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## ANALYST QUICK NOTES

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**Nvidia Corp. (NGS: NVDA: BUY)**

**Target Price: \$130**

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**5/10/2017**

### Thesis

- Graphics processing industry leader.
  - One of fastest growing names in coverage.
  - More than just a play on PC gaming.
  - Strongest growth is in data center, automotive; traditional PC gaming also doing well.
  - NVDA is a future play on VR gaming, autonomous cars, AI, robotics, IoT, and HPC.
- BUY for long-term positioning in the digital new age economy.

### After huge outperformance for year, slow start to 2017

- Down 4% year to date
  - Does not include this morning's gap higher.
- Still up 185% on trailing 12-month basis.

### Fiscal 1Q18: Solid beat led by data center

- Street expected: Revenue of \$1.91 billion, non-GAAP EPS of \$0.67.
- Actual: Revenue of \$1.94 billion.
  - GAAP EPS \$0.77.
  - Non-GAAP EPS of \$0.85.
- Revenue up 48%.
- Non-GAAP EPS up 84%, GAAP EPS up 142%.

### Quarterly results: gaming light, data center rocks.

- Gaming revenue "only" up 49%, but down 24% from holiday quarter.
- Data center blows out expectations with 186% growth to \$409 million.
  - Also up 38% sequentially.
- Sales into data center basically tripled year over year, as industries "awake" to the power of GPU deep learning and AI.
- Auto market (up 24%) also solid amid other companies reporting down automotive.

Guidance for fiscal 2Q18: High expectations.

- NVidia Revenue of \$1.95 billion.
- Street pre-reporting estimate: \$1.89 billion.

Brave new world of AI, autonomous driving, & powerful computing.

- NVidia believes that the immense complexity of graphics processing can provide a more powerful computing platform than the traditional CPU-based approach.
- NVDA has developed its GPU Accelerated Computing platform, which can use techniques such as inferencing, repetition and recognition to enhance cognitive computing.
- World's leading computer, supercomputer and hyperscale customers are exploring how GPU computing can enhance cloud services.

More than just a play on PC gaming.

- NVDA has ceded console gaming to AMD-Radeon; instead focusing on PC gaming for purists, where graphics card can cost \$200-\$2,000.
- GPU (81% of total) includes GeForce for PC gaming, Quadro for design professionals, Tesla for deep learning, and GRID for cloud-based applications.
  - Tesla deep learning: NVDA GPUs are in IBM Watson and Facebook's Big Sur server for AI.
  - Quadro now moving over from media & animation (Pixar) to Roche, which is using for gene sequencing.
- Tegra (17% of total) provides processors that integrate a computer on a single chip under the Tegra brand, along with DRIVE automotive computers and SHIELD mobile gaming chips.
  - Already a leader in driver assistance (auto braking, etc.), NVDA working with multiple partners on autonomous driving.

Conclusion

- Street had been modeling flattish FY18 after strong growth FY17; estimates for both FY18 and FY19 now rising.
    - Street now at \$2.80 for FY18, up from \$2.57 for FY17 (9% growth).
  - Trading at 31-times FY18, 28-times FY19, vs 20-times historical.
  - However, PEGs in the 1.9-times range below 2.0 average for technology hardware stocks in Argus coverage.
  - Premium valuation vs. historical trends; but NVDA has reinvented itself and is like a new company.
  - NVDA attractive on future cash flow growth and valuation.
  - BUY to \$130
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