

Nvidia

David Gardner and Tom Gardner | April 1, 2005

CURRENT PRICE: [NVDA](#) \$ 383.51 ↑ \$ 2.44 (0.6%) CwàG! Ýi B~ÑÖG"ÅññÅññ iñ ï

David's Top Pick: Nvidia ([NASDAQ: NVDA](#))

Video games are no longer just the domain of teenaged boys, or even grown men. Believe it or not, recent data from AOL suggested that women over 40 spend the most time per week playing games online. If that's not enough to convince you of gaming's powerful hold on our contemporary culture, I don't know what is.

We've already tapped into this cultural phenomenon with companies like **Electronic Arts**, **Activision**, and **Electronics Boutique**. They've proven how robust the video game industry is through their superior returns, and I have another quality name to add to this list that should also beat the market nicely over the next five to 10 years.

Getting a Clearer Picture

World of Warcraft. EverQuest. Doom. If you guessed that those are addictive, wildly popular video games, you're absolutely right. And what do the above titles have in common? They've got the power of **NVIDIA** graphics and digital media chips firing up their increasingly dazzling and cinematic realism. NVIDIA processors allow users to "play games the way they're meant to be played." That's an exciting promise in an ever-growing industry.

Not only are NVIDIA's processors used in video games, they're also used by original equipment manufacturers that make personal computers, cell phones, and game consoles. Sony recently signed on with NVIDIA for processors for its much-hyped next-generation entertainment console, the PlayStation 3. The deal represents \$50 million to \$100 million in annual revenues, with possibilities for more should the platform explode as did the PS2.

Another part of NVIDIA's positioning as the guts behind graphics-rich applications means that the company's products are finding their way into cell phones as well. Motorola, Samsung, and LG are all mobile phone makers that have partnered with NVIDIA to put the company's graphics chips in their phones. Doing lots of broadband video on your phone yet? Me neither. Do you think you will inside five years? I do too. NVIDIA is extremely well-positioned to be there bringing your pictures to life and diversifying its business further away from the relatively sleepy PC platform into everybody's cell phones.

NVIDIA CORPORATION IN 1 MINUTE

What It Does

Nvidia deals in programmable graphics-processor technologies. Its major business segments are graphics processing units, media and communications processors, and handheld and consumer electronics.

Company Guide

- **Industry:** Semiconductors and Semiconductor Equipment
- **Asset Class:** Large
- **Region:** US
- **Price on June 21, 2020:**
\$ 381.07

Key Data

- **Headquarters:** Santa Clara, CA, US
- **Sector:** Technology
- **Market Cap:** \$4B

Add NVDA to Your Favorites

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NVIDIA's chips are going to be part of the new curve in consumer and business electronics--more and more elegant and sophisticated multimedia applications on an increasingly impressive range of devices. Think of all the graphics-rich devices that are hitting the market right now: digital video and broadcast video and television content over devices like phones, PDAs, media centers, and more.

All this is good news for NVDA, whose sales closed out the most recent fiscal year (ended January 2005) at just over \$2 billion, with net income coming in at an even \$100 million, or a fully diluted 57 cents per share.

NVIDIA has been beating analysts' estimates ever since it dropped an earnings stink bomb last August. Estimates for the April quarter are up from 15 cents per share three months ago to 28 cents now. For the current year (ending January 2006), analyst estimates are \$1.18 per share--up from just 74 cents three months ago.

The semiconductor and chip industry can change rapidly and can be cyclical to boot, so firm estimates are notoriously unreliable for these companies. My own approach to investing in situations like this is to buy and show more patience than all the people jumping in and out trying to time the stock.

Chips Are Big Business

A class company, NVIDIA has been profitable ever since it went public in 1999, unlike many other tech names. It even bought out a previously failed stock pick of mine from years ago, 3Dfx (I shoulda bought NVDA!). It has no debt, and \$670 million in cash.

However, NVDA is currently only turning a net profit margin of 5%, well below standards of 10%+ that I generally like to see in my stocks. That's just a reminder that this business is more competitive than most. NVIDIA's big competitor is Canadian-based ATI Technologies, a slightly larger company. Of course, it's a great big world out there--clearly, there is enough growth and business here for both of these and additional significant competitors besides, headlined by Intel.

Also, it's the nature of this business--and a risk factor too--but NVDA has a relatively small number of customers, with two of them representing sizable portions of sales. Microsoft recently constituted 13% (NVDA makes the graphics chip for the Xbox), and a company called Edom represented 18% of revenues. The company does need to bring more customers into the fold, which it is certainly continuing to do, given the sizzling climate for electronics.

Game On!

I like to recommend leading companies that have room to grow in industries that enjoy can't-miss growth ahead. The P/E ratio of 40+ looks high until you remember that in less than nine months the company is expected to close out the year with over \$1 per share in earnings. That's why I suggest you keep looking ahead 510 years, not 510 months.

Riding the popularity and increasing sophistication of graphics-rich devices, NVDA will profit thanks to everything from cell phone broadband to amazing digital game worlds. This stock is volatile and can be cyclical, but my advice to you is simple: Don't play *that* game. Play NVDA's game and the Fool's game instead, and buy to hold for long-term market-beating returns. 

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