

Semiconductors

Broadcom's 3Q earnings summary; in-line results failed to impress investors

Broadcom (AVGO US, NR) released its 3QFY24 results. Revenue went up by 47% YoY/5% QoQ to US\$13.1bn, in-line with consensus (US\$13.0bn). By segment, semiconductor/ infrastructure software revenue attributed 56%/44% of revenue vs. 78%/22% in 3QFY23. Semiconductor sales was US\$7.3bn, up 5% YoY/1% QoQ. Infrastructure software sales was US\$5.8bn, up 200% YoY/10% QoQ, of which VMware contributed US\$3.8bn.

Non-GAAP GPM was 77.4%, slightly above Bloomberg consensus forecast by 0.9ppts. The company recorded a net loss of US\$1.9bn (vs. net profit of US\$3.3bn/US\$2.1bn in 3QFY23/2QFY24), mainly due to a one-time non-cash tax provision of US\$4.5bn for IP relocation. After adjustments, non-GAAP EPS was US\$1.24, up 18.1% YoY/13.5% QoQ.

The company guided 4Q revenue of US\$14bn, up 51% YoY/7% QoQ. This implies FY24 revenue to be US\$51.5bn (prev. guidance was US\$51bn in 2QFY24). Non-GAAP GPM is guided to decrease 100bps, due to segment/product mix towards semi/custom silicon.

- **Flattish AI revenue in 3QFY24 was disappointing.** AI revenue was close to US\$3.2bn, implying over 200% YoY growth but only 2.6% growth sequentially (vs. 35% QoQ in 2QFY24). Revenue from custom AI accelerators grew 3.5x YoY, while Ethernet switching (Tomahawk 5 and Jericho3 AI) saw 4x growth. 4QFY24 AI revenue guidance is US\$3.5bn, up 10% QoQ. Full-year AI contribution is projected to be US\$12bn, revised up by US\$1bn, which is within expectations. Despite a disappointing quarter for AI-related income, mgmt. reaffirms that the demand for AI continues to be robust. They believe hyperscalers, with the scale of the platform and financial capabilities, will create their own custom silicon at an accelerating pace. Broadcom is expected to be the key beneficiary riding on this tailwind.
- **Non-AI businesses largely passed the bottom, with asynchronous recovery pace across segments.** Excluding AI and VMWare, semiconductor sales were flat and software sales grew low-single-digit. Non-AI networking/wireless/server storage revenue grew sequentially and the recovery trajectory will continue with double-digit growth/over 20%/mid- to high-digit growth QoQ guidance. Broadband/industrial sales came down 24%/30% QoQ. The mgmt. expects broadband to remain weak; industrial to bottom out in 3Q and start recovering in next quarter. The company believes the overall semi sector sentiment has troughed as they saw non-AI booking up 20% in 3QFY24. Non-VMWare software revenue was down to US\$2bn level from US\$2.5bn-US\$2.6bn in the past quarters. The mgmt. thinks future upside is from VMWare side, which they previously guided double-digit growth sequentially.
- **The market has hold high hopes for Broadcom's AI and non-AI business.** While full-year AI revenue guidance was adjusted up as expected ([report](#)), 3Q growth (~3.0% QoQ) was below expectations. Following Marvell's results, non-AI business prospects have improved, yet the pace of recovery may be slower than anticipated by investors. A key positive remains Broadcom's strong outlook for future growth in its custom silicon segment, although the company did not announce a fourth design win, which some had expected. Broadcom's stock dropped over 6% in after-hours trading.

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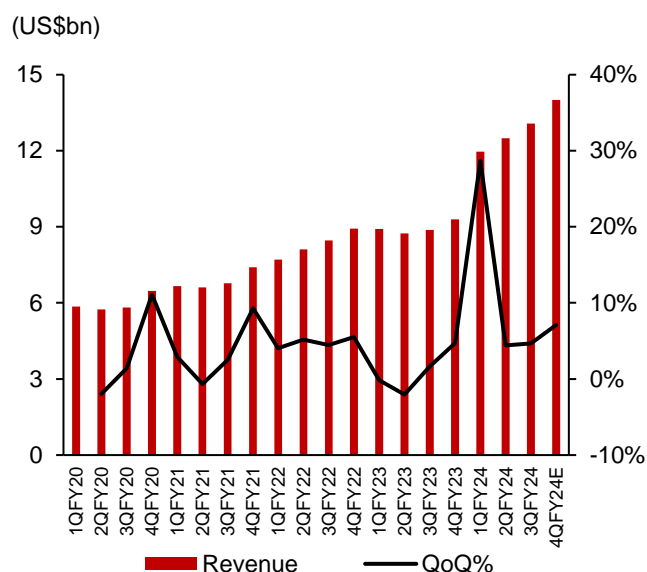
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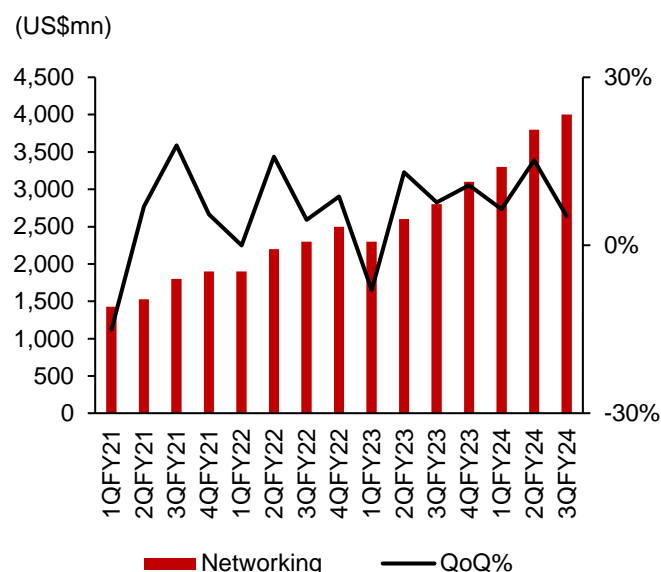
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Figure 1: Quarterly revenue and growth

Source: Company data

Figure 2: Quarterly networking revenue and growth

Source: Company data

Figure 3: Broadcom quarterly financials

	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
(US\$mn)											
Revenue	7,706	8,103	8,464	8,930	8,915	8,733	8,876	9,295	11,961	12,487	13,072
YoY%	15.8%	22.6%	24.9%	20.6%	15.7%	7.8%	4.9%	4.1%	34.2%	43.0%	47.3%
QoQ%	4.0%	5.2%	4.5%	5.5%	-0.2%	-2.0%	1.6%	4.7%	28.7%	4.4%	4.7%
Gross profit, non-GAAP	5,821	6,186	6,427	6,673	6,578	6,606	6,665	6,908	9,014	9,518	10,113
YoY%	19.4%	24.9%	26.3%	20.7%	13.0%	6.8%	3.7%	3.5%	37.0%	44.1%	51.7%
QoQ%	5.3%	6.3%	3.9%	3.8%	-1.4%	0.4%	0.9%	3.6%	30.5%	5.6%	6.3%
Margin%	75.5%	76.3%	75.9%	74.7%	73.8%	75.6%	75.1%	74.3%	75.4%	76.2%	77.4%
Operating profit	3,108	3,394	3,737	3,986	4,103	4,008	3,856	4,240	2,083	2,965	3,788
YoY%	69.2%	71.8%	75.8%	54.4%	32.0%	18.1%	3.2%	6.4%	-49.2%	-26.0%	-1.8%
QoQ%	20.4%	9.2%	10.1%	6.7%	2.9%	-2.3%	-3.8%	10.0%	-50.9%	42.3%	27.8%
Margin%	40.3%	41.9%	44.2%	44.6%	46.0%	45.9%	43.4%	45.6%	17.4%	23.7%	29.0%
Net profit	2,398	2,515	2,999	3,311	3,774	3,481	3,303	3,524	1,325	2,121	-1,875
YoY%	83.9%	77.5%	66.4%	73.0%	57.4%	38.4%	10.1%	6.4%	-64.9%	-39.1%	-156.8%
QoQ%	25.3%	4.9%	19.2%	10.4%	14.0%	-7.8%	-5.1%	6.7%	-62.4%	60.1%	-188.4%
Margin%	31.1%	31.0%	35.4%	37.1%	42.3%	39.9%	37.2%	37.9%	11.1%	17.0%	-14.3%
Net profit, non-GAAP	3,741	4,000	4,241	4,544	4,483	4,489	4,596	4,810	5,254	5,394	6,120
YoY%	25.8%	34.2%	35.8%	29.8%	19.8%	12.2%	8.4%	5.9%	17.2%	20.2%	33.2%
QoQ%	6.9%	6.9%	6.0%	7.1%	-1.3%	0.1%	2.4%	4.7%	9.2%	2.7%	13.5%
Margin%	48.5%	49.4%	50.1%	50.9%	50.3%	51.4%	51.8%	51.7%	43.9%	43.2%	46.8%

Source: Company data

Note: Broadcom FY24 is estimated to end on 31 Oct 2024 per Bloomberg; 3QFY24 ended on 4 August 2024

Figure 4: Quarterly financials breakdown by segment

	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
(US\$mn)											
Networking	1,900	2,200	2,300	2,500	2,300	2,600	2,800	3,100	3,300	3,800	4,000
YoY%	33.0%	44.0%	27.8%	31.6%	21.1%	18.2%	21.7%	24.0%	43.5%	46.2%	42.9%
qoq%	0.0%	15.8%	4.5%	8.7%	-8.0%	13.0%	7.7%	10.7%	6.5%	15.2%	5.3%
%	32.4%	35.3%	34.7%	35.3%	32.4%	38.2%	40.3%	42.3%	44.7%	52.8%	55.0%
Other semi	3,973	4,029	4,324	4,592	4,807	4,208	4,141	4,226	4,090	3,402	3,274
YoY%	93.7%	128.3%	204.3%	150.4%	21.0%	4.4%	-4.2%	-8.0%	-14.9%	-19.2%	-20.9%
qoq%	116.6%	1.4%	7.3%	6.2%	4.7%	-12.5%	-1.6%	2.1%	-3.2%	-16.8%	-3.8%
%	67.6%	64.7%	65.3%	64.7%	67.6%	61.8%	59.7%	57.7%	55.3%	47.2%	45.0%
Semi solutions	5,873	6,229	6,624	7,092	7,107	6,808	6,941	7,326	7,390	7,202	7,274
YoY%	68.8%	89.2%	105.7%	89.9%	21.0%	9.3%	4.8%	3.3%	4.0%	5.8%	4.8%
qoq%	57.3%	6.1%	6.3%	7.1%	0.2%	-4.2%	2.0%	5.5%	0.9%	-2.5%	1.0%
%	76.2%	76.9%	78.3%	79.4%	79.7%	78.0%	78.2%	78.8%	61.8%	57.7%	55.6%
Software infrastructure	1,833	1,874	1,840	1,838	1,808	1,925	1,935	1,969	4,571	5,285	5,798
YoY%	4.9%	4.7%	4.7%	3.7%	-1.4%	2.7%	5.2%	7.1%	152.8%	174.5%	199.6%
qoq%	3.4%	2.2%	-1.8%	-0.1%	-1.6%	6.5%	0.5%	1.8%	132.1%	15.6%	9.7%
%	23.8%	23.1%	21.7%	20.6%	20.3%	22.0%	21.8%	21.2%	38.2%	42.3%	44.4%
Total	7,706	8,103	8,464	8,930	8,915	8,733	8,876	9,295	11,961	12,487	13,072
YoY%	47.4%	59.4%	70.0%	62.2%	15.7%	7.8%	4.9%	4.1%	34.2%	43.0%	47.3%
qoq%	39.9%	5.2%	4.5%	5.5%	-0.2%	-2.0%	1.6%	4.7%	28.7%	4.4%	4.7%

Source: Company data

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