SEMICONDUCTOR SERIES · 3 OF 6

Broadcom

designs the custom AI chips for Google, Meta, OpenAI, Anthropic

The company that designs custom AI chips for the largest AI developers says its AI revenue will double next year and again the year after. The shares have nonetheless fallen a quarter from their high, as investors worry about who else wants a piece of that business.

Global Markets Research · Semiconductors Desk Prepared by ANDRA MARKETS

AI revenue +221%, and accelerating

Coverage summary. Broadcom reported results for its third fiscal quarter, to 2 August, on 2 September. Revenue rose 86 per cent to $29.6 billion, driven by AI chip revenue of $16.7 billion, up 221 per cent from a year earlier. Management said it has secured supply for about $115 billion of AI revenue in fiscal 2027, double this year's level, and sees a path to about $230 billion in fiscal 2028. Yet the shares fell after the results because revenue guidance for the fourth quarter was slightly below expectations, and at $376.51 they are 24 per cent below their 52-week high. This note reviews the business, the AI pipeline, the risks and the valuation.

SHARE PRICE, 7 OCT	FQ3 REVENUE	AI CHIP REVENUE	P/E, FORWARD
$376.51	**$29.6bn**	**$16.7bn**	**21.7x**
market value $1.80tn	*+86% year on year*	*+221% year on year*	*48.1x trailing*

Exhibit A. Key figures, third quarter of fiscal 2026 (to 2 August 2026)

Metric	FQ3 FY26	Note
Revenue ($bn)	29.6	+86% y/y
Semiconductor solutions ($bn)	20.8	+127%; 70% of revenue
of which AI semiconductors ($bn)	16.7	+221% y/y; +54% q/q
Infrastructure software ($bn)	8.8	+29%; VMware
Gross margin, non-GAAP	75.0%	69.1% GAAP
Operating margin, non-GAAP	67.9%	record
EPS, non-GAAP ($)	3.32	vs ~3.22 to 3.24 expected
Free cash flow ($bn)	13.7	46% of revenue
Net debt ($bn)	~35.4	Andra Markets calculation

AI = 56% of total revenue now

beat EPS by ~3%

Company results as reported on 2 September 2026. Colour convention (charts only): green marks growth, red marks decline or risk. Handwritten notes and highlights are Andra Markets commentary.

1.0 Executive Summary

Key takeaways

An AI business doubling every year. Broadcom expects AI revenue of about $58 billion in fiscal 2026, about $115 billion in fiscal 2027 and, on what chief executive Hock Tan called a clear line of sight, about $230 billion in fiscal 2028. "Our demand actually exceeds this outlook, and we will work to improve supply," he said. These are among the most ambitious targets in the industry, backed by multi-gigawatt commitments from named customers.

$58bn to $115bn to $230bn

guide miss of ~$0.2bn = shares −3%

The market wanted more, and worries about Google. Fourth-quarter revenue guidance of about $34.8 billion was slightly below the consensus of about $35.0 billion, and the shares fell 2.7 per cent the next day. A more lasting concern is competition for Google's custom chips, after reports that MediaTek has won part of the work. The shares have recovered about 11 per cent since mid-September and trade at about 22 times forward earnings, close to Nvidia.

2.0 Business Overview

Chips plus software

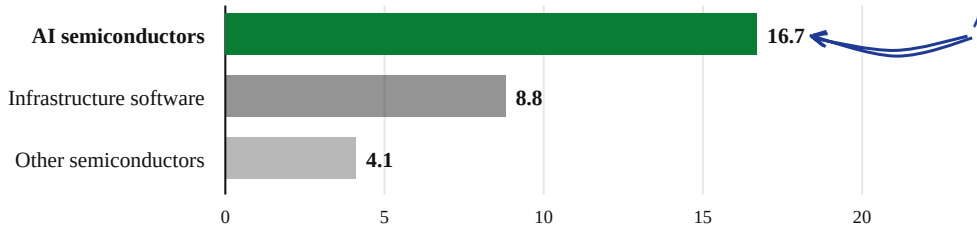
Broadcom has two businesses. The semiconductor business, 70 per cent of revenue, designs custom AI accelerators, known as XPUs, for large technology companies that want alternatives to Nvidia's chips, together with the networking chips that connect thousands of processors in a data centre, plus chips for smartphones, broadband and storage. The software business, built mainly through the acquisition of VMware in 2023, sells virtualisation software that companies use to run their data centres, with an operating margin of about 84 per cent. Like Nvidia, Broadcom designs chips but outsources their manufacture, mostly to TSMC.

XPU = custom chip built for one customer

VMware: 84% margin cash cow

Exhibit 1. Revenue by business, third quarter of fiscal 2026 ($bn)

XPUs = 73% of AI sales



Source: Broadcom FQ3 FY26 results. Other semiconductors calculated by Andra Markets as semiconductor revenue less AI revenue.

3.0 Third-Quarter Results

Record profit

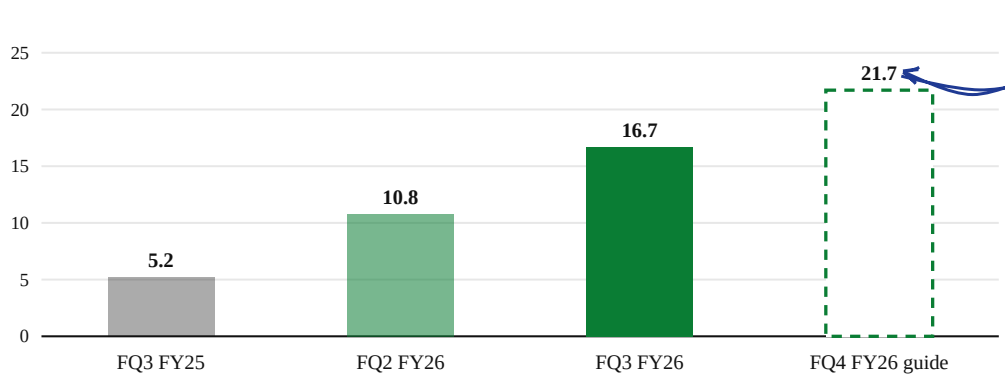
FCF $13.7bn in 1 quarter

Revenue of $29.6 billion and non-GAAP earnings per share of $3.32 both beat expectations. AI semiconductor revenue grew 54 per cent from the previous quarter alone; custom XPUs were 73 per cent of it and AI networking more than doubled. Infrastructure software grew 29 per cent. The non-GAAP operating margin reached a record 67.9 per cent, and free cash flow was $13.7 billion, 46 per cent of revenue, part of which Broadcom used to repay $5.6 billion of debt.

Exhibit 2. Quarterly AI semiconductor revenue ($bn)

+236% y/y guided

tripled in a year



Source: Broadcom. FQ3 FY25 and FQ2 FY26 derived by Andra Markets from reported growth rates; FQ4 is company guidance (dashed).

4.0 The AI Pipeline

Customers and gigawatts

6 XPU customers

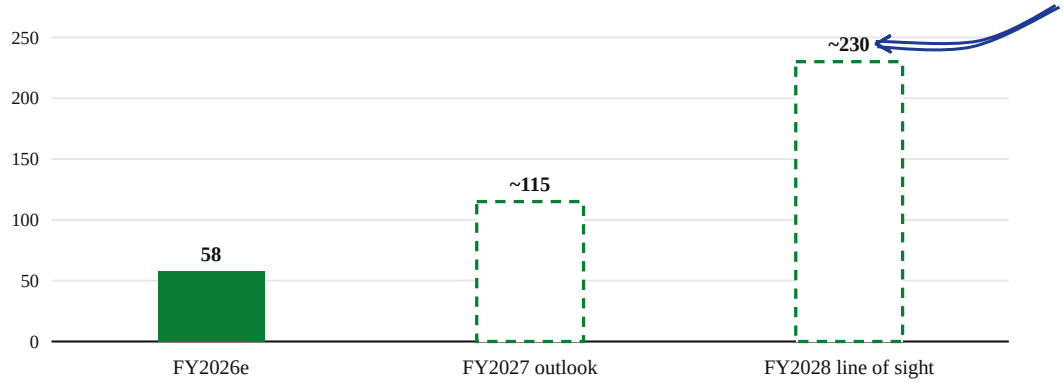
Broadcom now has six customers for its custom AI chips. Google remains the anchor: its Ironwood TPU shipped in high volume and production of the next version has started, under a long-term agreement worth tens of billions of dollars a year. Anthropic is expected to become the largest XPU customer in 2027, with plans for 1 gigawatt of capacity in 2026, 5 gigawatts in 2027 and a further 10 gigawatts in 2028. OpenAI's first custom chip shipped in the third quarter, with 1.3 gigawatts planned for 2027 and more than 5 gigawatts in sight for 2028, and Meta will receive three generations of its MTIA chips by the end of 2027. In networking, Broadcom's Tomahawk 6 switch was first to market and Tomahawk 7 has been taped out.

Anthropic: largest XPU client in 2027

OpenAI chip "Jalapeno" shipped

Exhibit 3. AI semiconductor revenue path ($bn)

x4 in two years



Source: Broadcom FQ3 FY26 earnings call (2 September 2026). FY2027 and FY2028 are management outlooks, not guidance.

5.0 Valuation

Back to Nvidia's multiple

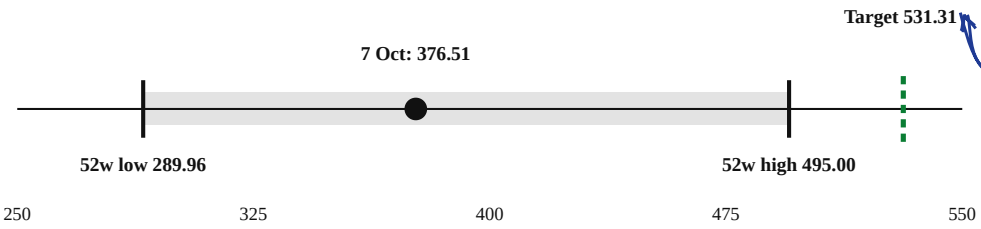
At $376.51 Broadcom is worth $1.80 trillion. It trades at 48 times trailing earnings, inflated by acquisition-related amortisation, but about 21.7 times forward earnings, close to Nvidia's 19.6 times. The 50 analysts covered by StockAnalysis rate it a strong buy with an average target of $531.31, 41 per cent above the current price, the largest implied upside among the companies in this series. The dividend yields 0.7 per cent. The shares fell 12.6 per cent after the June results and 2.7 per cent after the September results, as both times the guidance did not exceed already high expectations.

consensus target $531 = +41%

−24% from high

Exhibit 4. Broadcom share price: 52-week range, latest close and consensus target ($)

analysts much more bullish than the market



Source: StockAnalysis (7 October 2026 close; consensus of 50 analysts). Shaded band: 52-week range.

6.0 Risk Considerations

Where the case could break

Google may share the work with MediaTek

Concentration is the main risk. A handful of customers account for the AI pipeline, and Google, the largest today, wants several suppliers: Macquarie estimates that Broadcom's share of Google's custom chip revenue could fall from about 95 per cent in 2026 to 65 per cent in 2028. The fiscal 2027 and 2028 targets also depend on customers such as Anthropic and OpenAI, which rely on outside funding to pay for their computing. Margins will be diluted as more

few customers = big swings

VMware: EU complaint

revenue comes from complete AI systems that include expensive memory, and substrate supply is a constraint. In software, European cloud providers have filed a competition complaint over VMware's licensing changes. Net debt of about $35 billion is falling but remains significant.

7.0 Outlook and Monitoring Points

What to watch

watch: AI rev, Google share, GM

next results ~10 Dec (est.)

The fourth-quarter results, expected around 10 December, should show AI revenue of about $21.7 billion and may include the first formal view of fiscal 2027. Investors will watch whether the $115 billion AI outlook holds, any new XPU customers, signs of Google moving work to other designers, and the gross margin as system sales rise. If the pipeline converts as promised, today's price looks low; if one large customer slips, the stock would react sharply.

verdict: the biggest upside in the series, with the biggest customer risk

Methodology and Source Notes

Method. This note reviews Broadcom's third fiscal quarter of 2026, reported on 2 September 2026, the earnings call and market data at the close of 7 October 2026. Earlier quarterly AI revenue in Exhibit 2, other semiconductor revenue in Exhibit 1, net debt and the share of AI in revenue are Andra Markets calculations. Fiscal 2027 and 2028 AI revenue figures are management outlooks, not formal guidance. Anthropic, a customer named by Broadcom, is the developer of the AI model used to assist in preparing this note. Handwritten notes and highlights are informal commentary by the desk. This note is analysis, not investment advice.

Principal sources. Broadcom, FQ3 FY26 results (Form 8-K, 2 September 2026); earnings call transcript (Webull) and coverage by Constellation Research and TIKR (September 2026); StockStory and Trading-Treff, on the share price reaction and consensus (September 2026); TIKR, on Macquarie's Google share estimates (July 2026); Simply Wall St and ITPro, on VMware complaints; StockAnalysis, for market data.

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