

# Broadcom Inc

## Company Analysis - Investment Rating

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<b>date</b>	04/06/2025	<b>index</b>	S&P 500	<b>FDA rating</b>	11
<b>stock price</b>	USD 261.08	<b>country</b>	US	<b>FDA valuation</b>	+
<b>market cap.</b>	USD 1225.8 bn	<b>freefloat</b>	99 %	<b>FDA sustainability</b>	64%

### Announcement

Coverage Launched with an FDA Rating of 11 Points and a Positive Valuation Advice [26 May 2025]

### Rationale

Broadcom sells a broad portfolio of semiconductor products and infrastructure software to many different end markets. The US company is well-positioned to benefit from fast-rising investments of large technology firms to develop their own platforms to support artificial intelligence (AI). Broadcom counts Google, Meta and ByteDance among its customers and expects to gain more large tech names. These firms contract Broadcom to help them design and develop AI infrastructure tailored to their needs. Broadcom's success stems from its leading capabilities in designing complex Application-Specific Integrated Circuits (ASICs), the chips used in custom platforms, and its deep and broad IP portfolio of components needed in custom AI chips, such as high-speed links. The firm's engineering strength was mostly built through organic innovation but also supported by the active take-over strategy. Broadcom's AI-related offerings are set to grow fast and may in some years be its largest activity.

<b>FDA rating</b>		<b>AVGO</b>	<b>INTC</b>	<b>CSCO</b>	<b>NVDA</b>
Market leadership	(0 to 2)	1	1	1	1
Quality of management	(0 to 4)	2	1	2	3
Competitive advantage	(0 to 4)	2	2	2	4
Market growth	(0 to 1)	1	1	1	1
Market cyclicality	(0 to 1)	0	0	0	0
Financial strength	(0 to 3)	3	1	3	3
Consistency of earnings	(0 to 2)	1	0	1	1
Sustainability	(0 to 3)	1	3	3	3
<b>FDA rating</b>	<b>(0 to 20)</b>	<b>11</b>	<b>9</b>	<b>13</b>	<b>16</b>

\* Broadcom Inc (AVGO), Intel Corporation (INTC), Cisco Systems Inc (CSCO), NVIDIA Corp (NVDA)

AI has elevated computing needs, requiring significant investments in data centres equipped with specialized hardware. NVIDIA and Broadcom are both leading suppliers of AI infrastructure, but their approaches differ. NVIDIA has established a dominant position with powerful systems where its leading GPUs are paired with its other technologies and its broad software ecosystem. Large technology firms will likely continue to spend heavily on NVIDIA products, but they will simultaneously develop custom AI platforms, to rely less on NVIDIA and save on future infrastructure and energy costs. Custom platforms can offer better performance and power efficiency for specific tasks compared to GPUs.

US firm Marvell Technology and Taiwan-based MediaTek are key rivals in custom AI platforms. In 2024, Broadcom's AI-related sales were 3.5 times larger than the sales of these runner-ups combined. Even as Broadcom's lead in custom AI platforms will likely not be challenged soon, the competitive landscape is dynamic, also because of NVIDIA's strategy. The rival is innovating fast in networking products and plans to extend its AI ecosystem, allowing customers and partners to also connect non-NVIDIA CPUs and ASICs of Broadcom's rivals with its GPUs, using its high-speed interconnect technology.

Broadcom's corporate structure is complex, shaped by a string of large acquisitions that were overseen by CEO Hock Tan. Given his age, the CEO might retire in a not-too-distant future. Mr Tan signals a continued appetite for takeovers, either of a software or semiconductor firm. VMware, the latest deal, has notably enlarged the software business. Broadcom has reduced VMware's portfolio and its partner ecosystem drastically, to prioritize the sale of a few large bundles, while it halved VMware's staff. While supporting financial results so far, the changes have also raised criticism, including concerns about reduced choice and excessive pricing. This might over time lead to customer loss, despite the complexity of migrations.

Coverage of Broadcom is initiated with an FDA rating of eleven points and a positive valuation recommendation.

## Valuation Recommendation

Broadcom's past results have often reflected a large impact of acquisitions. In 2024, the integration of VMware helped to drive robust sales (+44%) and profit growth. This large software deal almost tripled the size of Broadcom's software business, which, at USD 21 bn, accounts for 42% of total sales. Last year, Broadcom already made strong progress on its aim to notably lift VMware's EBITDA in three years. Support came from sharp price hikes for VMware's core products while the target's spending level was halved.

Organic sales growth also improved in 2024, coming in at 9%, after a 8% gain in 2023. This acceleration was fuelled by solid demand for the existing broad software portfolio and tripled semiconductor and networking revenues linked to artificial intelligence (AI). Strength in these areas was eroded by weak demand for semiconductors not linked to AI. Such revenues were down by 25%, impacted by sharp declines in broadband and server storage connectivity revenue.

Software's contribution to sales and profits is expected to rise further in 2025, driven by ongoing upgrades among the largest customers of VMware to a more extensive - and pricier - package, named VMware Cloud Foundation. However, from 2026 onwards, the sales and profit mix is expected to shift more to semiconductor and networking products. Even as high-single-digit sales growth is modelled for software in coming years, semiconductor and networking sales are expected to grow much faster. A gain of over 17% is modelled for 2025 and growth of close to 30% in the two following years. The strong growth will be driven by demand from a few large tech firms for the custom AI platforms (known as 'XPU's') they develop in partnership with Broadcom, while they also buy Broadcom's connectivity products to support the approach. Google will remain the largest customer for some time, but rising contributions are expected from other names, such as Meta. This firm became a partner in a later stage but also has large ambitions to capitalise on AI. Broadcom expects each of its three current hyperscale customers to deploy massive clusters of XPUs by 2027, and signals it will likely gain more business from other large tech names. AI-related sales may grow in a range of 43%-55% in the next three years, with the majority driven by XPUs and a smaller contribution from connectivity products. Meanwhile, rather weak, possibly just low single-digit gains, could show for mature, non-AI-related semiconductor products.

In 2025, the operating margin is expected to improve further thanks to solid growth of the highly profitable software business, driven by VMware. The expected shift in the sales mix in later years towards somewhat less profitable semiconductors/connectivity products may temper further profitability gains. However, elevated levels are still expected to be sustained, aided by the firm's typical focus on efficiency whereas its pricing power is expected to remain strong.

Broadcom plans to quickly reduce the notable debt level that stems from the recent VMware acquisition and will buy back shares and pay a small dividend. The leadership may be opportunistic should appealing deals present themselves. Broadcom's CEO says that the firm still has an appetite for acquisitions and will look for opportunities in either the software or semiconductor space.

## Company ratios

USD per share	2023	2024	2025e	2026e	2027e
EPS reported	3.39	1.33	3.92	5.28	6.95
EPS restated	4.22	4.87	6.40	8.08	9.71
Gross CF	4.75	5.32	5.27	5.22	5.16
Revenues	8.63	11.15	13.07	15.43	18.45
Book value	5.78	14.64	15.62	17.95	21.95
Net dividend	1.84	2.12	2.36	2.58	2.78
P/E reported	76.92	195.73	66.65	49.45	37.57
P/E restated	61.84	53.65	40.78	32.31	26.88
P/Gross CF	54.91	49.08	49.57	50.06	50.56
P/Sales	30.24	23.41	19.98	16.92	14.15
P/Book value	45.16	17.84	16.71	14.54	11.90
Dividend yield (%)	0.71	0.81	0.90	0.99	1.06
ROE (%)	76.61	35.07	43.23	47.48	46.68
ROCE (%)	33.80	20.64	26.95	33.70	37.53

## Price target

USD mln	2025	2026	2027
Revenues	61,021	72,763	87,892
Operating margin	39.9%	42.4%	44.8%
Total operating result	24,373	30,859	39,398
Operating result after tax	20,961	26,539	33,882
Change in working capital	-2,000	0	-1,000
Correction Cashflow	6,000	7,000	8,000
Depreciation & Amortization	8,696	8,050	7,530
Capital expenditures	-600	-650	-700
Free cashflow	33,057	40,939	47,712
Growth rate 2028 - 2032	18.0%		
Growth rate after 2032	4.8%		

## Relative performance against peers

Company	AVGO	INTC	CSCO	NVDA
Country	US	US	US	US
Price	261.08	20.25	64.39	141.92
Rel perf 1 yr (%)	108.4	-20.4	48.0	34.1
PE 2025	40.8	21.2	18.3	33.8
PE 2026	32.3	14.1	19.0	26.3
Rel PE '25	1.4	0.7	0.6	1.2
Rel PE '26	1.4	0.6	0.8	1.1
EV/EBITDA '25	38.8	8.9	26.3	28.7
EV/EBITDA '26	33.0	6.6	25.8	22.4
Yield '25 (%)	0.90	0.00	2.64	0.03
Yield '26 (%)	0.99	0.00	2.64	0.03

Broadcom Inc (AVGO), Intel Corporation (INTC), Cisco Systems Inc (CSCO), NVIDIA Corp (NVDA)

WACC	Equity	Debt
Risk free	5.0%	
Equity premium	5.5%	
Beta	1.09	
Cost	11.0%	4.6%
Weight	81.0%	19.0%
Result	8.9%	0.9%
		9.8%

Present Value of Future CFs (USD mln)	1,402,804
Cash (USD mln)	9,307
Debt (USD mln)	-57,272
Equity value (USD mln)	1,354,839
Number of shares (mln)	4,695
<b>Price target (USD)</b>	289.00
<b>Price (4-6-2025, USD)</b>	261.08
<b>Expected price return</b>	<b>10.7%</b>

### Risk Assessment

#### INFRASTRUCTURE TECHNOLOGY POWERHOUSE

Broadcom is a large US technology firm that designs, develops, and supplies a broad range of semiconductor and infrastructure software solutions. It serves a variety of markets, including data centres, networking, mobile devices, and industrial applications. Its structure is rooted in decades of deal-making. In 2005, two large private equity firms formed Avago after acquiring Agilent's semiconductor products division that in 1999 had been carved out of Hewlett-Packard. Avago went public in 2009 and grew quickly in following years. Takeovers and frequent divestments came to characterize the strategy, led by Hock Tan, who still acts as Broadcom's CEO. Provisions in his pay package suggest that Tan will likely lead the firm for at least a few more years, despite his advanced age.

Early acquisitions focused on semiconductor firms, notably LSI in 2013, a specialist in enterprise storage and wired infrastructure. In 2015, Avago acquired Broadcom, a renowned supplier of "off-the-shelf" chips, and then also rebranded the company as Broadcom. This merger brought together firms with complementary strengths in custom-built and off-the-shelf chips. In 2017, the enlarged firm bought Brocade, a leading provider of storage networking products. After a hostile bid for Qualcomm failed, Broadcom shifted its acquisition focus to infrastructure software. Key acquisitions included mainframe software firm Computer Associates in 2018 and Symantec in 2019, focused on security software. The USD 61 bn acquisition of virtualisation software market leader VMware in 2023 was Broadcom's largest to date.

The rationale for Broadcom's take-overs was often similar. The firms it acquired were often leaders in technologies that were mission-critical, but their growth was often slowing, due to market saturation or poor management. Broadcom's approach often mirrored strategies used by private equity firms: cost-cutting through workforce reductions, streamlining management, and product portfolio rationalization. Simultaneously, the company lifted prices for critical products and employed bundling tactics to enhance revenue. This strategy has proven highly effective, as evidenced by rapid growth and notable margin improvement following acquisitions. The management acknowledges that synergies are often lacking between products in its broad portfolio.

#### VMWARE KEY NEAR-TERM GROWTH DRIVER IN EXPANDED SOFTWARE PORTFOLIO

The tactics used by Broadcom have frequently raised concerns. Broadcom's bid for VMware was subject to extensive antitrust reviews. The European Commission, for example, cleared the acquisition only after Broadcom committed to ensuring interoperability and fair competition. After closing the deal, Broadcom quickly changed VMware's portfolio, shifting its focus to a few flagship products and strategic integrations to align with its profit-led approach. Significant price increases generated customer dissatisfaction whereas many channel partners voiced concern that the changes would harm the VMware ecosystem. Broadcom still faces risks related to regulatory scrutiny, customer dissatisfaction, and potential legal challenges, but a major impact on its financial results is not expected.

The VMware deal has notably enlarged the software business. Software currently accounts for 45% of sales - up from 21% in 2023 - and drives a larger part of profits. Within the software portfolio, VMware accounts for a majority of sales and is in the near term expected to remain the key driver for growth. While having certain controversial elements, the VMware deal has so far produced notable financial returns. In essence, Broadcom's strategy is geared towards maximizing profitability by focusing on a select group of major customers and optimizing costs, through a notable staff reduction at VMware. Broadcom stimulates VMware's largest customers to convert from perpetual licenses for compute virtualization (vSphere) to a more extensive - and pricier - package, named VMware Cloud Foundation (VCF). The firm is selling VCF as the foundation for modern private cloud infrastructure. At the end of February, approximately 70% of Broadcom's 10,000 largest customers had already adopted VCF. Broadcom says its primary goal is to sell VMware technology to customers interested in building private clouds, including leveraging their data for artificial intelligence (AI) use cases.

#### HIGH AND RISING PROFITABILITY LEVEL, BUT STILL ELEVATED DEBT DUE TO VMWARE TAKEOVER

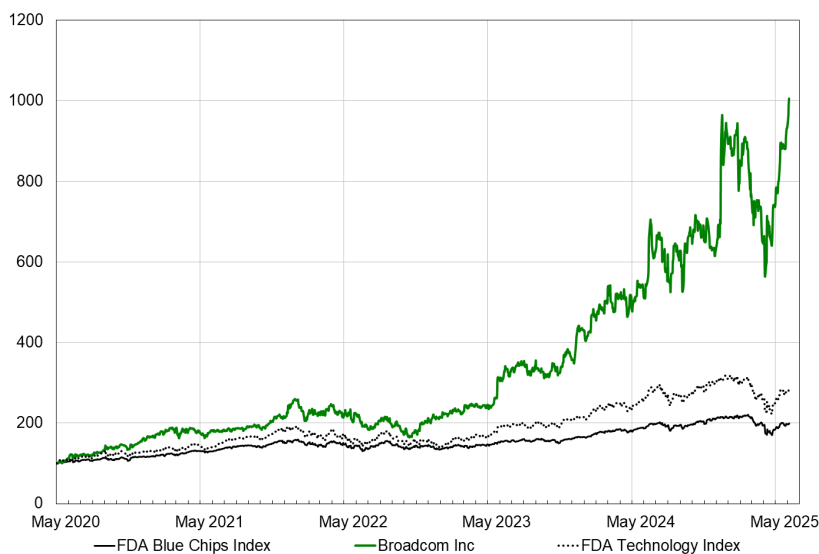
Helped by the expansion into software, and the notable profitability improvements at VMware, Broadcom has established a robust financial profile with an adjusted operating margin of around 60% and substantial free cash flows. Despite a track record of cost discipline, the firm is committed to spend notably on research and development to sustain fast innovation. Of the approximately 37,000 staff it employs, a majority is in R&D roles. The business model is not capital-intensive. Like other leading chip firms, with Intel being a clear exception, Broadcom only designs its products and outsources their production. As is the case for other firms designing advanced chips, Broadcom relies strongly on the world's leading foundry TSMC. Broadcom could be interested in using Intel as a second foundry provider if the troubled US firm would manage to become a viable alternative to TSMC.

Broadcom's active acquisition strategy has led to significant goodwill (corresponding to almost 60% of balance sheet assets), while the firm currently has substantial net debt (USD 57 bn as of March). The large USD 61 bn VMware deal was partly financed by debt, while the target had USD 8 bn of debt at the time of the take-over. Continued M&A involvement is likely, but expected regulatory scrutiny and the current high debt level reduce the chances of imminent new large deals. Even as the firm has focused on software deals since 2018, the leadership recently indicated it may look at semiconductor firms as well.

#### SIGNIFICANT GROWTH OPPORTUNITY IN NETWORKING CHIPS AND CUSTOM ASICS

FDA rating		AVGO	INTC	CSCO	NVDA
Market leadership	(0 to 2)	1	1	1	1
Quality of management	(0 to 4)	2	1	2	3
Competitive advantage	(0 to 4)	2	2	2	4
Market growth	(0 to 1)	1	1	1	1
Market cyclicality	(0 to 1)	0	0	0	0
Financial strength	(0 to 3)	3	1	3	3
Consistency of earnings	(0 to 2)	1	0	1	1
Sustainability	(0 to 3)	1	3	3	3
<b>FDA rating</b>	<b>(0 to 20)</b>	<b>11</b>	<b>9</b>	<b>13</b>	<b>16</b>

Broadcom Inc (AVGO), Intel Corporation (INTC), Cisco Systems Inc (CSCO), NVIDIA Corp (NVDA)



The management acknowledges that synergies are often lacking between products in its broad portfolio.

Regardless of possible M&A, Broadcom's growth prospects appear strong, as the company is well-positioned to capitalize on burgeoning demand for AI. To handle surging computing needs driven by data-intensive applications like AI, a trend of 'distributed computing' has emerged, where large clusters of AI chips are connected through networking technology. AI chips require many high-speed links to interconnect them ("scale-up") to create clusters. Subsequently, networking products are used to "scale out" the infrastructure, i.e. to connect clusters of AI accelerators to expand bandwidth, referring to the capacity at which the network can transmit data.

NVIDIA dominates the AI landscape with its powerful GPU-based platforms. Recognizing the evolving computing needs of data centres due to trends such as AI at an early stage, NVIDIA has been at the forefront of innovation, not only in GPU technology but increasingly also in software and networking components. This vertically integrated approach has given NVIDIA a significant edge.

Broadcom aims to differentiate itself through a more flexible and open ecosystem. Its strategy focuses on "plug and play" AI infrastructures, where components can be used from various vendors. Furthermore, its platforms leverage advantages provided by ASICs (Application-Specific Integrated Circuits). ASICs have been around already since the 1960s, but their usage has expanded in recent decades and their rise is set to continue. Broadcom holds a leading market share - estimated to be well over 50% - in the ASIC market, driven by strength in networking, storage, and data centre infrastructure. Broadcom's most relevant rival here is Marvell, with an estimated market share in ASICs of 13%-15%.

GPUs are flexible and can handle a wide variety of tasks. Also, NVIDIA's GPUs are supported by a vibrant software ecosystem. By contrast, ASICs are highly specialized and often tailored to specific, high-computing tasks. Developing them is complex and expensive, and will only remain viable for financially strong companies with massive computing needs. While being more limited in nature, ASICs are known for their efficiency, which can bring benefits for costs and energy needs. Large US technology firms are investing massively in NVIDIA's infrastructure products, but they are simultaneously developing their custom architectures. While a key goal is to save costs and rely less on NVIDIA, having well-performing custom chips can (over time) also be leveraged to offer (cloud) customers a broader and more differentiated range of services. A rising weight given to cost and energy needs aspects may favour Broadcom's approach.

### **CUSTOM AI PLATFORM TREND SEEN AS MASSIVE GROWTH OPPORTUNITY**

Broadcom's AI semiconductor revenues have quickly grown in scale. Sales were USD 2.5 bn in 2022 and reached USD 12.2 bn in 2024, growing from less than 5% of Broadcom's semiconductor revenue to 40%. Continued robust growth is likely, and the business is expected to become Broadcom's largest activity. CEO Tan signals a large growth opportunity, underpinned by insights into the multi-year roadmaps of existing customers. He projects that its so-called serviceable AI-related market will grow from around USD 15 bn in 2024 to USD 60-90 bn by 2027. He also anticipates that Broadcom will secure a significant share of that opportunity (its current share is around 70%).

Currently, Google is Broadcom's largest AI customer. The Internet giant started developing its own AI chips ("TPUs") in the past decade. Broadcom also designs custom chips for Meta and, more recently, Bytedance (the parent company of TikTok). The leadership signals additional growth opportunities with four other hyperscale customers. Among these may be Apple and US AI start-up OpenAI, which recently presented Stargate, a joint venture where Softbank and Oracle are partners. Broadcom's AI revenue predominantly stems from the design and development of custom AI accelerators (ASICs), which Broadcom calls "XPUs." Approximately 20-30% of its AI revenue is derived from networking products, mainly data centre switches, which connect clusters of AI accelerators.

### **DIFFERENTIATED BY ENGINEERING STRENGTH AND LEADERSHIP IN HIGH-SPEED LINKS**

Broadcom's XPUs have a complex architecture with four critical components: compute, memory, network I/O, and packaging technology. The compute part is a shared responsibility between Broadcom and its customers. The XPU's three other layers are controlled by Broadcom, which can leverage its connectivity expertise and differentiated IP, built through decades of in-house innovation and many acquisitions. Among Broadcom's key strengths are its ability to integrate multiple complex functionalities onto a single chip and its leadership in high-speed links. The firm's staff has a deep understanding of complex technologies and has proven to collaborate effectively, with key partners such as TSMC. The Taiwan-based foundry dominates advanced chip manufacturing and also leads in advanced packaging, a process that is set to gain relevance to enable further improvements in chips.

SerDes is an essential interconnect technology for transmitting large amounts of data efficiently over high-speed communication links. Broadcom claims to have delivered the best SerDes in the industry for at least four generations and that its products consistently double in bandwidth. Broadcom aims to develop faster SerDes to keep as many high-speed links on copper cables as possible for cost advantages; Broadcom's SerDes technology provides the farthest reach in copper. Still, copper's maximum reach is five meters. To extend a high-speed link further (up to 10 km), optical (fibre) technology is required. Broadcom leads in three core optical interconnect technologies essential to build large-scale AI networks. Among these is Co-packaged Optics (or CPO) where high-speed silicon photonics are integrated onto ASICs. This technology addresses bandwidth and power challenges.

Ethernet has emerged as the preferred solution to "scale out" AI infrastructures. Various large tech names already deploy massive Ethernet AI clusters. Advantages over the rival Infiniband technology include lower power, faster SerDes speeds, a predictable doubling of bandwidth and a large and vibrant ecosystem, including of software partners. Broadcom holds a dominant market share of about 80% in the datacentre/AI Ethernet switching and routing chipset market, where it competes with NVIDIA, Marvell and Cisco. Since introducing an Ethernet switch chip named 'Tomahawk' in 2014, Broadcom has consistently doubled bandwidth approximately every two years. Broadcom is also the leader in PCIe switches which are also essential for scalable AI infrastructures. They act as the network for various chips and other technologies inside AI servers, enable efficient data movement and contribute to faster AI training times. Rivals in this product area include Microchip Technology and Maxim Integrated.

### **SIGNIFICANT LEAD IN CUSTOM AI PLATFORMS OVER SMALLER RIVALS MARVELL AND MEDIATEK**

A risk is that Broadcom's customers could start to develop their custom chips fully independently. These firms have strong innovation track records and skilled staff. Still, the complexity of designing AI chips and connecting these to other technologies is expected to only rise notably further. As most large tech names will for years likely be unable to match Broadcom's expertise, opting for an independent approach could bring risks. Most likely, their ties with Broadcom, or with leading other specialists, will only become stronger. Marvell is currently the number two player in custom platforms, but with a much smaller scale than Broadcom, with just USD 1.6 bn in AI revenues in 2024. Marvell may benefit from customers' preference to use more suppliers than Broadcom or get better terms. It has a five-year contract with Amazon for custom chips and smaller partnerships with Google, Meta and likely Microsoft. Like Broadcom, Marvell develops advanced networking technologies, like co-packaged optics. The firm strives to grow its position in the custom AI chip market, aiming for a share of 20% of a market projected to reach USD 75 bn by 2028.

While its core business remains producing chips for mobile phones, Taiwan-based MediaTek is also becoming a more relevant rival. The firm aims to expand into the market for AI ASIC accelerators for data centres, with a target of achieving 10% market share by 2028. Leveraging its strong relationship with foundry TSMC and an ability to offer cost-competitive solutions may help its success. Matching the capabilities of Broadcom, however, is not expected for a considerable time. Based upon multiple sources, it appears that Google is partnering with MediaTek for the development of the seventh generation of its custom AI chips ('TPUs'), of which production could start in 2026. While Google is leading the core architecture design and still maintaining the partnership with Broadcom, the deal nonetheless marks a crucial entry for MediaTek into the segment. It is unlikely that Google will soon also exclusively rely on MediaTek to develop future AI chips. A more realistic scenario is that Google plans to diversify its strategy and use multiple suppliers, utilizing MediaTek alongside Broadcom, while possibly also exploring collaboration with Marvell in the longer term. Such a strategy change could strengthen

Google's bargaining position towards Broadcom and may help it negotiate better pricing terms. Such tactics may also be deployed by other tech firms.

#### **RIVALRY WITH AI INFRASTRUCTURE MARKET LEADER NVIDIA EXPECTED TO INTENSIFY FURTHER**

NVIDIA has in recent years become a more notable competitor to Broadcom, as it has expanded its portfolio with high-performance interconnects that are crucial for AI and data centre workloads. NVIDIA leads in Infiniband technology after it acquired Mellanox in 2020. Demand for Infiniband has been strong, driven by the networking technology's deployment in 'AI factories', a name used by NVIDIA for a new type of data centre fully dedicated to AI. NVIDIA has in recent years also started to challenge Broadcom's dominance in Ethernet switches with its Spectrum products, which it also sells through a partnership with Cisco. Additionally, NVIDIA and Broadcom may increasingly compete in optical interconnects that are crucial for future high-performance networks. Moreover, NVIDIA is starting to respond to the growing trend of custom platforms. Through its NVLink Fusion initiative announced in May, it will allow custom ASICs (from Broadcom rivals Marvell and MediaTek) to connect to NVIDIA's ecosystem and work seamlessly with its GPUs and CUDA software stack.

#### **VULNERABLE TO GEOPOLITICAL TENSIONS AND POTENTIALLY STRICTER US EXPORT CONTROLS**

Broadcom discloses net revenue by country based primarily on the geographic shipment or delivery location specified by its distributors, OEMs, contract manufacturers, channel partners, or software customers. Under this method, a significant part of net revenue (20% and 32% in the fiscal years 2024 and 2023) is linked to China (including Hong Kong). However, this mostly reflects Chinese firms' relevance in Broadcom's supply chain. Broadcom says its dependence on China for end-sales of its products is much smaller than indicated by reported net revenue figures. Demand for its customised AI accelerator platforms - seen as a notable growth driver - is expected to remain mostly driven by financially strong US firms. Nonetheless, the firm also sells to Chinese firms and has already seen some negative impact from the increasingly strict US export rules. There is evidence that the restrictions recently led to the cancellation of a plan to develop a 5-nanometer ASIC with Chinese firm ByteDance, the parent of the TikTok app. Further tightening of restrictions on access to advanced AI chips and related technologies could impact Broadcom's prospects, by limiting its ability to sell high-performance products to Chinese customers, while the export controls could also extend from chips and hardware to software.

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**FDA Research Methodology** is based on a peer group analysis and uses the lowest risk alternative (the high quality government) as a reference point. In order to assess the risk, each company is evaluated on a number of criteria and a rating on a 20 points scale is assigned. The valuation recommendation is based upon the expected return on a twelve-month basis that is calculated using discounted cash flow or sum of the parts models.

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**Corporate Sustainability Assessment**

**Governance**

Broadcom’s complex corporate structure reflects the very active acquisition strategy under CEO Hock Tan. Since 2006, Tan has overseen numerous acquisitions of semiconductor companies and software specialists. Broadcom has successfully integrated the many acquired firms, leveraging their expertise to enhance its culture of technological innovation and solidify its leadership in connectivity solutions and custom chip design. Still, the firm’s strategy has also led to antitrust concerns while the integration process required substantial layoffs, although overall employee turnover is low and the firm appears to have no trouble attracting talent.

While shareholders possess ample means to exert influence, and the Board appears well-structured and includes capable directors, certain governance risks exist. These include the advanced age of many directors and the fact that the Board is chaired by an insider aligned with Tan’s approach: Henri Samuëli, who acted as CEO of Broadcom before the merger with Avago in 2016. Furthermore, Tan’s substantial executive compensation, along with outsized severance and change-of-control arrangements, point to significant CEO influence over the Board. In 2024, Tan’s proposed compensation package received weak shareholder approval, not so much because of the absolute pay levels but because of the insufficient disclosure regarding the pay’s justification and determination.

Given the advanced age of CEO Tan and Chairman Samuëli, a leadership transition may not be far away. The Board maintains that a plan is in place to mitigate risks associated with this transition. It is developing both a long-term CEO succession plan and an interim contingency plan. Both prioritise high-potential internal candidates, aimed at a continuation of the current strategy. The experience, skills and attributes that the Board seeks for the next CEO include strategic vision and leadership, technical expertise, disciplined management of operating costs, and execution of M&A transactions, suggesting that (large) acquisitions may continue under new leadership.

**Social**

The company is expected to remain successful in attracting top engineering talent, a critical asset. Broadcom’s low employee turnover rate suggests it is an attractive employer. More than 80% of the total staff focuses on R&D. The highly skilled nature of the work minimizes risks related to human rights and labour standards violations, even as the firm also has large numbers of staff in less developed countries, with 20% of the employee base operating from India. Meanwhile, the company faces a challenge to improve its gender diversity, with only 22% of its workforce being female.

The many acquisitions in recent decades have broadened and strengthened Broadcom’s portfolio. Leveraging its enhanced technological expertise, the leadership has been able to build strong relations over the years with strategic partners, distributors and customers like TSMC, Google, Apple and Taiwan-based WM Microelectronics. These ties have helped to build differentiating IP and expertise and they are likely critical to the firm’s continued success.

Broadcom’s focus on lifting profits through frequent acquisitions and strict cost efficiency risks insufficient attention to the interests of other stakeholders, which could undermine the firm’s long-term success. For instance, the effective tax rate that Broadcom pays has been low for a prolonged period. The company actively seeks to lower its overall tax payments, currently supported by favourable tax deals in Malaysia and Singapore. However, efforts to clamp down on multinationals’ tax optimisation strategies may require the firm the change its approach.

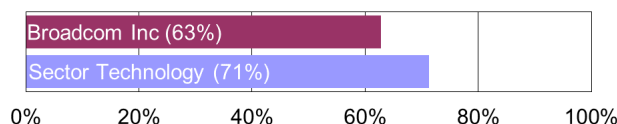
Broadcom’s competitive practices, such as aggressive pricing and leveraging market dominance, have frequently led to antitrust investigations that required some adjustments. The firm’s strategy for VMware, a leading specialist in cloud and virtualisation technologies that it most recently acquired, also carries risks. Broadcom has drastically reduced VMWare’s product portfolio, shifting its focus to a few highly-priced product bundles, targeted at VMware’s largest customers. The approach has so far paid off, as VMware’s most ‘sticky’ and high-value customers are buying the products, even as they complain about excessive prices. Smaller customers and channel partners have been the most vocal critics, and larger enterprises may consider a migration to alternatives, even as this may be complex.

**Environment**

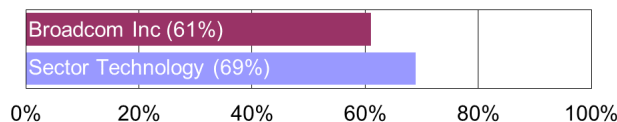
Broadcom’s direct environmental footprint is not large compared to the size of its operations. To reflect the integration of the VMware acquisition, the company plans to introduce new Scope 1, 2 and 3 GHG emissions reduction targets and to present these for validation by the Science Based Targets Initiative by February 2026.

A large part of Broadcom’s activities relates to software, with a limited environmental impact. Some key products - like VMware’s virtualisation software - help to more efficiently use hardware. The production of Broadcom’s semiconductor products and platforms, however, comes with high emissions and water usage. Also, during their usage phase, Broadcom’s solutions may have elevated energy needs, which is especially the case for platforms supporting artificial intelligence. Broadcom only manufactures a small part of its chip

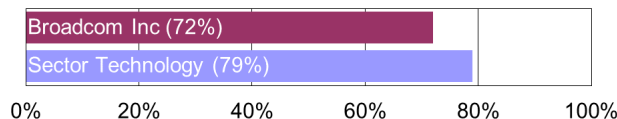
**Governance dimension**



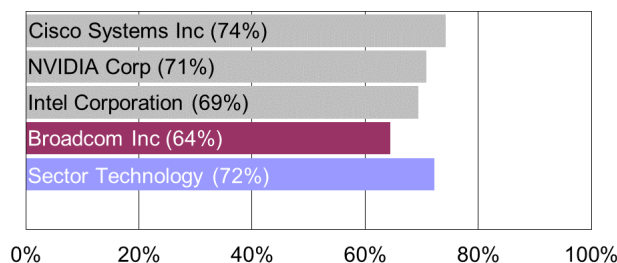
**Social dimension**



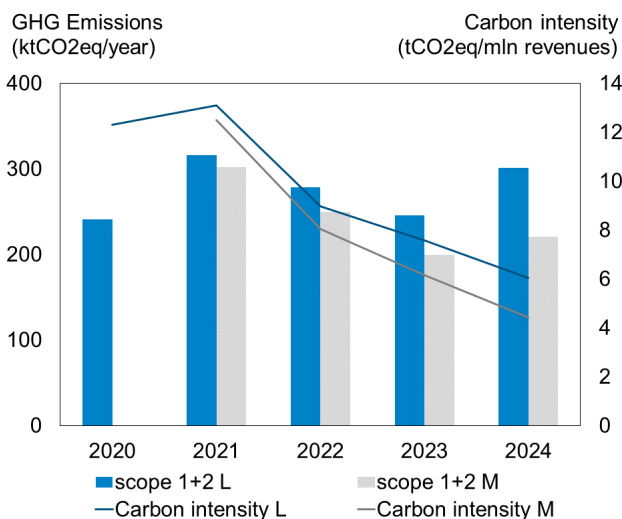
**Environmental dimension**



**Total score - peer comparison**



**Carbon footprint**



designs in-house, to serve niche purposes. It relies mainly on contract manufacturers, primarily the world's leading foundry TSMC, to manufacture the vast majority of its chips. Roughly 75% of direct Scope 1 and 2 emissions stem from electricity usage at Broadcom's facilities. Such emissions are on a downward trend, helped by a gradual shift towards renewable sources, which in 2024 accounted for 36% of total electricity consumption.

In its latest Corporate Responsibility Report, covering 2024, Broadcom increased the disclosure for Scope 3 emissions. Such indirect emissions are relatively large and primarily stem from purchased goods and services. Broadcom claims to engage with the majority of its suppliers on climate change, renewable energy procurement and emissions reduction targets. It says that the majority of its top suppliers have set GHG emission reduction targets and also implemented measures related to risks related to rising water scarcity.

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Corporate sustainability is essential to investment decisions, as shareholder value can only endure if companies have sufficient attention for the interests of various stakeholders. FDA's Corporate Sustainability Assessment is an in-depth review of how companies handle this responsibility. FDA reviews a company's performance by assigning points on 20 different sustainability aspects. The approach results in detailed, regularly updated, sustainability reports. A higher sustainability score reflects a stronger performance and a perceived lower level of investment risk.

Three sub-scores reflect a firm's performance in the governance, social and environmental dimension. Governance-related issues determine 35% of the aggregated score, social issues 40% and environmental aspects 25%. The graph shows a comparison with peers and the performance of the broader sector.

FDA uses an investment rating system, with the perceived level of risk reflected in a score that weighs important aspects, including quality of management, competitive advantage and financial position. The in-depth sustainability analyses are an integral part of the overall assessment with the sustainability rating contributing to the total investment rating. The maximum FDA investment rating for a company is 20 points, with a higher score reflecting lower investment risks.

For more information about sustainability and full access to FDA's corporate sustainability reviews, please contact us.

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**Financiële Diensten Amsterdam**

Financiële Diensten Amsterdam (FDA) provides investment advice based on a combination of independent equity research and macroeconomic analysis. FDA was founded in 1986 and currently has a staff of about 20 full-time analysts, with vastly different backgrounds, working together in an interdisciplinary fashion to translate the interaction between the real, financial, and monetary spheres into risk/return opportunities for various investment management styles. Our main customers are institutional investors, banks and asset management firms.

As we do not have a brokerage arm or derive any revenue from the transactions of our clients, our advice is not influenced by trade-related pressure. Moreover, our policy prohibits staff members from holding a personal equity portfolio, creating a research environment that is free of potential conflict of interest.

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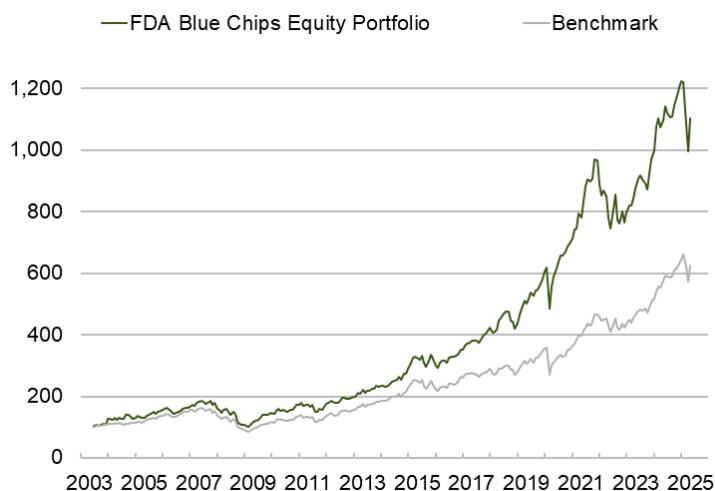
**FDA Blue Chips Equity Portfolio**

The added value of FDA research is best reflected in a disciplined investment process and consistent outperformance, as reflected in the FDA Blue Chips Equity model portfolio. The portfolio is a selection of international blue chips from the FDA Research Universe. Only companies that meet minimum sustainability criteria, based on FDA's proprietary corporate sustainability framework, can be included in the portfolio. Consisting of around 65 individual stocks, the portfolio serves as a model for a relatively concentrated institutional investor equity portfolio up to EUR 1 bn in size.

No restrictions are applied to the portfolio, as far as its time horizon or allocation of stocks between various sectors. The goal of the portfolio is to translate the daily output of 20 analysts into a combination of a positive total return and superior performance vs. the relevant benchmark\*.

<b>return % 4-6-2025</b>	<b>ytd</b>	<b>12mth</b>	<b>inc.**</b>	<b>inc.***</b>
portfolio	-7.6	0.7	998.5	11.6
benchmark*	0.6	9.5	530.2	8.8
outperformance	-8.3	-8.8	468.4	2.8
<b>turnover %</b>	<b>ytd</b>	<b>12mth</b>	<b>inc.***</b>	
turnover	3.7	8.2	8.6	
<b>months outperformance</b>	<b>12mth</b>		<b>inc.***</b>	
outperformance / total	3 / 12		156 / 263	

\* The composite benchmark consists of 50% 'MSCI Pan-Euro Net Total Return Index' and 50% 'Standard & Poor's 100 Net Total Return Index' (converted to Euro), which is rebalanced monthly.  
 \*\* Portfolio inception date 30-6-2003  
 \*\*\* Annualised



**For a one-week free trial on FDA Consultancy, including access to all FDA research and model portfolios, please contact us at [informatie@fda.nl](mailto:informatie@fda.nl).**

**Appendix - FDA Research Universe - Company and FDA Rating**

Accenture plc	14	Fastenal	11	PayPal Holdings Inc	10
Adobe Systems Inc	14	FedEx	10	PepsiCo Inc	13
Adyen NV	12	FMC Corp	8	Pernod Ricard	12
Ahold Delhaize	13	Geberit	11	Procter & Gamble	13
Air Liquide	14	Gilead	10	RELX plc	14
Alibaba Group	10	Givaudan	11	Richemont	11
Alphabet	12	Hermès International SCA	13	Roche	10
Amazon.com	12	Home Depot	13	S&P Global	12
Apple	13	Illumina	10	Salesforce.com	13
Applied Materials Inc	14	Intel Corporation	9	SAP SE	14
Ashtead Group plc	13	Intuitive Surgical Inc	15	Schindler Holding	11
ASM International NV	12	JPMorgan Chase & Co	9	ServiceNow Inc	14
ASML Holding NV	16	Kering	11	Shell plc (Dutch listing)	7
Assa Abloy B	13	KLA Corp	14	Sherwin-Williams	13
Atlas Copco A	13	Kone Corp	12	Shopify Inc	11
Biogen	10	Linde	13	Sika AG	11
Booking Holdings	12	London Stock Exchange Group	11	Sonova Holding AG	13
Broadcom Inc	11	Lowe's	13	Straumann Holding AG	13
Cadence	14	LVMH	13	Stryker	13
Cisco Systems Inc	13	Marsh McLennan	10	Synopsys Inc	14
CME Group	10	Mastercard	14	Tesla Inc	7
Coca-Cola Company	11	McDonald's Corp.	12	Thermo Fisher Scientific Inc	13
Coloplast	12	Merck & Co Inc	11	TotalEnergies	8
Crown Holdings	10	Meta	9	Umicore Group	9
Danaher Corp	12	Microsoft Corporation	14	Unilever (Dutch listing)	12
DexCom Inc	11	MSCI Inc	12	Union Pacific Corp	13
Diageo	12	Nestlé	13	United Rentals Inc	12
DSM-Firmenich AG	13	Netflix Inc	13	UPS (United Parcel Service)	11
DSV A/S	10	Nike	11	VAT Group AG	11
Edwards Lifesciences Corp	14	Novartis	10	Visa	14
Electronic Arts	10	Novo Nordisk	11	Walmart	12
Eli Lilly and Company	11	Novonesis	14	Walt Disney	12
Equinix Inc	14	NVIDIA Corp	16	Wolters Kluwer NV	13
EssilorLuxottica	13	Old Dominion Freight Line Inc	11	Yum! Brands Inc	10
Estée Lauder	13	Oréal L'	16	Zalando	9

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