

## DESK NOTE

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### **Broadcom Inc. (AVGO US) – Consider Caution: High Valuation and Risks from Deepseek and VMware Acquisition**

**Conclusive Summary:** Broadcom's long-term prospects and position in the AI boom remain robust, as evidenced by its record-breaking FY24 financial performance, including a 220% surge in AI-related revenue. However, **its current valuation reflects a significant premium relative to historical averages and peers, with the market assuming sustained stellar growth over the long term.** While the VMware acquisition has bolstered Broadcom's software capabilities, it has also **increased debt levels and introduced integration risks.** Additionally, uncertainty surrounding the impact of Deepseek, combined with the company's reliance on a concentrated customer base and exposure to cyclical semiconductor markets, adds to the unpredictability, potentially **leading to a reevaluation of investor expectations.** With a **target price of \$160 indicating a -21% downside** from current levels, **we find the risk-reward profile unfavorable at this valuation.** We recommend **revisiting the stock around \$120**, where its fundamentals and growth trajectory may present a more compelling opportunity.

**Competitive Position:** operates in highly competitive markets, facing rivals in both its Semiconductor Solutions and Infrastructure Software segments. In semiconductors, Broadcom competes with IDMs like Intel and Texas Instruments, fabless firms such as NVIDIA and Qualcomm, and specialized players like Skyworks and Lumentum. OEMs developing in-house ASICs also present competition. Key trends include market consolidation, advancements in AI processors and RF filters, and growing demand for high-speed networking. In infrastructure software, Broadcom contends with enterprise giants like Microsoft and Oracle, niche-focused firms like ServiceNow, and cybersecurity companies such as Palo Alto Networks. Broadcom's strong customer relationships, R&D investments, and strategic acquisitions help sustain its competitive edge in these dynamic markets.

**Valuation:** Using a combination of EV/Rev, EV/EBIT, P/FCF and P/E multiples **we reach a blended target price (TP) of \$160**, just -21% below current levels. The DCF valuation demonstrates that investors currently expect a hefty 6.75% perpetual growth rate for AVGO. The stock is trading around 2.0 and 1.2 standard deviations above its 5-year and 2-year multiple averages respectively. **We recommend avoiding AVGO at current prices and revisiting the stock below \$120.**

**Ticker: AVGO US**

Previous day close price: \$202.13

Price range (52w.): \$117.43 - \$251.88

Target price: \$160 (-21% downside)

Recommendation: **Avoid**

**Description:** Broadcom Inc. is a global technology leader with two main revenue segments: Semiconductor Solutions and Infrastructure Software. Its semiconductor products include Ethernet silicon for AI data centers, RF modules for mobile devices, PCIe switches for enterprise storage, and optocouplers for automotive electronics. While most manufacturing is outsourced, Broadcom retains in-house production for proprietary technologies like FBAR filters. The software segment offers hybrid cloud management, cybersecurity, and application networking solutions, including the recently acquired VMware Cloud Foundation and Kubernetes-based platforms. Broadcom's diverse customer base spans direct sales, distributors, and OEMs, with a significant portion of revenue from top clients.

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Multiple Next 12 Months		Financial Metric	Target EV	Net Debt	Target MCap	Shares	Target Price
EV/Rev	12.50	63,575	794,684	59,568	735,116	4,686	\$156.97
EV/EBITDA	20.00	41,994	839,856	59,568	780,318	4,686	\$166.52
P/FCF	23.00	31,928				4,686	\$156.71
P/E	24.00	6.66				4,686	\$159.94
Avg. Multiple Price							<b>\$160.01</b>

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