BLUEGRASS CAPITAL RESEARCH

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May 13, 2026

Advanced Micro Devices Inc.

AI Tailwinds Meet a Crowded Arena

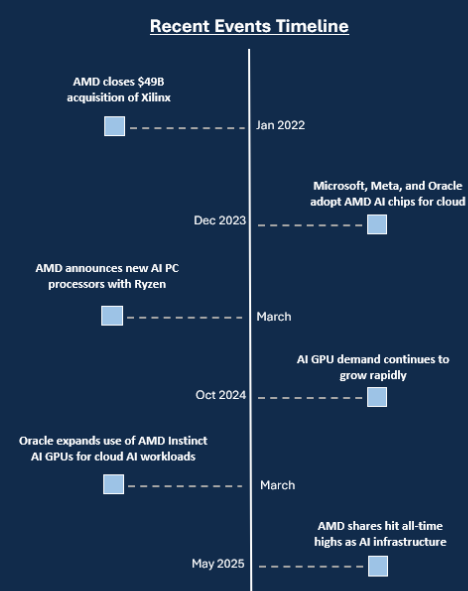
Advanced Micro Devices enters 2026 as one of the most compelling opportunities in large-cap technology, with a record 2025 behind it and an accelerating AI product cycle ahead. Data Center has emerged as the dominant growth engine, EPYC server CPUs have captured over 25% market share from Intel, and hyperscalers are deepening commitments to Instinct AI accelerators as they actively diversify away from single-vendor GPU dependency. We initiate $AMD with a **BUY** rating and a price target of **$576**.

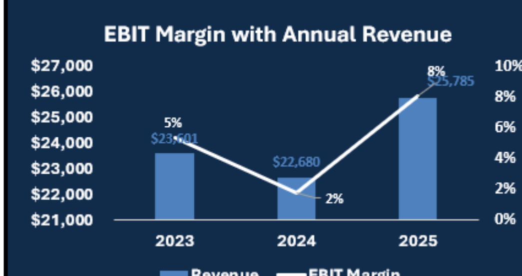
Margin Expansion and EPS Inflection AMD's 2026 earnings story is one of operating leverage, where revenue accelerates faster than costs, dropping disproportionately to the bottom line. CFO Jean Hu confirmed on the Q4 2025 call that OPEX would grow slower than revenue in H2 2026 as the AI product cycle matures. This is reflected in our model, where EBIT margins expand from 9% in FY2026 to 30% by FY2029, driven by Data Center scaling from $22.3B to $66.6B over the same period and carrying materially higher ASPs than Client or Gaming. This mix shift structurally pulls blended margins higher while UFCF inflects from $3.0B in FY2026 to $27.3B by FY2029. AMD has consistently beaten consensus, and we believe the Street continues to underestimate the AI accelerator ramp and associated operating leverage. Our Exit Multiple Method at 32x EV/EBIT implies a share price of $576, representing 36% upside.

Ecosystem Maturation and Hyperscaler Adoption The most persistent bear argument against AMD has been that Nvidia's CUDA ecosystem creates switching costs too high for any hardware alternative to compete. ROCm is projected to achieve 80 to 90% CUDA parity by end of 2026, with ZLUDA and HIP tooling converting an estimated 10 to 15% of existing CUDA users, meaningfully lowering friction for enterprises considering a switch. The customer evidence reflects this shift. Oracle is building a 27,000 node AI cluster combining MI355X accelerators with AMD EPYC CPUs, while Microsoft Azure and OpenAI are running production AI workloads on AMD hardware, with OpenAI taking a strategic ownership stake signaling a relationship well beyond a typical vendor arrangement. Dell's independent testing confirms AMD's MI300X carries a 30 to 50% total cost of ownership advantage over comparable Nvidia hardware, giving hyperscalers a compelling economic rationale to diversify supply. AMD's server CPU market share has also surged to approximately 40% by mid-2025, demonstrating the company's broader platform credibility at scale. These are not pilot programs; they represent a structural shift toward multi-supplier AI infrastructure, where AMD is the clear beneficiary, underpinning our $576 price target

Company Overview Advanced Micro Devices is a global semiconductor company that designs high-performance processors and graphics chips for data centers, personal computers, gaming, and embedded applications. Under CEO Dr. Lisa Su, AMD has executed one of the most successful corporate transformations in the history of the semiconductor industry, moving from a distant second in both CPUs and GPUs to a genuine challenger in both markets simultaneously. The company's Data Center business, anchored by its EPYC server processors and Instinct AI accelerator family, has emerged as its dominant growth driver and now accounts for majority of revenue. AMD is fabless, partnering with TSMC on leading-edge chip manufacturing, and has expanded its capabilities through the acquisitions of Xilinx in adaptive computing and ZT Systems in AI infrastructure. Its partnerships span OpenAI, Oracle, Microsoft, Meta, and a growing number of sovereign AI programs globally.

TICKER:	$AMD
RATING:	BUY
PRICE:	$450.93
PRICE TARGET:	$577
MARKET CAP:	$735.29bn
52-W RANGE:	$107 - $469
Forward P/E:	43.62x
IMPLIED UPSIDE:	27.97%





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Risk 1 AMD faces relentless competitive pressure from Nvidia, which continues to dominate the AI accelerator market with over 90% share and a deeply entrenched CUDA ecosystem. If AMD fails to close the software gap or match Nvidia's pace of innovation, hyperscalers and enterprise customers still evaluating long-term platform commitments may default back to Nvidia. Falling behind in either silicon performance or software maturity could slow the adoption curve that underpins the entire bull thesis and put pressure on both revenue growth and margin expansion targets.

Risk 2 AMD has made several significant acquisitions in recent years, most notably Xilinx in adaptive computing and ZT Systems in AI infrastructure, and it continues to build out an increasingly complex business. These kinds of transactions carry real execution risk, including the challenge of integrating new teams and product lines, achieving anticipated cost synergies, retaining key talent, and maintaining focus on core product development simultaneously. If AMD struggles to fully integrate these acquisitions or fails to extract the strategic value it expected from them, it could weigh on profitability and distract management from the competitive battles that matter most in the data center.

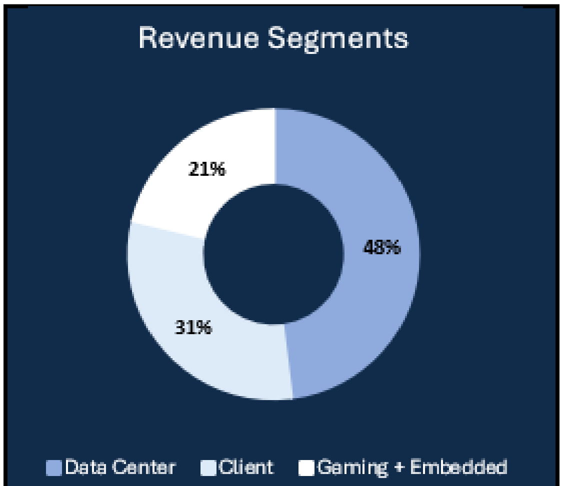
Catalysts: Several developments could drive AMD meaningfully higher from current levels. First, continued Data Center earnings beats would force consensus estimate revisions higher, as any evidence the Instinct accelerator ramp is arriving faster than modeled would trigger a meaningful re-rating. Second, ROCm reaching 80 to 90% CUDA parity by end of 2026 would materially lower enterprise switching costs, particularly given AMD's 30 to 50% total cost of ownership advantage over comparable Nvidia solutions. Third, public expansion of hyperscaler commitments beyond Oracle's existing 27,000 node cluster or OpenAI's strategic ownership stake would confirm AMD as the definitive second platform in AI infrastructure.

Valuation

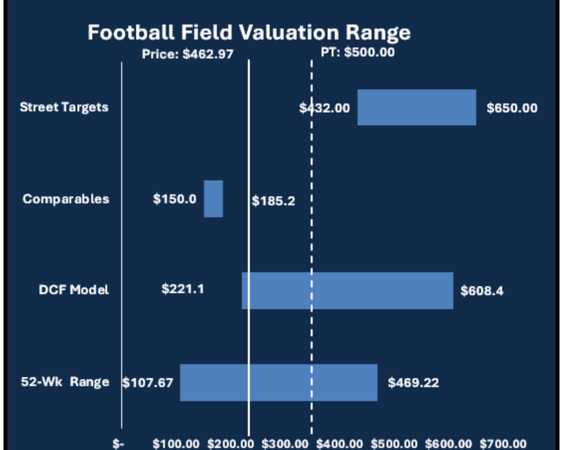
DCF Analysis ($mm)	FY2026 12/31/2026	FY2027 12/31/2027	FY2028 12/30/2028	FY2029 12/30/2029	FY2030 12/30/2030	FY2031 12/31/2031
Stub	0.38	1.38	2.38	3.38	4.38	5.38
Discount Period	0.31	1.12	2.12	3.12	4.12	5.12
Revenue	47,800	64,687	84,792	106,483	126,840	142,022
Revenue Growth	*38%*	*35%*	*31%*	*26%*	*19%*	*12%*
Data Center	22,300	34,342	49,538	66,629	83,120	95,588
Client	16,500	20,625	24,853	28,830	32,145	34,395
Gaming + Embedded	9,000	9,720	10,400	11,024	11,576	12,039
EBIT	4,200	16,172	23,318	31,945	41,223	49,708
EBIT Margin	*9%*	*25%*	*28%*	*30%*	*33%*	*35%*
Tax Expense	200	2,426	3,673	5,271	7,111	8,947
Effective Tax Rate	*5%*	*15%*	*16%*	*17%*	*17%*	*18%*
NOPAT	4,000.00	13,745.99	19,645.21	26,674.02	34,112.15	40,760.19
D&A	2,000	3,881	4,346	4,526	4,281	3,551
Capex	1,500	1,617	2,077	2,556	2,981	3,266
Changes in NWC	1,500	1,941	1,802	1,331	476	(710)
UFCF	3,000	14,069	20,112	27,313	34,937	41,754
PV of FCF	2,886	12,231	15,437	18,510	20,904	22,059

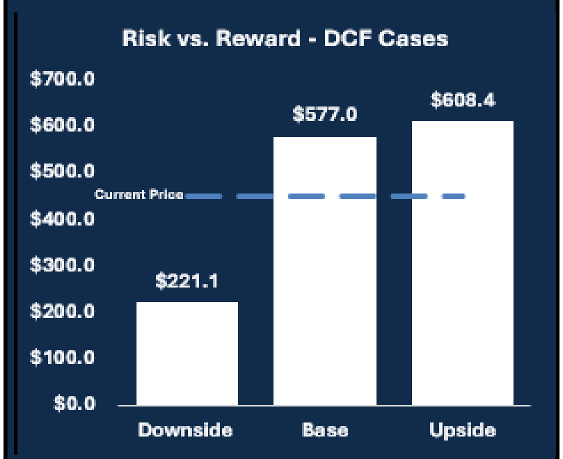
Our 6-year DCF assumes a 32.0x EV/EBIT exit multiple, with revenue growing from $47.8B in FY2026 to $142.0B by FY2031, a 24% CAGR, driven by Data Center scaling from $22.3B to $95.6B. EBIT margins expand from 9% to 35% as mix shifts toward higher-margin AI accelerators, with UFCF inflecting from $3.0B to $41.8B. This yields an implied share price of $576, representing 36% upside.

Conclusion: Advanced Micro Devices is an investment in the hardware and software platform enabling the next phase of AI infrastructure buildout, going beyond the current focus on Nvidia to address the growing demand for a credible second supplier. AMD's record Data Center growth, expanding EPYC server CPU share, and deepening hyperscaler commitments through Oracle, OpenAI, and Microsoft reflect a company transitioning from challenger to platform. With EBIT margins expanding from 9% to 35% and UFCF inflecting from $3.0B to $41.8B through FY2031, we initiate $AMD with a BUY rating and a price target of $576.



Terminal Value	
Exit Multiple Method	
2034 EBIT	$49,708
EV/EBIT Exit Multiple	32.0x
Terminal Value	$1,590,642
PV of Terminal Value	$841,041
PV of Projection Period	$92,055
PV of Terminal Value	$841,041
Implied TEV	$933,095
(-) Debt	$4,006
(+) Cash	$10,552
Implied Equity Value	$939,641
Diluted Shares Outstanding	1,631
Implied Share Price	$576.25
Upside/Downside	28.1%





Income Statement ($mm)	**2025A**	**2026E**	**2027E**	**2028E**	**2029E**	**CAGR%**
Revenue	34,639	47,800	64,687	84,792	106,483	32.4%
EBITDA	6,745	6,200	20,053	27,663	36,470	52.5%
EBIT	3,741	4,200	16,172	23,318	31,945	70.9%
NOPAT	3,844	4,000	13,746	19,645	26,674	62.3%

Margin & Growth Data	**2025A**	**2026E**	**2027E**	**2028E**	**2029E**	**AVG%**
EBITDA Margin	19.5%	13.0%	31.0%	32.6%	34.3%	26.1%
EBIT Margin	10.8%	8.8%	25.0%	27.5%	30.0%	20.4%
Revenue Growth	34.3%	38.0%	35.3%	31.1%	25.6%	32.9%
EBIT Growth	79.3%	12.3%	285.0%	44.2%	37.0%	91.6%

Valuation Metrics	**2025A**	**2026E**	**2027E**	**2028E**	**2029E**	**AVG%**
P/FCF	152.4x	230.5x	49.2x	34.4x	25.3x	98.4x
EV/Sales	19.8x	14.3x	10.6x	8.1x	6.4x	11.8x
EV/EBITDA	101.6x	110.5x	34.2x	24.8x	18.8x	57.9x
FCF Yield	0.7%	0.4%	2.0%	2.9%	3.9%	2.0%

Comparable Companies

$mm

Ticker	Mkt Cap	EV	P/E LTM	Revenue LTM	EBITDA LTM
QUALCOMM Incorporated (NasdaqGS:QCOI	$221,667	$227,138	23.0x	$44,486	$12,999
Texas Instruments Incorporated (NasdaqGS:T	$268,632	$277,579	50.5x	$18,438	$8,665
NVIDIA Corporation (NasdaqGS:NVDA)	$5,347,408	$5,296,264	45.1x	$215,938	$133,230
Analog Devices, Inc. (NasdaqGS:ADI)	$204,875	$209,527	76.7x	$11,757	$5,459
Advanced Micro Devices Inc.	$730,982	$722,506	149.4x	$37,454	$7,430

Ticker	LTM EV/EBITDA	Gross Margin	EBITDA Margin	EBIT Margin	1 Yr Rev Growth Rate LF
QUALCOMM Incorporated (NasdaqGS:QCOI	17.5x	54.8%	29.2%	25.7%	5.2%
Texas Instruments Incorporated (NasdaqGS:T	32.0x	57.3%	47.0%	36.0%	14.9%
NVIDIA Corporation (NasdaqGS:NVDA)	39.8x	71.1%	61.7%	60.4%	65.5%
Analog Devices, Inc. (NasdaqGS:ADI)	38.4x	62.8%	46.4%	29.6%	25.9%
Advanced Micro Devices Inc.	97.2x	53.1%	19.8%	11.8%	35.0%
High	97.24x	71.1%	61.7%	60.4%	65.5%
75th Percentile	39.75x	62.8%	47.0%	36.0%	35.0%
Average	44.98x	59.8%	40.8%	32.7%	29.3%
Median	38.38x	57.3%	0.0%	29.6%	25.9%
25th Percentile	32.03x	54.8%	29.2%	25.7%	14.9%
Low	17.47x	53.1%	19.8%	11.8%	5.2%

Advanced Micro Devices Inc.		
Implied Enterprise Value (25th Percentile)	$	238,016
Implied Enterprise Value (Median)	**$**	**285,173**
Implied Enterprise Value (75th Percentile)	$	295,363
Implied Share Price (25th Percentile)	$	149.98
Implied Share Price (Median)	**$**	**178.90**
Implied Share Price (75th Percentile)	$	185.15

Weighted Average Cost of Capital ($mm)	
Market Risk Premium	4.33%
Beta	2.41
Risk Free Rate	4.60%
Cost of Equity	12.69%
Weighted Average Cost of Debt	4.28%
Tax Rate	15.00%
Cost of Debt	0.57%
Total Equity	$691,538
Total Debt	($6,546)
Equity/Total Capitalization	84.39%
Debt/Total Capitalization	15.61%
WACC	13.26%

Downside Case: Our $221 downside case assumes a 25.0x EV/EBIT multiple, with revenue growing at roughly 15% annually through FY2031 and EBIT margins peaking at 25%. In this scenario, AMD fails to close the software gap with Nvidia, enterprise adoption slows, and integration challenges from Xilinx and ZT Systems weigh on profitability, limiting FCF generation and compressing the multiple.

Upside Case: Our $608 upside case assumes a 35.0x EV/EBIT multiple, with revenue growing at roughly 30% annually through FY2031 and EBIT margins reaching 38%. In this scenario, ROCm achieves CUDA parity ahead of schedule, hyperscaler commitments expand beyond current deployments, and Instinct accelerator demand exceeds base case assumptions, driving AMD's 35% return from current levels.

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