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Broadcom vs Marvell: the custom-chip boom has an expectations problem

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Custom AI chips are becoming a second growth engine alongside Nvidia's GPUs, with Broadcom and Marvell competing for Big Tech designs.

Marvell shows how strong results can disappoint when investors have already priced in even faster growth.

Broadcom's Wednesday earnings will test both the custom-chip boom and investors' increasingly demanding expectations.

A company can report record revenue, raise its outlook and tell investors that an important business will more than double next year. Its shares can still fall 10%.

Marvell Technology managed exactly that last week.

The chip designer raised its longer-term revenue expectations as demand for artificial intelligence (AI) infrastructure accelerated. Yet Marvell closed at 216.62 USD on 28 August, down 10.3%, because investors wanted its new Google custom-chip partnership to generate meaningful revenue sooner.

That reaction offers a useful preview for Broadcom, which reports fiscal third-quarter results on Wednesday, 2 September. It also captures one of today's most important investing lessons: great company plus great results does not automatically equal a great stock return. Expectations sit in the middle.

Nvidia built the AI boom around the graphics processing unit (GPU), a flexible chip capable of handling many different computing tasks.

But flexibility is not always the cheapest option.

As AI moves from training models towards repeatedly running them for millions of users, known as inference, efficiency matters more. Google, Meta, OpenAI and other large technology companies increasingly want processors designed around their own workloads.

Think of the difference between a Swiss Army knife and a factory machine. Nvidia sells an exceptionally capable Swiss Army knife. Custom silicon is the machine built to perform one job repeatedly and efficiently.

This creates an expanding market for companies such as Broadcom and Marvell. They help customers turn their own chip ideas into products and also supply much of the networking technology connecting thousands of processors inside data centres.

The race is becoming more competitive. Google recently expanded its relationship with Marvell across custom processors, networking and memory technologies. The agreement could eventually generate up to 120 billion USD of orders through fiscal 2033. Importantly, Google appears to be adding Marvell alongside Broadcom rather than simply replacing Broadcom.

Broadcom, meanwhile, is helping Meta develop its Meta Training and Inference Accelerator (MTIA), with production of the latest generation expected to start in September. It has also developed OpenAI's first custom inference processor, Jalapeño, which is expected to begin deployment by the end of 2026.

The important point is not that custom chips replace Nvidia. Big technology companies increasingly use several types of processors. The AI semiconductor market is becoming larger and more specialised at the same time.

Quarterly revenue reached 2.74 billion USD, while management lifted its fiscal 2027 revenue outlook to around 12 billion USD and fiscal 2028 expectations to around 18 billion USD. Custom-chip revenue is expected to more than double next year.

Management indicated that the largest contribution from Google would arrive from fiscal 2029. Investors had already pushed Marvell shares sharply higher this year partly because they expected custom silicon to become a much larger business.

The result was therefore good, but the change in expectations was not good enough.

Compare that with Salesforce and CrowdStrike one day earlier.

Salesforce, which sells software that helps companies manage customers and sales, raised its annual outlook and showed better demand for its AI products. Its shares closed at 252.05 USD, up 22.6%.

CrowdStrike, a cybersecurity company, reported record net new annual recurring revenue (ARR), a measure of new subscription business. Its shares closed at 227.96 USD, up 20.5%.

Why such different reactions? Salesforce and CrowdStrike entered earnings carrying fears that AI could disrupt software. Strong results reduced that fear. Marvell entered earnings carrying enormous optimism. Strong results confirmed much of the existing story rather than improving it.

That is the expectations game in one earnings week.

Broadcom faces an unusually high hurdle on Wednesday.

Last quarter, its AI semiconductor revenue reached 10.8 billion USD, up 143% from a year earlier. Management expects roughly 16 billion USD this quarter, representing growth of more than 200%. Total revenue guidance stands around 29.4 billion USD.

Those numbers would normally look extraordinary. The complication is that extraordinary has become normal for leading AI companies.

Broadcom learned this in June. Revenue grew 48%, but still came slightly below market expectations. Its 16 billion USD AI forecast also fell just short of what analysts had hoped for. The business was booming. The expectation bar was simply higher.

Investors therefore need to look beyond whether Broadcom "beats". More important will be what management says about the next stage: how quickly custom processors ramp, whether new customers add meaningful revenue, and whether AI networking grows alongside compute.

Broadcom's advantage is that it can potentially collect revenue twice. It helps design specialised processors, then sells networking and connectivity products needed to make large clusters of those processors work together.

Custom silicon remains tied to a relatively small number of enormous customers. A delayed chip programme, lower infrastructure spending or a customer moving more work to another supplier can shift billions of future revenue.

Competition is also increasing. Marvell's Google win shows that customers may deliberately use several suppliers. That expands the overall opportunity, but makes market share less predictable.

Finally, expectations matter. When investors already assume years of exceptional growth, even small delays can create large share-price reactions without meaning the long-term business has suddenly deteriorated.

Separate results from expectations. Ask what investors appeared to expect before earnings, not simply whether revenue grew.

Follow timelines, not deal headlines. A large contract matters differently if revenue arrives next quarter rather than three years later.

Watch customer diversification. More custom-chip customers can strengthen growth, while supplier diversification can increase competitive pressure.

Treat share reactions as information, not verdicts. A falling stock can reflect lower expectations rather than worsening business fundamentals.

Broadcom's earnings on 2 September will therefore test more than one company. They will test whether custom silicon is becoming a durable second pillar of AI infrastructure alongside Nvidia's GPUs, and how much of that opportunity investors already assume.

Marvell has already shown the strange arithmetic of an optimistic market: revenue can rise, forecasts can rise and the share price can still fall. Salesforce and CrowdStrike showed the reverse when good results removed a major fear.

For investors, that distinction matters. Earnings tell you how the business performed. The share-price reaction tells you how that performance compared with the story investors had already paid for.

Source: https://www.home.saxo/content/articles/equities/broadcom-earnings-preview-31082026