



Company Overview:

NVIDIA Corporation (NVIDIA) is a provider of visual computing technologies and the inventor of the graphics processing unit (GPU). The Company's products are designed to generate graphics on workstations, personal computers, game consoles, and mobile devices.

Company Highlights:

Bears might point to a smaller-than-typical guidance beat, lower networking attach, and/ or another tick down in gross margins into the beginning of next year. But while the outlook was perhaps a touch below some of the more bullish whispers it seems respectable enough amid supply constraints, and likely conservative given an uptick in Blackwell's FQ4 outlook vs prior expectations and Hopper commentary that seems to point to further upside. And while gross margins are indeed seen ticking down a hair into the start of next year as Blackwell enters ramp (to the "low 70's") expectations on that front now appear to be appropriately set, with a trajectory back toward the mid-70s as the platforms scale into FY26 (and frankly we aren't going to complain about a couple quarters at 71-72%, especially as they are driven by the company's efforts to ramp their new platforms as quickly as possible to meet what appears to be at this point insatiable demand).

To that end, Blackwell demand still appears off the chart and is likely to exceed supply for some time to come with the prospect of a very strong forthcoming data center year still easily in the cards. And while of course Jensen will Jensen, he did not sound concerned that the need for computing would be easing anytime soon, and the sheer complexity of what the company is accomplishing continues to significantly broaden their moat vs what the competition has. Overall, the story still looks well intact

Bull Case:

- **A Diversified Juggernaut with a Competitive Edge** – Given that NVDA has its fingers in so many forward-looking technology pies, we believe it is hard to keep up with developments that represent new potential upsides for the company. However, when you distill it down to its essentials, Nvidia can be seen as an enabler of industries and a facilitator of the technologies they use. Whether it is gaming, data centers, autonomous systems, data science, or any one of the numerous industries it engages with, we believe NVIDIA provides the superlatives that its clients need to maintain their own edge - fastest, smallest, and most powerful.
- **Continued Strong Product Demand** - NVDA continues to post double-digit revenue growth, and yet, they still cannot get enough product to satisfy all demand and the reception of these new products.
- **Innovation Strength** – The ongoing push in enterprise software suites is an opportunity into tens of millions of servers which should be incremental to valuation when revenue contribution takes off, in our view. Management expects supply constraints to last through most of next year, notably in gaming, which bodes well once eventually inventory rebuilds begin. RTX is still in an early cycle ramp with an estimated adoption rate of only 20%.

Bear Case:

- **Highly Competitive Industry** – Unlike many of our holdings, NVDA does not compete in a monopolistic or oligopolistic market environment. NVDA operates in highly competitive markets with strong competitors – AMD, INTC, plus numerous others. Luckily, we believe Nvidia has a leading or strong market share in multiple industry verticals which seems to have come from what we consider an aggressive R&D expenditure and product release cadence.
- **Continued U.S. / China Restrictions** – Continued tensions between the United States and China could lead to increased regulation, potentially hurting the company's valuation. NVDA is working closely with the US Government and China customers. Products meet all regulations and are useful for conventional enterprise and consumer AI use cases in China. Near-term China expectations lowered and in guidance so not a surprise.
- **Semiconductors is a Cyclical Industry** - Historically, the industry has experienced drastic fluctuations leading to overcapacity in the market. These downturns can be prolonged and can drastically impact revenue, profitability, cash flows, and stock performance

Overall Thesis:

We see NVDA as a major beneficiary of the 4th tectonic shift in computing, in which parallel processing captures share in the computing market. We believe that the market underappreciates NVDA's businesses and its transformation from a traditional PC graphics chip vendor, into a supplier of high-end gaming, enterprise graphics, cloud, accelerated computing, and automotive markets. From our perspective, the company has executed consistently and has a solid balance sheet with what we believe to be a demonstrated commitment to capital returns. We understand the unwelcoming landscape regarding China and the U.S. restrictions but believe that they are manageable over time.

And don't mention valuation to us – it trades at 25.2x forward earnings, a level lower than most of the Magnificent Seven. At this valuation level, it's the stock's weakest level in a year and close to 10 year lows. In fact, the stock now trades below parity relative to the SOX (something we have seen only once or twice in the past decade) and at only a slight S&P premium, the lowest they have been since 2016.

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