVGO is not cheap — but the growth rate is doing the work. The Street is overwhelmingly bullish: 18 Buy/Outperform/Overweight calls, no sells in the latest batch, median target ~$400.

Analyst	Recent target
Cantor Fitzgerald	**$600**
Truist	**$520**
Morgan Stanley	**$505**
Macquarie (upgraded to Outperform)	**$490**
Piper Sandler	**$460**
Barclays	**$450**

A Trefis bull-case model sees $700+ if revenue reaches ~$120B by 2028 and adjusted EPS doubles from ~$6.29 to $12+. The base case doesn't need heroics — it needs hyperscaler capex to continue, which every print so far confirms.

Risks — Stated Plainly

- ! **Customer concentration.** The top 5 customers are ~40% of revenue; Nvidia notes 3 customers at 54%. If hyperscaler capex pauses, the order book feels it first.
- ! **Margin mix.** Higher-memory XPUs compress gross margin (73% guide vs 78%). Growth is real; it just comes at a slightly lower margin.
- ! **Competition.** Google diversifying silicon suppliers, OpenAI's Samsung partnership, Marvell fighting for custom-socket share. Broadcom is ahead, not alone.
- ! **Key-man risk.** Hock Tan is the capital allocator. His comp is tied to the AI revenue ramp through FY30 — alignment is strong, succession is the open question.
- ! **VMware execution.** Enterprise migration churn above 10% would dent the software annuity.
- ! **Cyclicality.** Semiconductors have cycles. A 1.49 beta means AVGO falls harder in a drawdown — position size accordingly.

> **The underwriting discipline:** A premium multiple and high beta demand a position size that can survive volatility without forcing a bad decision.

The Load Plan

Core zone	$342–$355 (current price sits on $354 support; $342 is the line in the sand)
Add on	any washout toward $342, or a reclaim of $365 on volume (breakout confirmation)
Targets	$378 (near-term) → $495 (52-week high) → $600+ (Street high / multi-year)
Horizon	3–5 years. This is a compounder, not a trade.
Position	core holding size — large enough to matter, sized for a 1.49-beta name
What breaks the thesis	hyperscaler capex cuts showing up as backlog cancellations (not just guidance noise), loss of the Google TPU socket, or VMware churn spiking. Quarterly AI-revenue growth stalling below 100% YoY would demand a re-underwrite.

VERDICT

Three revenue engines — custom AI silicon tripling, networking tolls on every cluster, and a software annuity funding it all — run by the best capital allocator in semiconductors, trading 29% below its high after beating on everything that matters. Load the weakness. Hold the cycle.

Sources

- Broadcom FQ3 2026 earnings (Sept 2, 2026)
- Hock Tan conference call remarks
- Finnhub market data
- Bank of America, Morgan Stanley, Cantor Fitzgerald, Truist, Macquarie, Piper Sandler, Barclays, Mizuho analyst targets
- Trefis scenario model
- Deutsche Bank connectivity note
- Grand View Research
- Gartner

INVESTMENT LENS

Silicon → Network → Data Center → Power → Compute