



ANALYST QUICK NOTES

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Broadcom Ltd. (NGS: AVGO: BUY)

Target Price: \$205

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3/1/2017

Broadcom Ltd. Thesis

- After successful 2016, on track for strong start to FY17.
- Broadcom fully integrated, Brocade to close at mid-FY17.
- Continued growth prospects based on:
 - Solid organic growth; and
 - Demonstrated ability to acquire & integrate assets.
- We believe that AVGO deserves premium valuations given the company's demonstrated ability to grow faster than the market through acquisitions and organic growth

Fiscal 1Q17 Outlook

- AVGO reports fiscal 1Q17 on 3/1/17 after the bell.
- Street expects: revenue of \$4.08 billion, EPS of \$3.48.
- Argus expects: revenue of \$4.00 billion, EPS of \$3.30.
- Segment growth drivers:
 - Enterprise storage in the \$675 million range;
 - Wireless \$1.15 billion;
 - Wired \$2.0 billion;
 - Industrial, storage; and
 - Wired in the \$2 billion range.
- Annual revenue growth meaningless vs. \$1.77 billion a year ago.
 - 2Q17 will be first comp against acquired Broadcom Corp.
- Non-GAAP EPS up 40% (Street) to 35% (Argus)

Fiscal 3Q16: What the Street Wants to Hear

- Strong presence in iPhone 7 and mobile handsets worldwide via RF filters, combo chips, WiFi, Bluetooth.
- Mobile device demand healthy, particularly at the big two (Apple, Samsung).
- Good Ethernet (PHY), switching on the wired side.
- Disposition plans for Brocade IP networking-Ruckus business.
 - AVGO has history of selling non-core businesses post-acquisition.

Fiscal 3Q16: Guidance

- Street expects: revenue of \$3.91 billion, EPS of \$3.22.
- Argus expects: revenue of \$3.88 billion, EPS of \$3.20.
- Sequential moderation anticipated:
 - Revenue down 4%-5% on topline; and
 - EPS down 3%.

Broadcom Now a Market Favorite

- Has displaced NVDA as the must-own semi stock.
- Since last EPS report (12/8/16),
 - AVGO up 24%,
 - S&P 500 up 5%, and
 - XLK (technology SPDR) up 8%.

Valuation Not Expensive

- Priced at 14.9-times two-year forward P/E.
 - Historical P/E of 13.0-tiems.
- However, in line with historical value vs. market, it is;
 - Trading at 0.84 of market multiple; and at a
 - Historical relative P/E of 0.81.

Solid Growth Trajectory

- We expect solid growth to continue, fueled by combination of organic growth and strategic acquisitions.
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