

Credo Technology Group Holding Ltd.

NASDAQ: CRDO

GICS Sector: Information Technology

GICS Industry: Semiconductors & Semiconductor Equipment

National Association of Securities Dealers Automated Quotations (NASDAQ)

BUY

Recommendation

Current Price: \$183

Target Price: \$266

Upside: 41%

Executive Summary

NASDAQ : CRDO – BUY Rating

We initiate coverage on Credo Technology Holding Inc. (NASDAQ: CRDO), a provider of innovative, high-speed, low power data connectivity solutions, with a **BUY** rating and a **12-month price target of \$266**. Our target price, derived from a blend of intrinsic (DCF) and relative valuation methodologies, implies a **41% upside** from the closing share price of **\$183 as of May 1, 2026**.

The “AHA Moment” and Investment Summary Highlights

The “AHA” Moment:

The rapid scaling of AI infrastructure is fundamentally reshaping data center architecture, where **compute and bandwidth demand are growing exponentially while power availability remains constrained**. As GPU clusters scale from tens to hundreds of units, the volume of data that must be transferred between chips increases at a significantly faster rate, creating a critical **interconnect bottleneck**. This bottleneck is not driven by compute limitations, but by the inefficiency, cost, and power intensity of moving data at scale. As a result, **efficient data movement, not compute, will define the winners of the AI infrastructure buildout**.

Credo Technology is uniquely positioned at the center of this shift, providing **high-speed, low-power connectivity solutions** that optimize data transfer across AI systems. By enabling faster data movement at lower power consumption, Credo directly addresses the core constraint limiting AI scalability. As AI workloads continue to expand, the importance of interconnect efficiency will only increase, positioning Credo as a **critical enabler of next-generation data center performance and efficiency**.

The “AHA” Moment is further divided into three key investment thesis:

1) Leadership in Copper Connectivity

Credo’s strong position in AECs enables it to capture immediate, high-volume demand driven by rising GPU density and intra-rack connectivity needs. Its cost-efficient, low-power solutions make copper the preferred choice for short-reach interconnects, supporting sustained near-term growth.

2) Expansion into Optical Connectivity

The acquisition of DustPhotonics expands Credo’s capabilities into optical interconnects, unlocking a significantly larger addressable market. This positions the company to benefit from the long-term shift toward rack-to-rack and long-reach connectivity in AI data centers.

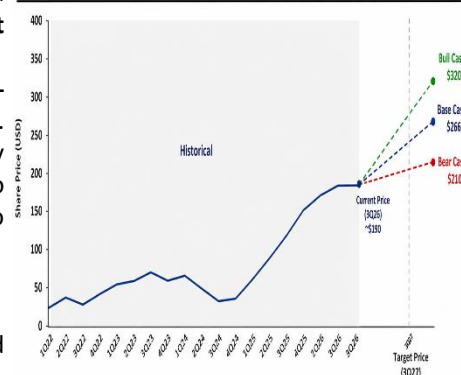
3) Operating Leverage & Margin Expansion

Credo’s scalable, IP-driven model allows revenue growth to outpace operating expenses, driving significant margin expansion. As volumes increase and higher-speed solutions gain adoption, the company is positioned for strong EPS growth and profitability.

Financial Snapshot

Date	04-05-2026
Current Price	\$183
Target Price	\$266
Upside / (Downside)	41%
Market Capitalization (in \$bn)	\$29.4
FDS Outstanding (in mn)	182
52 Week Low	\$33
52 Week High	\$214

Blended Share Price Target – Credo Technology Group (CRDO)



Valuation Summary

Methodology	Weight	Price
DCF	50%	\$241
Relative Valuation	50%	\$284
Blended PT		\$263
Upside / (Downside)		41%

Analyst: Shantanu Kantak

Particulars	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Revenue	53.8	58.7	106.5	184.2	193.0	436.8	1373.7	2258.6	3162.0	3952.5	4743.0
Revenue Growth YoY %		9%	81%	73%	5%	126%	205%	60%	215%	64%	40%
Gross Profit	46.1	38.3	64.0	106.2	119.4	282.9	924.2	1490.7	2086.9	2608.7	3130.4
Gross Margin %	86%	65%	60%	58%	62%	65%	67%	66%	66%	66%	66%
Operating Income (Loss)	2.07	-25.23	-18.83	-18.83	-36.29	38.00	455.76	861.95	1233.13	1573.43	1925.39
Operating Income %	4%	-43%	-18%	-10%	-19%	9%	33%	38%	39%	40%	41%
Net Income Avail to Common, Adj	1.3	-27.5	-19.0	-14.1	-27.6	53.1	472.2	873.8	1239.5	1574.6	1921.2
Net Income %	2%	-47%	-18%	-8%	-14%	12%	34%	39%	39%	40%	41%
Basic EPS, GAAP	0.0	-0.4	-0.2	-0.1	-0.2	0.3	2.6	4.8	6.8	8.6	10.5

Business Description

Overview

Founded in 2008, Credo is a provider of innovative, high-speed, low power data connectivity solutions with a broad product portfolio that addresses every connection in the enterprise and hyperscale data center markets. The company’s goal is to break bandwidth barriers on every wired connection in the data infrastructure market by delivering improved power and cost efficiency as data rates and bandwidth requirements increase dramatically in the data infrastructure market over the coming years.

Business Model

Credo Technology operates a **fabless semiconductor business model** focused on designing and commercializing high-speed connectivity solutions that enable efficient data transfer within AI-driven data centers and cloud infrastructure. By outsourcing manufacturing to foundries such as TSMC, Credo maintains a capital-light structure that supports strong gross margins and scalability. Overall, the company’s business model is positioned to benefit from the rapid growth in AI data center infrastructure, as increasing data traffic and power efficiency requirements drive demand for its connectivity solutions.

Operating Segments (Figure 2)

Credo Technology operates as a single-segment company, with revenue primarily driven by connectivity hardware (~94%), including Active Electrical Cables (AECs), optical solutions, and high-speed connectivity ICs, while the remainder comes from high-margin IP licensing and engineering services. Geographically, over 70% of revenue is reported from Hong Kong and Mainland China, with the balance from the United States and other regions; however, this reflects its Asia-based supply chain and billing structure rather than end-market demand, which is largely driven by U.S. hyperscalers.

Product Portfolio

Its core product categories include **Active Electrical Cables (AECs)**, which serve as the primary revenue driver and are widely adopted for short-range intra-rack and rack-to-rack connectivity due to their cost and power advantages; **Optical DSPs**, which enable high-speed optical communication for longer-range applications and are expected to scale with the transition to 200G per lane architectures; and **line card ICs and retimers**, which ensure signal integrity and support next-generation standards such as PCIe Gen 6. In addition to its established portfolio, Credo is expanding into higher-value solutions through new product lines, including **ZeroFlap Optics**, which combines optical performance with AEC-like reliability; **Active LED Cables (ALCs)**, targeting longer reach and lower power use with a potentially larger addressable market; and **OmniConnect Gearboxes**, designed to address data bottlenecks such as the memory wall and enable more flexible, composable AI system architectures. Collectively, this diversified yet integrated product suite strengthens Credo’s positioning across the full connectivity stack, supporting both near-term growth and long-term expansion into emerging AI infrastructure applications. (Figure 1 & 3)

Growth Strategy (Figure 5)

Credo Technology’s growth strategy is centered on capitalizing on the rapid expansion of AI-driven data center infrastructure by scaling its connectivity solutions across both copper and optical domains. The company is benefiting from increasing data traffic, rising GPU density, and the need for power-efficient, high-speed interconnects.

Growth is driven by four key pillars:

Optical TAM Unlock expands Credo’s addressable market by enabling participation in rack-to-rack and data center-scale connectivity, representing a **\$10B+ opportunity**. Through innovations such as ZeroFlap Optics, the company is positioned to capture demand for higher-speed, longer-reach interconnects as architectures increasingly transition toward optical solutions.

AI Cluster Scaling is a major structural driver, as hyperscalers scale deployments from smaller clusters to large-scale GPU systems. This expansion results in a **3–6x increase in interconnect requirements**, directly driving demand for Credo’s connectivity products across both copper and optical layers.

Intra-Rack AEC Explosion continues to support strong volume growth, as rising GPU density within racks increases the need for **low-cost, low-power Active Electrical Cables (AECs)**. AECs are becoming the standard for short-range connectivity, displacing optical solutions in these use cases due to superior efficiency and cost advantages.

Figure 1: Credo Solutions

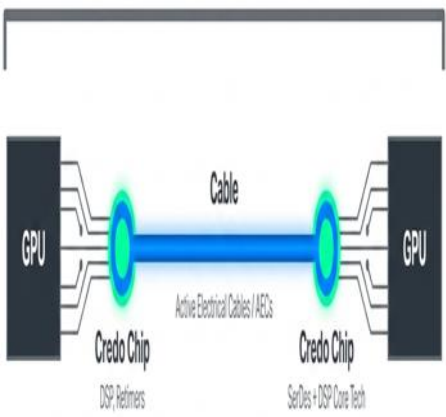


Figure 2: Segment Break-up

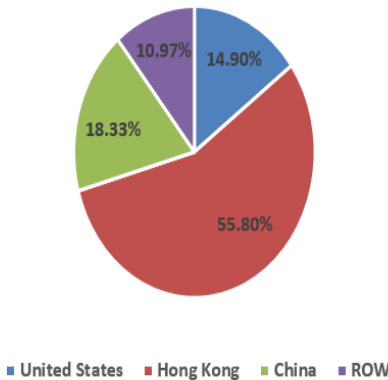


Figure 3: Credo Product



Figure 4: DustPhotonics Acquisition

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Credo Agrees to Acquire DustPhotonics, Accelerating Expansion into Silicon Photonics and Next Generation Optical Connectivity

Share X F P ...

Acquisition will bring industry-leading Silicon Photonics PIC technology in-house, expanding Credo's addressable market and deepening its optical interconnect portfolio across 800G, 1.6T, and 3.2T NPO and CPO

Forced Upgrade Cycles further accelerate growth, as increasing workload intensity drives transitions to **higher-speed standards such as 800G and 1.6T**. These upgrade cycles create recurring demand for next-generation connectivity solutions, positioning Credo to benefit from continuous technology refresh across AI infrastructure.

In parallel, Credo is leveraging its acquisition of DustPhotonics (**Figure 4**) to strengthen its optical capabilities, enabling expansion into higher-value optical interconnect solutions and supporting its transition toward a more integrated connectivity platform.

Industry & Competitive Positioning

Market Dynamics

Credo’s positioning is driven by structural shifts across the AI infrastructure ecosystem, particularly within networking, interconnect silicon, and high-speed connectivity solutions, all of which are critical to enabling large-scale AI deployments.

AI Networking & Infrastructure Market (Figure 6)

The total addressable market (TAM) for AI networking and infrastructure is estimated at approximately **\$98 billion**, growing at a **~30–40% CAGR**, driven by accelerating hyperscaler investments in AI data centers. Within this broader market, **AI interconnect silicon** represents a high-growth segment, expected to expand from **~\$40 billion to ~\$250 billion by 2030 (~45% CAGR)**, reflecting the increasing importance of data movement as a core bottleneck in AI scalability.

AI Cable & Connectivity Market

Within the interconnect ecosystem, the **AI cable market** is projected to reach approximately **\$22 billion by 2029**, with segments such as Active Electrical Cables (AECs) growing at **~70% CAGR**. This rapid expansion is driven by rising GPU density and the need for **low-cost, power-efficient intra-rack connectivity**, positioning copper-based solutions as a critical component of data center architecture.

Bandwidth Scaling & Upgrade Cycles (Figure 7)

The industry is undergoing a structural transition toward higher bandwidth standards, progressing from **400G to 800G, 1.6T, and ultimately 3.2T architectures**. This “bandwidth stepladder” reflects the exponential increase in data throughput requirements as AI workloads scale. As bandwidth increases, **power consumption becomes a binding constraint**, making architectural efficiency and performance-per-watt a key differentiator for connectivity solutions.

As AI clusters scale in size and complexity, power constraints are emerging as a critical bottleneck, forcing a shift toward **energy-efficient interconnect solutions**. This dynamic structurally benefits companies focused on optimizing **low-power, high-performance connectivity**, as efficiency becomes non-negotiable in next-generation data center design.

Competitive Landscape

Credo vs. Broad Semiconductor Players

Large-scale semiconductor companies such as Broadcom and Marvell dominate the connectivity market through broad portfolios spanning switching, PHYs, and optical solutions, benefiting from scale, deep customer relationships, and end-to-end offerings. However, these players primarily optimize for performance and scale, often at the expense of power efficiency and cost in short-reach applications. In contrast, Credo differentiates itself through a **power-efficient, cost-optimized approach**, particularly in intra-rack connectivity, where its Active Electrical Cables (AECs) provide a compelling alternative to more power-intensive solutions..

Credo vs. Optical Specialists:

Optical-focused companies such as Lumentum and Coherent are strong in long-reach, high-performance optical interconnects, benefiting from deep expertise in photonics and laser-based technologies. While these players excel in speed and long-distance connectivity, they typically lack cost efficiency and flexibility in short-range use cases. Credo differentiates itself by combining both **copper and optical capabilities**, enabling it to serve a broader range of applications while maintaining advantages in power consumption and cost for shorter distances.

Key Differentiation:

Unlike competitors that optimize for speed or scale, Credo’s **hybrid copper and optical strategy**, combined with its **foundational SerDes IP**, enables a unique value proposition centered on **power efficiency per bit, short-reach cost advantage, and system-level integration**, positioning it strongly in the evolving AI connectivity landscape.

Figure 5: Growth Drivers



Figure 6: Total Addressable Market

Nested TAM

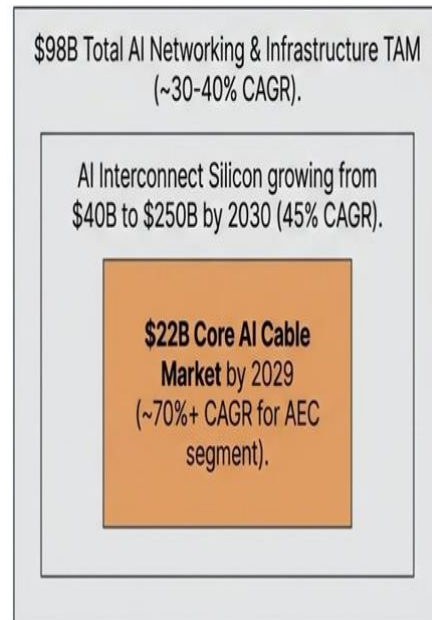
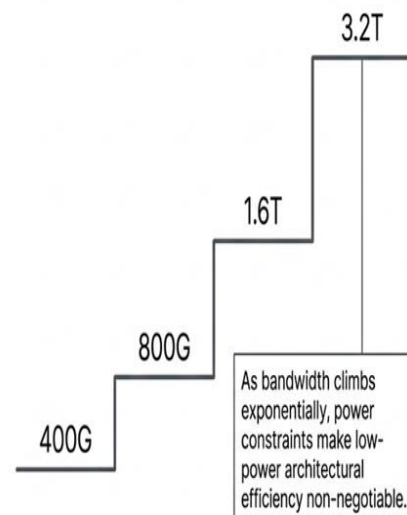


Figure 7: Bandwidth Scaling

The Bandwidth Stepladder



Investment Summary

Leadership in Copper Connectivity

Credo's near-term revenue growth is driven by its leadership in **Active Electrical Cables (AECs)**, which are increasingly becoming the preferred solution for short-reach connectivity within AI data center architectures. As GPU density rises and rack-level compute becomes more complex, intra-rack connectivity demand is scaling rapidly, positioning AECs as a critical component of modern AI infrastructure.

Growing demand from hyperscalers

AI cluster scaling is driving a **3–6x increase in interconnect requirements per rack**, significantly expanding the addressable volume opportunity for AECs. In addition, AEC solutions are approximately **3x more cost-efficient than optical alternatives** in short-reach environments, reinforcing their adoption across hyperscale deployments. Continued design wins and customer expansion suggest that adoption remains in the early stages of a multi-year growth cycle.

Credo's structural advantage

Credo's differentiation lies in its ability to deliver **power-efficient, cost-optimized connectivity at scale**, supported by its proprietary SerDes technology and system-level design expertise. While optical solutions address longer-range connectivity, copper-based AECs remain structurally advantaged for short distances, enabling Credo to secure **high-volume, recurring demand from hyperscalers** as AI infrastructure continues to scale.

Expansion into Optical Connectivity

Credo's acquisition of DustPhotonics represents a **transformational step in its evolution from a copper-focused connectivity provider to a fully integrated optical and electrical solutions platform**. The transaction brings **Silicon Photonics (SiPho) technology in-house**, enabling Credo to expand across optical transceivers, DSPs, and next-generation interconnect solutions supporting **800G, 1.6T, and 3.2T architectures**. This positions the company to participate in higher-value, longer-reach connectivity as AI infrastructure scales.

M&A as a Strategic Inflection Point

Credo has historically pursued a **disciplined, organically driven growth strategy**, relying on internal R&D and design wins rather than acquisitions. Against this backdrop, the DustPhotonics transaction stands out as a **high-conviction, strategic inflection point**, marking the company's first major step into inorganic expansion. Unlike serial acquirers in the semiconductor industry, Credo has taken a **targeted approach to M&A**, using this acquisition to accelerate its entry into silicon photonics—capabilities that would have taken years to build organically. This underscores the deal as a **step-change in strategic direction**, transforming Credo into a hybrid copper + optical platform.

Vertical Integration and Technology Control

The acquisition enables **full vertical integration across the connectivity stack**, combining Credo's SerDes and DSP expertise with DustPhotonics' photonics capabilities. This allows for **co-optimization of electrical and optical components**, improving system performance, lowering power consumption, and reducing reliance on third-party suppliers. A key differentiator is DustPhotonics' patented **Low-Loss Laser Coupling (L3C)** technology, which enhances efficiency while lowering bill-of-material costs and improving manufacturing yields—critical advantages in hyperscale AI deployments.

Strong Positive Market Reaction

The market responded **very positively** to the announcement, reinforcing confidence in the strategic rationale. Credo's stock surged **~18–21% on the day of the announcement**, marking one of its largest single-day gains, with additional **~10%+ upside in extended trading**.

This strong reaction reflects investor belief that the acquisition is **value-accretive and positions Credo as a key player in the next phase of AI connectivity**, particularly as the company transitions into a full-stack optical + copper platform.

TAM Expansion and Financial Impact

Strategically, the acquisition expands Credo's addressable market into the silicon photonics segment, expected to reach **~\$6B by 2030**, while management targets **\$500M+ in optical revenue by FY27**. This highlights the potential for optical to become a major growth driver alongside its existing copper business.

Operating Leverage & Margin Expansion

Credo's business model is structurally positioned to deliver **significant margin expansion**, supported by rising ASPs, operating leverage, and an improving product mix. As the company scales alongside hyperscaler AI deployments, it benefits from a **highly scalable, IP-driven fabless model**, where incremental revenue growth carries limited incremental cost.

Clear Inflection in Operating Margins

From a quantitative standpoint, Credo is expected to deliver a **sharp improvement in operating profitability**, with non-GAAP operating margins expanding from **-18.8% in FY24 to ~38% by FY27**. This ~5,500bps+ expansion reflects a transition from an investment phase to a **scaled earnings model**, where revenue growth meaningfully outpaces cost growth.

Operating Leverage Driving Profitability

The primary driver of this margin expansion is **operating leverage**, as a significant portion of Credo's cost base—particularly R&D and engineering—is fixed. As volumes scale with increasing AI cluster deployments, the company benefits from **fixed cost absorption**, leading to a disproportionate increase in operating income relative to revenue.

Average Selling Price Uplift

The industry’s transition toward **800G and 1.6T architectures** is driving higher product complexity and value, supporting **ASP expansion across Credo’s portfolio**. This pricing uplift, combined with growing demand, directly contributes to improving gross margins over time.

Mix Shift Towards Higher-Margin Segments

Margin expansion is further supported by a **favorable mix shift toward optical solutions and IP licensing**, both of which carry structurally higher margins compared to copper-based products. The DustPhotonics acquisition accelerates this transition, positioning optical as a key contributor to profitability.

Vertical Integration Enhancing Margins

The move toward **vertical integration in optical connectivity** allows Credo to reduce reliance on third-party components, lower bill-of-material costs, and improve overall system efficiency. This not only strengthens gross margins but also enhances long-term operating margin sustainability.

Supply Chain Analysis

Credo’s supply chain reflects a **highly globalized, asset-light semiconductor model**, characterized by concentrated manufacturing exposure in Asia, diversified end-market demand across geographies, and a customer base dominated by hyperscale technology companies.

Geographic Revenue Exposure

Credo’s revenue is globally diversified but exhibits **significant concentration in specific regions tied to end-market demand and billing structures**. Based on recent data, **Hong Kong accounts for ~55.8% of revenue**, followed by the **United States (~14.9%)** and **China (~18.3%)**, with smaller contributions from other regions. Importantly, this geographic mix does not necessarily reflect end demand, as a large portion of revenue routed through Hong Kong is associated with **U.S.-based hyperscale customers using global procurement and distribution structures**. This creates a structural mismatch between reported revenue geography and underlying demand, which is primarily driven by North American cloud and AI infrastructure spending.

Customer Concentration & Demand Structure (Figure 8)

Credo’s customer base is highly concentrated among **hyperscale and AI infrastructure players**, reinforcing both growth visibility and concentration risk. Key customers include **Amazon (~42%)**, **Microsoft (~24%)**, **Oracle (~11%)**, and **Meta (~5%)**, collectively accounting for a majority of revenue. This concentration highlights Credo’s **deep integration within next-generation data center architectures**, as its connectivity solutions are embedded within customer systems following lengthy qualification cycles. While this creates exposure to customer-specific capex cycles, it is partially mitigated by **high switching costs, long product lifecycles, and recurring demand tied to AI cluster scaling**.

Supplier Base & Manufacturing Footprint (Figure 9)

Credo operates under a **fabless model**, relying on a concentrated group of third-party suppliers for manufacturing and components. The supply chain is heavily skewed toward Asia, with **~83% of suppliers domiciled in Taiwan**, followed by USA (~8%) and limited presence in other regions. Key suppliers include **Taiwan Semiconductor Manufacturing Company (TSMC)**, along with ASE Technology, Amkor, Foxconn, and other semiconductor and assembly partners.

From a facilities standpoint, the majority of manufacturing capacity is located in **Taiwan and broader Asia**, with only a **minimal share of production based in the United States**. This reflects broader industry trends, where advanced semiconductor manufacturing remains concentrated in Asia due to cost efficiency, scale, and technological leadership.

Dependence on Foreign Manufacturing

Credo’s supply chain demonstrates **high dependence on non-U.S. manufacturing**, particularly Taiwan, which is critical for advanced semiconductor fabrication. This introduces exposure to **geopolitical tensions, trade restrictions, and supply chain disruptions**, especially given the strategic importance of Taiwan in global semiconductor production. However, this risk is **not company-specific**, as it is shared across the broader semiconductor ecosystem. Additionally, ongoing efforts by foundries such as TSMC to expand capacity in the United States may gradually reduce geographic concentration over time.

Figure 8: Customer Concentration

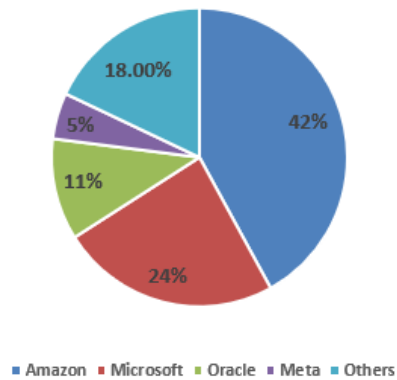


Figure 9: Suppliers Domicile

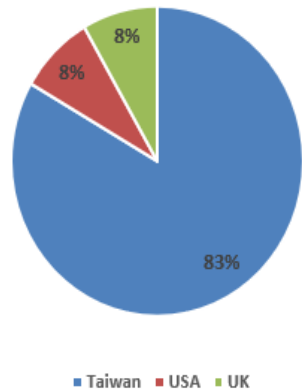
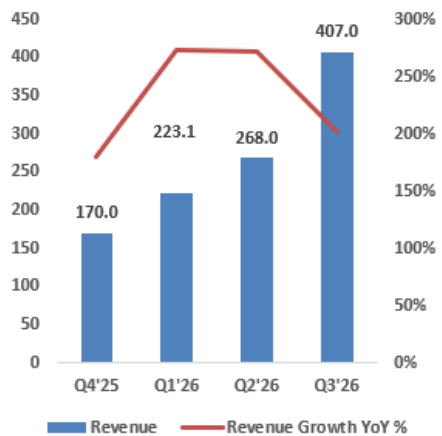


Figure 10: Quarterly Revenue



Financial Analysis

AI-Driven Revenue Inflection and Hypergrowth Trajectory

Credo has delivered a clear revenue inflection, scaling from **\$106.5M in FY22** to **\$193.0M in FY24**, before accelerating sharply to **\$436.8M in FY25**, reflecting the early impact of AI-driven demand, and is projected to reach **\$1.37B in FY26** and **~\$4.74B by FY30** (Figure 11), implying a sustained hypergrowth trajectory; notably, YoY growth peaks above **200% in FY26** before normalizing toward ~20–30% as the company scales, indicating that deceleration is driven by base effects rather than weakening demand, while quarterly performance reinforces this momentum with revenue expanding from **\$59.7M in Q1'25** to **\$407.0M by Q3'26** (Figure 10), highlighting strong sequential growth tied to hyperscaler deployment cycles and increasing AI cluster density, positioning Credo as a key beneficiary of exponential growth in data center interconnect requirements.

Operating Leverage Driving Rapid Cost Normalization

Credo’s operating expense profile highlights a clear transition from an investment-heavy phase to a scalable, operating leverage-driven model, with total opex declining significantly as a percentage of revenue over time; combined SG&A and R&D expenses peaked at elevated levels in earlier years (e.g., ~77.8% and ~80.7% in FY22 and FY24, respectively), reflecting heavy investment in product development and commercialization, before trending downward to ~56.0% in FY25 and further declining to ~25–30% by FY30E (Figure 12), driven by strong revenue scaling. Notably, R&D remains the largest component, though it declines from ~45–50% of revenue to ~15%, indicating continued innovation alongside improving efficiency, while SG&A reduces from ~30%+ to ~10%, reflecting increasing operating discipline and scale benefits. This steady reduction in cost intensity underscores Credo’s ability to **leverage its fixed cost base**, positioning the company for significant margin expansion as revenue growth outpaces operating expense growth.

Margin Expansion and EPS Inflection Highlight Scalable Profitability

Credo’s profitability profile reflects a powerful transition from an investment-heavy phase to a highly scalable, high-margin earnings model, driven by strong revenue growth and operating leverage. Gross margins remain structurally strong, improving from ~58–62% in FY22–FY24 to ~67% in FY26E, before stabilizing at ~66% through FY30, indicating sustained pricing power and favorable product mix. At the operating level, margins inflect sharply from negative territory (**-17.7% in FY22**, **-18.8% in FY24**) to **8.7% in FY25**, before expanding rapidly to **~33% in FY26E** and **~40% by FY30** (Figure 13), driven by declining operating expenses as a percentage of revenue and scale efficiencies. This margin expansion translates directly into a significant EPS inflection, with earnings turning positive at **\$0.32 in FY25** and accelerating to **\$2.59 in FY26E** and **~\$10.54 by FY30** (Figure 14a), highlighting the company’s ability to convert revenue growth into disproportionately higher profitability. Overall, the combination of stable gross margins, expanding operating margins, and exponential EPS growth underscores Credo’s transition into a **highly profitable, scalable AI infrastructure business**, supporting both valuation re-rating and long-term earnings visibility.

Free Cash Flow Inflection and Strong Cash Generation

Credo’s free cash flow profile reflects a clear inflection from negative to strong positive generation, underscoring the company’s transition into a highly cash-generative model driven by operating leverage and scalable profitability. Free cash flow was negative in the early years (**-\$48M in FY22** and **-\$46M in FY23**) as the company invested heavily in growth, before turning positive at **\$17M in FY24** and **\$29M in FY25**, marking the beginning of a sustained cash flow ramp. This momentum accelerates significantly, with free cash flow projected to reach **\$423M in FY26E** and **expand to ~\$2.37B by FY30** (Figure 14b), reflecting strong earnings growth, stable capital expenditure requirements, and efficient working capital management inherent in a fabless semiconductor model. The sharp increase in free cash flow highlights Credo’s ability to convert profitability into cash at scale.

Figure 11: Revenue Projections

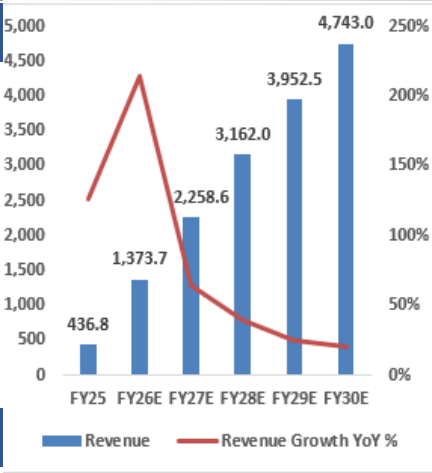


Figure 12: Operating Exps. As % of Sales

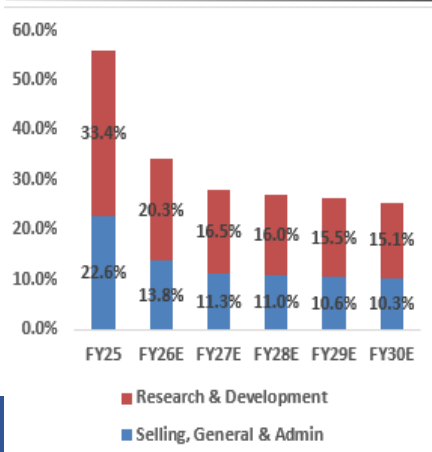
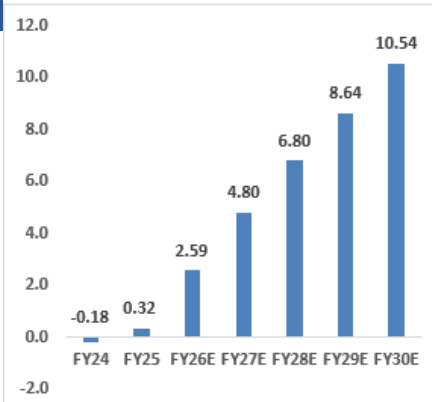


Figure 13: Operating Income %



Figure 14: EPS Projections



Valuation

We initiate a **BUY** rating on Credo Technology with a **blended target price of \$253**, based on a combination of **Discounted Cash Flow (DCF) analysis (50%)** and **relative valuation (50%)**. This implies a potential **upside of approximately 33%** from the current price of ~\$195. Our valuation reflects strong **AI-driven revenue growth, high volume revenue growth due to strong hold in copper connectivity market, accelerating operating leverage driving significant margin expansion**, alongside a strategic shift toward higher-value optical connectivity solutions through acquisition of DustPhotonics. Additionally, we incorporate a forward-looking view on **multiple re-rating**, as Credo transitions from an investment phase to a scaled profitability model.

Discounted Cash Flow Analysis

Our **DCF analysis** incorporates **free cash flow projections** and **Price/Earnings exit multiples** to capture Credo’s growth potential beyond 2030. The model reflects **strong near-term revenue growth (~65%)**, normalizing toward ~30% over the forecast period, supported by continued hyperscaler demand and AI infrastructure expansion. A key driver of valuation is **operating leverage**, with non-GAAP operating margins expanding from **-18.8% in FY24 to ~38% by FY27**, reflecting a transition to a scaled earnings model. Based on these assumptions, our DCF analysis yields a **target price of \$214**, implying a **potential upside of approximately 25%** relative to the current share price.

Scenario Analysis: Credo’s valuation reflects a balanced risk-reward across scenarios, with our **base case target price of \$266.48** assuming steady execution across its core pillars of copper connectivity leadership, optical expansion, and operating leverage, driving robust but moderating revenue growth and margin expansion toward ~35–40%. In a **bull case (\$320)**, faster-than-expected AI infrastructure spending, stronger hyperscaler adoption, and successful scaling of higher-margin optical solutions drive both earnings outperformance and multiple re-rating back toward historical premiums, resulting in significant upside. Conversely, in a **bear case (\$190)**, slower AI demand and potential technological disruption from alternatives such as co-packaged optics lead to weaker growth, delayed margin expansion, and multiple compression toward peer averages, limiting valuation.

Sensitivity Analysis: The sensitivity analysis highlights that Credo’s valuation is most sensitive to changes in both the **exit multiple and cost of capital**, with implied share prices ranging from ~\$182 to ~\$308 across reasonable assumptions. The base case valuation of \$241 assumes a 50x P/E multiple and a 19.2% WACC, while upside is driven by multiple expansion and improved capital efficiency, and downside reflects higher discount rates and compression in valuation multiples.

Forward P/E	WACC					
		18.0%	18.6%	19.2%	19.8%	20.4%
	40	\$205	\$198	\$193	\$187	\$182
	45	\$231	\$223	\$217	\$210	\$205
	50	\$257	\$248	\$241	\$234	\$227
	55	\$283	\$273	\$265	\$257	\$250
	60	\$308	\$298	\$289	\$280	\$273

Relative Valuation

Our **relative valuation** is based on **Price/Earnings multiple**. We performed a peer comparison analysis keeping in mind the competitors that are reported by the company. The competitors include Broadcom, Marvell Technology, Lumentum Holdings, Astera Labs, Synopsys, Optoelectronics and Cadence Design Systems. We also focused on the current and historical multiples of Credo. By focusing on both of the above, our relative valuation produces a **target price of \$285**, implying a **potential upside of approximately 50%** from the current share price.

Price/Earnings: Credo currently trades at approximately **36–39x forward P/E**, broadly in line with the peer group average (~39x). However, on a relative basis, the stock is now trading at a **~12% discount to peers**, compared to a **~29% premium over the past two years**, implying a **~41 percentage point compression in relative valuation**.

As execution across key growth drivers—**copper leadership, optical expansion, and margin inflection**—becomes more visible, we expect Credo to **re-rate toward its historical premium positioning relative to peers**.

Figure 14: Free Cash Flow Projections

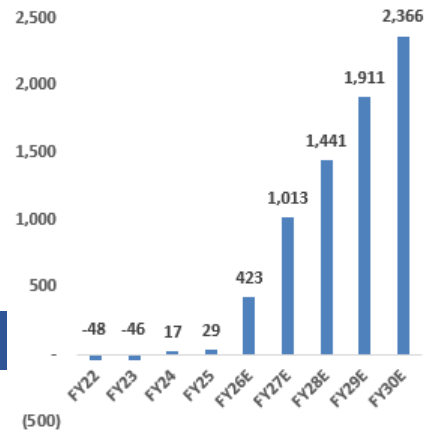


Figure 15: Valuation Matrix

Methodology	Weight	Price
DCF	50%	\$241
Relative Valuation	50%	\$284
Blended PT		\$263
Upside / (Downside)		41%

Figure 16: WACC Calculation

After Tax Cost of Debt	0%
Risk-free rate	4.2%
Market Risk Premium	6.0%
Beta	2.50
Cost of Equity	19.2%
WACC	19.2%

Figure 17: Scenario Analysis

Criteria	Bear	Base	Bull
Revenue CAGR	45%	40%	20%
Operating Margins (30'E)	45%	41%	33%
Implied Return	65%	41%	8%

Figure 18: Relative Valuation

Particulars	
Industry P/E Average	38.90
Historical CRDO Premium	29%
CRDO P/E Multiple	50.18
Implied Share Price	\$285
Return	50%

Investment Risks

Market Risk 1 – Technology Risk (Shift to CPO)

A key long-term risk is the potential industry transition toward **Co-Packaged Optics (CPO)**, where optical components are integrated directly with switching silicon, potentially reducing the need for traditional pluggable transceivers and cable-based solutions such as AECs. If adoption accelerates faster than expected, it could **compress the lifecycle of current connectivity architectures**, impacting Credo’s core copper-driven revenue base.

Mitigation: This risk is mitigated by many factors. First, CPO adoption remains **technically complex and commercially immature**, with significant challenges around thermal management, serviceability, and yield. As a result, industry adoption is expected to be **gradual rather than disruptive**. Second, Credo’s **hybrid strategy**, including investments in ZeroFlap Optics and optical DSPs, positions the company to **participate in future optical architectures rather than being displaced by them**. Finally, copper-based AECs are expected to remain the **dominant solution for short-reach connectivity** for the foreseeable future, providing a durable revenue base even as optical technologies evolve in a challenging housing environment.

Market Risk 2 – External Risk (Geopolitical & Supply Chain Dependence)

Credo relies on external manufacturing partners, particularly TSMC, exposing the company to **geopolitical tensions, supply chain disruptions, and concentration risk within semiconductor manufacturing**. Any disruption to advanced node production, particularly in Taiwan, could impact product availability, lead times, and revenue realization.

Mitigation: This risk is largely **systemic across the semiconductor industry** and not unique to Credo. The company benefits from established relationships with leading foundries and operates within a **fabless model**, which provides flexibility in scaling production without significant capital investment. Over time, broader industry efforts toward **supply chain diversification and geographic expansion of semiconductor manufacturing** may further mitigate this risk.

Company Risk 1 – Demand Risk (Customer Concentration)

Credo’s revenue is highly concentrated among a small number of **hyperscale customers**, including major cloud and AI infrastructure providers. This exposes the company to risks related to **customer-specific spending cycles, capex variability, and procurement concentration**, where changes in a single customer’s investment plans could materially impact revenue growth.

Mitigation: This risk is partially mitigated by the nature of hyperscaler relationships. Once Credo’s solutions are **designed into customer architectures**, they become deeply embedded within system-level infrastructure, creating **high switching costs and long replacement cycles**. Additionally, qualification processes for connectivity components are **lengthy and rigorous**, often taking multiple quarters, which limits the risk of rapid displacement. As AI infrastructure spending continues to scale across multiple players, including emerging “neocloud” providers, Credo also has the opportunity to **gradually diversify its customer base over time**.

Company Risk 2 – Execution Risk (Optical Scaling & Integration)

Credo’s expansion into optical connectivity, particularly following the DustPhotonics acquisition, introduces execution risk related to **scaling production, integrating technologies, and managing product complexity**. Optical solutions involve **higher precision manufacturing, tighter tolerances, and more complex system integration** compared to copper-based products, increasing the risk of delays, cost overruns, or yield challenges.

Additionally, successful integration of DustPhotonics requires alignment across **engineering, supply chain, and go-to-market execution**, which can present operational challenges in the near term.

Mitigation: this risk is mitigated by Credo’s **existing expertise in high-speed connectivity through its SerDes and DSP platforms**, which serve as the foundation for both copper and optical solutions. Early traction with optical products, including initial customer engagements and production ramps, also suggests that the company is progressing along the execution curve, reducing longer-term uncertainty.

Environmental, Social & Governance (ESG)

Credo’s ESG profile is mixed but improving, with the strongest investment relevance coming from its **environmental product impact** rather than its current Bloomberg ESG score. Bloomberg shows Credo with an **ESG score of 2.21, below median**, reflecting weaker disclosure depth and lagging scores in some social categories, particularly supply chain management, product quality management, and data security. However, this should be viewed in context: Credo is still a relatively young public semiconductor company, and lower ESG scores often reflect **limited disclosure history rather than severe controversy risk**.

Environmental

Credo’s environmental profile is differentiated by its **product-driven impact**, as its connectivity solutions are designed to reduce power consumption in AI and hyperscale data centers—one of the industry’s biggest constraints. Its AEC and optical solutions deliver **~50% lower power usage versus traditional alternatives**, while improved link reliability reduces wasted compute cycles and energy inefficiencies. Operationally, emissions remain low due to its fabless model, with **Scope 1 and 2 emissions of ~1,187 tCO₂e** and 100% renewable electricity usage at its San Jose headquarters. Overall, Credo’s environmental contribution is best understood through its role in **enabling more energy-efficient AI infrastructure**, aligning directly with its investment thesis.

Social

Credo demonstrates a strong internal social profile, supported by **high employee retention (~96%), low turnover (~4%), and an 83% satisfaction rate**, reflecting a competitive talent environment in semiconductor design. The company also places emphasis on **diversity and inclusion**, with **female representation across its global workforce**, although disclosure suggests that gender diversity—particularly in technical roles—remains an area for continued improvement, consistent with broader semiconductor industry trends. Employees receive ~27 hours of annual training, and the company maintains strong safety performance with **zero OSHA-recordable incidents**. Community engagement is driven through its Credo Cares initiative, while from a risk perspective, **supply chain oversight remains a key focus area** given reliance on external manufacturing partners.

Governance

Governance is a relative strength, with **structured board oversight, strong compliance frameworks, and increasing ESG integration into strategy**. ESG responsibilities are overseen by the Board’s Nominating and Corporate Governance Committee, ensuring alignment with broader business objectives. The company maintains high standards of corporate discipline, including **100% employee adherence to its Code of Conduct, 94% training completion rates, and robust data security oversight**, supported by formal policies and a global ethics framework. This governance structure provides a solid foundation to support scaling operations and mitigates execution risks as the company expands within AI infrastructure

Porter’s Five Forces

****Score from 1-5 representing with 1 being the lowest threat, and 5 being the highest threat***

Bargaining Power of Suppliers – 4 (High)

Supplier power is high because Credo is a fabless semiconductor company and depends on external manufacturing partners, especially advanced foundries and assembly/test providers. If capacity becomes constrained, suppliers such as TSMC can have stronger pricing and allocation power. This is a key risk because Credo’s growth depends on reliable access to high-quality manufacturing capacity, particularly as AI demand accelerates.

Bargaining Power of Buyers – 4 (High)

Customer power is high because Credo’s revenue is concentrated among large hyperscalers such as Amazon, Microsoft, and other major cloud/AI infrastructure customers. These customers have significant purchasing scale and can negotiate pricing, volume commitments, and product specifications. However, Credo’s risk is partly reduced by long qualification cycles, deep product integration, and high switching costs once its solutions are designed into customer systems.

Threat of New Entrants – 2 (Low to Moderate)

Credo operates in a technically complex market where new entrants face high barriers, including proprietary SerDes IP, advanced semiconductor design expertise, customer qualification cycles, and reliability testing requirements. Hyperscalers do not easily switch to unproven suppliers because interconnect failures can disrupt large AI clusters. This makes new entry difficult, although well-funded semiconductor players could still enter adjacent markets.

Conclusion: Credo operates in an attractive high-growth market, but competitive pressure is moderately high due to supplier dependence, customer concentration, and strong rivalry. Its key advantage is that high technical barriers, long qualification cycles, and differentiated low-power connectivity solutions help protect its position.

Threat of Substitute Products – 3 (Moderate)

The main substitute risk comes from alternative interconnect technologies, especially optical solutions and longer-term architectures such as co-packaged optics. These could reduce demand for copper AECs in certain use cases. However, copper remains highly attractive for short-reach intra-rack connectivity because it is lower cost, lower power, and reliable. Credo’s expansion into optical connectivity through DustPhotonics also helps reduce substitution risk.

Competitive Rivalry – 4 (High)

Competition is intense because Credo competes against large semiconductor and optical players such as Broadcom, Marvell, Coherent, Lumentum, and Astera Labs. These companies have scale, customer relationships, and broader portfolios. Credo differentiates itself through its focus on power-efficient connectivity, SerDes IP, AEC leadership, and hybrid copper-plus-optical strategy, but the market remains highly competitive given the size of the AI infrastructure opportunity.

