



NVIDIA Corporation

NASDAQ: NVDA

Stock Analysis

NVIDIA (nasdaq: NVDA) has been on my watchlist for the past week or so. I have been heavily considering entering a position in this stock but I didn't fully understand the business model. After doing some more extensive analysis on the stock I found that I understood the biggest aspect of their business and just had to fill in the gaps with everything else I did not know.

#### Business Model:

NVIDIA's business model focuses around making graphics chips for many different forms of its application such as gaming, AI, and automotive. However, the company's cash cow by far has been making GPUs that are made primarily for the gaming community. These Graphics Processing Units (GPUs) are the GeForce RTX and GeForce GTX series of graphics cards that were made primarily for gamers to power their highly demanding games. GPUs are responsible for the vast majority of NVIDIA's sales, making up about 87% of the company's total revenue according to nasdaq.com, which was about \$11.7B in fiscal year end 2019. This 87% would come around to about \$10.2B in GPU sales alone. These GPUs are not just limited to the RTX and GTX series; Quadro, which is used mainly for designers according to NVIDIA and Tesla, which is used for AI that utilizes deep learning and accelerated computing, among others. It is an interesting fact to note that Tesla used to use NVIDIA's chips for their AI. To someone who is more tech savvy, this business model can be pretty easily understood, especially if they use NVIDIA graphics cards or any of their other products in their own pc builds. However, to somebody who is not tech savvy, and/or does not use NVIDIA products, this business model might be a bit more difficult to understand, though it doesn't make it any less good. NVIDIA has a great business model with a lot of high growth potential in future years.

#### Income Statement:

NVIDIA fiscal year ended Feb 26, 2020 10-k annual report showed some really good numbers for the company. Starting with their income statement, the first thing to look at is their revenue, which was a bit short from last year's revenue but still a very good number. The income statement showed \$10.9B in

total revenue for the fiscal year. The company ended off with a total net income of about \$2.8B, giving the company a very respectable profit margin of roughly 26%. Despite the current COVID-19 situation which seems to be terrorizing the world, the company is still expected to have revenue growth of about 21% for year ended 2021 and growth of 15% in year ended 2022. Again, not a bad number to look at, especially considering the current health crisis that has everyone in quarantine, bringing the vast majority of companies and small businesses to a complete halt.

#### Balance Sheet:

A seemingly impressive aspect of NVIDIA's current balance sheet, is that they have managed to keep such a large sum of cash sitting around in the balance sheet. NVIDIA's cash and cash equivalents is currently \$10.8B! This number is not only large in itself but also comes out to be about 99.5% of the company's revenue. Highly impressive that they have managed to keep so much money in cash that it is almost equal to their total revenue for the entire year. They also have about \$2.7B in other current assets such as inventories, marketable securities, etc. This brings NVIDIA up to \$13.6B in total current assets. This becomes even more impressive when you take a look at the company's liabilities! The balance sheet currently shows long-term debt of \$1.9B, way lower than their amount of money in cash. This means that NVIDIA has somewhere around a 5:1 cash/long-term debt ratio, this is very strong. On top of all of this, there is a total liabilities in the balance sheet of \$5.1B! Their total liabilities are barely half of what they have in cash! When you factor in their total assets, it comes up to be a roundabout 3:1 assets/liabilities ratio. This is more than enough to help them get through a potential recession or the very volatile bear market we are experiencing right now amid the COVID-19 crisis.

#### Management Team:

Moving on to the NVIDIA's management team, it looks very promising. The current CEO of the company is Mr. Jensen Huang, who is also the co-founder of the company back in 1993. Not only has Mr. Huang been with the company since its inception, but according to the company's website, "nvidia.com," he has received "the IEEE Founder's Medal, the Dr. Morris Chang Exemplary Leadership Award, and honorary doctorate degrees from Taiwan's National Chiao Tung University and Oregon University." This on its own is very impressive to have sitting on a CEO's resume but it doesn't end there. Jensen was ranked number one on Harvard Business Review's list of the world's 100 best-performing CEOs, also according to NVIDIA's website. The IEEE Founder's Medal, is awarded to those who show outstanding leadership, something that is extremely essential for a CEO. The Dr. Morris Chang Exemplary Leadership Award is an award that recognizes individuals "for their exceptional contributions driving the development, innovation, growth and long-term opportunities for the semiconductor industry." The amount of recognition Mr. Huang as receive for his outstanding leadership can give an investor plenty of confidence in the company whether we're in a bull or bear market. An investor can also be confident in the decisions that will be made by the management team and that those decisions will take the company down the best path possible for the company itself, its shareholders, and customers. Another key member of management at NVIDIA is Colette Kress. Colette, is the executive vice president and chief financial officer at the company and has been with NVIDIA since September of 2013. Previously, she had been in many financial positions at various other companies in the tech sector. These companies were

no small cap companies either! She served three years as senior VP and CFO at Cisco's Business Technology and Operations Finance organization. In addition to that, she was also CFO at Microsoft for thirteen years! There is no doubt that with this level of experience, knowledge, and leadership, NVIDIA will be able to continue bring in good profits and growth in the upcoming years.

#### Investment Risk:

NVIDIA's 10-k gives a pretty good list of potential risk factors for the company, though we'll only focus on a couple in this analysis; expectation and competition, specifically. It is always recommended that you do your own research on top of what you've read here, in order to make a good investment decision. Firstly, NVIDIA is in a highly competitive and rapidly changing industry. There is no denying that there is a large number of technology companies out there, which could potentially create some risk for NVIDIA and those who are invested in the company's stock. There is a lot of competition in this sector, with companies such as Intel, Qualcomm, and AMD, just to name a few. Although a lot of these companies, may not be focusing on making graphics cards specifically, they all contribute in their own way to various pieces of technology. For Example, you can build a computer using an Intel or AMD CPU, a company such as Corsair for your RAM sticks and other components of the build, and of course, NVIDIA for your graphics card. The risk starts to become more apparent, when you take into consideration the size of these companies. Intel could one day decide to release their own graphics card, becoming a direct competitor for NVIDIA, and taking up market share. This should keep a company like NVIDIA on the edge. Why should they be on the edge? Expectation, that's why. NVIDIA is known for making the best graphics cards on the market and it's pretty safe to say that their consumers, especially the very tech savvy, competitive gamers that depend on their graphics cards, amongst others, will expect nothing less from the company whenever they release a new product. If NVIDIA were to come out with a product that does not do too well, this could create a very negative effect on the company's bottom line. This would not only be due to the lack of sales, but it would also be affected by the amount of money that would have been spent for research and development of the product. In this situation, another company could come out with their own products that the consumers like more than NVIDIA's product and start to take market share away from NVIDIA. As it stands right now, NVIDIA is well ahead of its competitors in this specific sector, but there is always that possibility that technology companies have to be aware of.

#### Long-term outlook:

Finally, let's talk about why TTJ believes in this company. As we have already discussed, NVIDIA has a great business model that can be easily understood by somebody who uses their products or has some general knowledge of this kind of technology. The company has strong numbers in both their income statement and their balance sheet, which will ensure the company continues to grow and expand, while also keeping them afloat during unfavorable market conditions, such as a recession. In addition to this, NVIDIA has an excellent management team that is more than capable of making the right calls when necessary. Each person on that team has the necessary skills and abilities to ensure that the company is running at peak efficiency in their own respective sectors at the company. TTJ believes long term that NVIDIA will be consistently growing with strength and has the potential to 2x over the next 10 years,

with new advancements in graphics technology. The growing gaming, AI, and VR sectors will benefit drastically from NVIDIA's technology, while NVIDIA will simultaneously benefit from these sectors as well. More advancements in the video game and VR sectors will demand more powerful graphics. NVIDIA's products will be there not only to supply that demand, but to benefit from it as well. To throw in some speculation into the mix as well, our phones are getting more powerful every single year. They are able to run and process more demanding tasks and this is not likely to stop or slow down in the upcoming years. This could also be an area where NVIDIA could supply graphics chips in order for these phones to keep up with the demand.

#### Valuation:

NVIDIA currently has a market cap of \$157.43 billion as of March 2020, with a P/E ratio of 55.91 with a forward P/E ratio of 34.25. Ideally, if the market continues to sell off after this week's 3 day rally on March 24-26th, a good valuation for TTJ would be of around \$140-145 billion in order for it to be added to the portfolio.

#### Additional factors:

There is still plenty of uncertainty in the market as of right now with the COVID-19 situation and there isn't any strong signs of a bottom in the market. This could mean some good-ish news for investors, as they could continue to take advantage of these very rare and exciting discounts on amazing companies.

#### Sources:

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