



Financial Analyst report

Foundations Of Business I (Drexel University)



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nVIDIA.[®]

Financial Analyst Report

Part 1: Executive Summary

The NVidia Corporation (NVDA) is a renowned designer of graphics processing units (GPUs), which have an exceptional performance to the extent that they support both gaming and professional markets. GeForce, NVDA's primary product line has made the company a corporate tech giant (NVidia 4). Between 2017 and 2018, NVDA demonstrated exemplary financial performance. This company recorded more than 40% revenue growth, following an increase from \$6.91 billion to \$9.714 billion in 2017 and 2018 respectively. NVDA's net income was \$3.047 billion in 2018, an 82.9% increase from the previous year. The company's stock price also elevated from \$114.38 in 2017 to \$ 233.52 in 2018, marking a 104% growth. According to Hadfield and Hasset, this company's rapidly advancing AI technology improved the performance of its data centers and garnered (5). In 2018 alone, the datacenters fueled by GeForce technologies collected \$1.93 billion in income. Amplified investment efforts, depicted in 14.23% increase in total assets, contributed towards better performance last year.

At this juncture, AI computing, gaming, and self-driving cars are the three factors critical to NVDA's corporate strategy. These three ventures mark great present and future income earners for this tech-based company. According to NVidia, the company, for the next three years, intends to expand its business in these three domains (24). For example, NVidia will introduce new GPU designs (e.g., the Max-Q design) for more than 3x the usual performance to enable faster gaming experiences. The self-driving platform for cars was to be complemented by NVIDIA Jetson TX2, another novel computer-based platform to be featured in robotics, among other revolutionary ideas (NVidia 24). In all, NVDA has planned a future full of engaging and lucrative activities.

Part 2: Company Profile

Mission Statement:

“At the center of NVIDIA’s corporate culture are our five core values. These values are willingness to take risks, striving for excellence, intellectual honesty, directness and making a contribution. They apply everywhere we do business and infuse the spirit of our workforce.”

• Date Founded	April 1993
• Ticker Symbol	NVDA
• President and CEO	Jen-Hsun Huang
• Executive Vice President and CFO	Colette M. Kress
• Corporate Headquarters Location	2788 San Tomas Expressway Santa Clara, California, 95051
• Stock classifications	Common
• Stock Exchange	NASDAQ Global Select Market

● Public Auditor Firm	PricewaterhouseCoopers LLP
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Part 3: Industry Profile

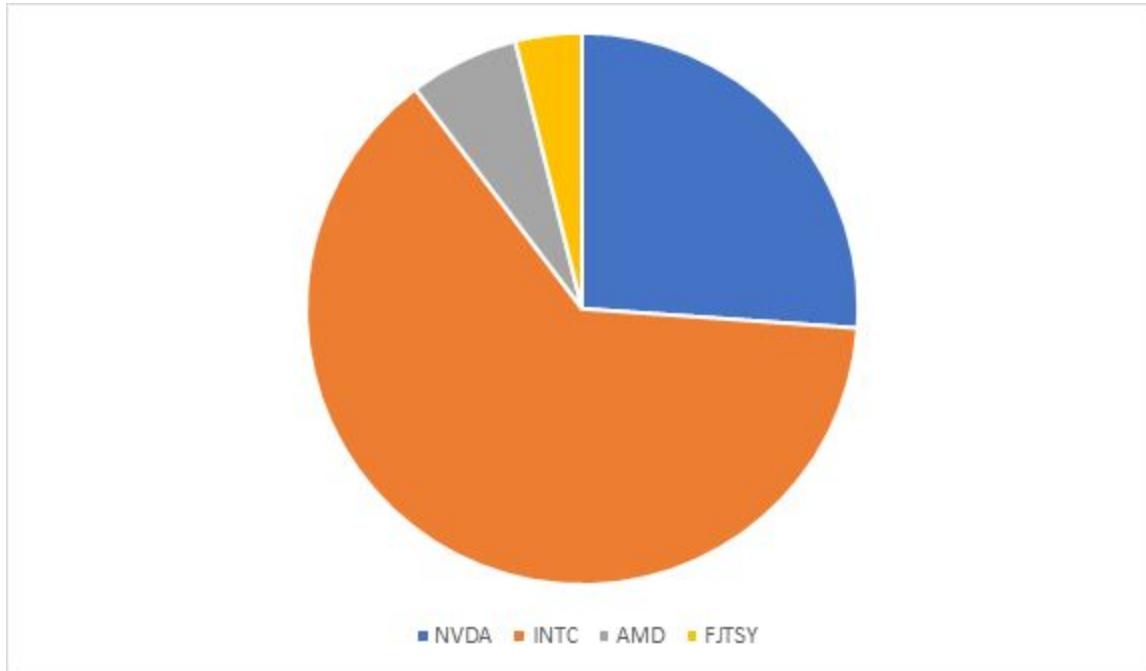
Primary SIC Code: 36740000 Semiconductors and related devices

Secondary SIC Code: 3674 Semiconductor and related devices

NVDA Corporation primarily belongs to the Semiconductor and Related Device Manufacturing industry. The semiconductor industry, in simple terms, is the group of firms and companies that design, manufacture and fabricate the semiconductor devices. Hence, in order to

be part of the industry, firms and companies must be constantly striving to make the standard or highly specialized components more fast, cheap and compact. Traditionally, the entire production process, from design to manufacture, is controlled by a semiconductor company (The Industry Handbook: The Semiconductor Industry By Investopedia Staff). More than half of the revenue for this industry is dependant on semiconductor (computer chips), but components like electronic connecters as well as printed circuit assemblies also are a huge source of revenue. However, the semiconductor industry is a very volatile industry. This means that there is a huge risk in the trend of the market. So in order for a company or a firm to be part of this industry, it needs to have a very high degree for flexibility and innovation simultaneously. This is essential because with the life-cycle of semiconductors devices being very less, if the fast-paced change in the marke is not adapted, it would lead to tremendous losses. Furthermore, a company must also have the technological expertise.

Market Capitalization Data Comparison (In Billions of Dollars)



The market capitalization of a company or firm refers to the total market value of all of its outstanding shares. The market capital of NVDA Corporation is \$93.257B, which is way greater than some of its competitor companies like Fujitsu Limited (FJTSY) and Advanced Micro Devices, Inc (AMD), whose market capitalization is \$23.943B and \$22.971B, respectively. However Intel Inc, with a market capitalization of \$226.964B exceeds way beyond NVDA. While Intel does hold a larger portion of NVIDIA's market, NVIDIA's smaller size has allowed it to focus on specific industries and offer higher quality products. For example, the gaming industry is growing at a substantial rate, and its future looks extremely promising. NVIDIA has used this to their full advantage and capitalized 72.8% of the Gaming Market (Ballard 2018), where its fiercest competitor is AMD. In the last 12-months, Gaming attributed to 57% of NVIDIA's revenue. The PC Gaming base is expected to hit 1.4 billion by 2022 and the

esports audience expected to nearly double to 600 million by 2020. NVIDIA's success in the gaming industry can be exemplified by PUBG, which was rated the biggest video game of 2017 (Molina, 2017). While not surprising, it is still rather impressive that 90% of those PUBG gamers played on devices with NVIDIA graphics cards (Ballard 2018). In reference to its success, I believe that Intel is outperforming NVIDIA in the market due to being a more established general name. A large majority of everyday laptops and desktops come included with Intel processors and low-quality intel graphics cards, so there is much greater exposure to Intel's brand. However, Intel is lacking in terms of quality compared to NVIDIA, and while NVIDIA is growing with the gaming market, Intel is missing out. Even Apple, one of Intel's biggest customers, is planning to move away from using Intel chips by 2020 (Savov 18). So while currently, Intel may seem to be controlling the market, NVIDIA is jumping into multiple optimistic industries like self-driving cars, where its announced deals with Toyota, Volvo, and Isuzu. Analysts are also expecting NVIDIA to grow by 15% annually over the next 5 years while intel's expected growth is limited to only 10% (Ballard 2019).

When it comes to NVIDIA's global presence, it differs highly from that of many other companies since NVIDIA focuses on high quality tech and gaming resources. This means that NVIDIA is a lot more popular in a few large and developed countries than a majority of smaller, less modern ones. According to its sales by region, Almost 54% of NVIDIA's sales came from its top two consumer nations China and Taiwan, with the USA following behind them with 16% of NVIDIA's total revenue. However, these statistics can be misleading because with only a population of 23 million, it's highly unlikely for Taiwan to make up 34% of NVIDIA's revenues. This is because when NVIDIA reports their sales by region, they report which countries they sell

the most product to. Since NVIDIA doesn't make computers, just the graphics cards for them, NVIDIA makes most of its business by directly selling to computer manufacturers. ASUS, one of NVIDIA's largest consumers has its headquarters located in Taiwan, which is why it seems to be its best business location, while the truth is that these ASUS products with NVIDIA built in are being shipped to customers all over the world (Green, 2015). China, however, is a large consumer of gaming products. In 2015 Chinese consumers spent \$12.5 billion on PC games that require more than a basic pc. Globally, PC game spending was \$27.5 billion, putting China at about 45% of the market. China even has internet cafes for playing Pc games, where customers do not need their own high tech computer. 50% of these cafes consist of China's most popular gaming genre, Multiplayer Online Battle Arena (MOBA). MOBA doesn't require high end graphics like certain games, so NVIDIA launched the GTX 950, made for MOBA specifically. Since such a large part of China's gaming market consists of games that don't require high end graphics cards, Nvidia's chinese market is made up of a lot less quality product than that of its market in the USA. The other regions on the revenue list are made up of other Asian Pacific countries (13%), Europe (7%), and the other Americas (7%), with no specific countries in those regions generating enough high revenue for NVIDIA to list them individually (Green, 2015). The continents of Australia and Africa seem to have very little effect on NVIDIA's revenue as well. This analysis of their global presence isn't very surprising since China and the USA are both world leaders in tech, so it only makes sense that they generate the most business for a company that's entire purpose is to innovate technology. However, as other countries are quickly modernizing, it would not be shocking to see NVIDIA's presence increasing in other places as

well in the near future, combining both the rapidly growing gaming industry and the global tech revolution.

Part 4: Projections

(I) Daily Stock Price for Past 24 months-\$

(II) Comparison with S&P 500-% Change

(III) Comparison with NVIDIA's Two Largest Competitors-% Change

(I)



According to the trends shown on the chart, it generally seems that the stock price of NVDA had been increased significantly until 9/24/2018, with some insignificant drops in between. However, right after this date, the stock price appears to decline drastically until 12/17/2018, after which the price starts increasing once again. The highest stock value reached was \$281.02 on 9/24/2018, whereas the lowest it experienced was \$95.49 on 4/10/2017.

In the last twenty-four months, NVIDIA went through its biggest stock decline (\$151.45) from September 2018 to December 2018, decreasing from \$281.02 to \$129.57. In the October of 2018, there was a large market sell-off that struck a huge blow to the tech-industry and really affected NVIDIA's stock. However it was not the only reason for the decline, since NVIDIA's performance in that time frame was subpar. On November 15, 2018 NVIDIA released its third-quarter results with a forecast for the fourth quarter. The rise in the interest rates, a slowing global economy, a very slow demand for semiconductors in particular, and especially the escalating trade war with China can all be deemed as major factors for the market jitters (McKenna, 2019). NVIDIA's CEO, Jensen Huang, also reported to blame cryptocurrency hangover as the main cause of the decline of stocks as well.

(II)



On the graph comparing NVIDIA and the S&P 500, it is very obvious that S&P 500 stayed at a somewhat consistent percent level while NVIDIA went all the way up then started to come down. It is also noticeable that NVIDIA came back up towards the end of 2018 beginning of 2019. The S&P is more likely to stay consistent due to the fact that it is an average of how the market is performing and does not fully show changes as seriously as the results for individual companies like NVIDIA.

(III)



On this graph comparing NVIDIA with its major competitors AMD and Intel Corp, it's easy to see that NVIDIA started off with a very large increase in its stock price in respect to its competition. Around September, NVIDIA started to decline as AMD began to rise and Intel corp, while it did increase, still remained consistently low compared to NVIDIA and AMD at their peak. NVIDIA saw these huge spikes due to the release of quality products that appealed to gamers.

For example, NVIDIA graphics card were used by 90% of gamers playing PUBG, which was voted the biggest game of 2017 (Molina, 2017). AMD's rapid growth can also be contributed to their specialty of appealing to that same market of gamers, why is why intel's performance was so low in comparison, since their influence on that market is very little. A lot of the decline in the stocks are also contributed to the hype with mining cryptocurrency over the last two years (.

Part 5: Current Events

The article Nvidia Jumps on Sales Forecast Projecting Rebound in Demand informs about the current position of Nvidia Company in the business world. The report states that the company can expect growth in the income after solving the issue with unused accumulated game chips (King). The article was chosen for the reason that it evaluates the possible improvement of the situation in the campaign against the backdrop of the previous financial downturn. For resuming the revenue growth, the company plans to launch graphics chip sales, and CEO tries to assure investors that the company will strengthen its position and achieve revenue growth (King). Although the article provides positive forecasts for improving the company's position, uncertainty may raise doubts from the shareholder's side. Thus, it is likely that there will be a

decrease in demand for shares of Nvidia. The connection between these events and changes in stock prices lies in the fact that the level of the company's abilities to solve the problem of a downturn in the incomes will identify the possible rising cost per share.

Another article Nvidia Faces Class Action Lawsuit Amidst Cryptocurrency Fallout is global and informs about the Schall Law Firm sued Nvidia Corporation and accused Nvidia in misinformation of investors about financial revenues (Li). Such an event can significantly affect the image of the company and the trust of investors, and it may threaten lower share prices; therefore, this article was chosen for analysis. Since the company that filed the lawsuit is a famous and respectable the statement on Nvidia's investors misleading can spoil its reputation. Investors may be concerned about this situation since they are likely to suffer financial losses and want to reimburse losses. Therefore, in the case of the company cannot win this lawsuit, Nvidia can be in the unfavorable situation, losing investor confidence, and stock prices will significantly decline. The company may suffer a severe decline in market positions due to this lawsuit because it threatens the reputation of management.

High growth rates do not characterize the current state of affairs in the company, but the situation may change in the event of an improving the strategy, innovative decisions, and expansion of the range of services. Taking into account the annual report of the company, it can be concluded that its revenues are lower than those of competitors such as Intel; although the financial risks are not high but for normal functioning it is necessary to maintain a balanced debt ratio in accordance with the available capital ("NVDA Corporation Annual Review"). With relatively stable liquidity of the company can predict that in the near future, its revenues may increase, it is essential to increase the competitiveness of the company and maintain a positive

image. In the absence of non-genuine factors such as reduced demand for products or lack of investment, in the future, stock prices may rise. For example, according to current estimates, analysts advise to buy and hold shares of the company, as there is a possibility of its prices rising ("Nvidia Corp"). Such assessments confirm the possibility of increasing profits of the company since stock prices depend on the amount of income. As a result, it can be concluded that the position of the company may strengthen in the future, while stock prices will increase, but it will be necessary to enhance competitiveness and maintain normal the level of credit rates.

Part 6: Recommendation

Following the exploration of the financial performance of NVDA relative to its corporate strategies, the “buy” option is most recommended. This company’s financials reflected exceptional performance, evidenced by ample increments in NVDA’s net income, sales margin and high inventory turnover. The financial analysis compounds the decision to buy NVDA’s shares because the results predict even higher earnings in the company’s future. The company registered a high current ratio of 4.77 in 2017, which increased to 8.03 in 2018. The high current ratio is reflective of NVDA’s liquidity, or the company’s ability to satisfy its current obligations. Coupled with the company’s high inventory turnover rate, NVDA has stable financial grounds to meet all its financial obligations. The company’s profitability is also indicative of NVDA’s stability. The profit margin increased steadily in the 2016-2018 period, rising from 12.26% to

31.37% respectively. In the long run, NVDA's high profitability suggests that it can create wealth for its investors and has the management capability to convert equity into income. On the grounds of profitability, therefore, NVDA offers a better option than Intel which recorded a current ratio of 1.69 and a profit margin of 15.3% in 2017. Also, the company registered a slight increase of 0.07 in debt-to-equity ratio in 2017 and 0.20 in 2018 (from 0.63, then 0.70, and 0.50 respectively). NVDA, therefore, relies considerably on debt to finance its activities and the financials indicate a minor increase in loan dependence. This company, however, presents trivial risks because the small ratio of 0.70 in 2017 suggests that it finances a small portion of its activities with loans. In comparison to Intel's 0.77 for debt-to-equity ratio, NVDA is a better investment alternative. Hadfield and Hassett proposed a "sell" option after analyzing NVDA's data from 2016 and before (2). However, the company has outperformed the predictions in the 2017 report. For example, the analysts proposed a target share price of \$181 and the 2018 reports recorded \$233.52.

Team Work:

We distributed the assignment fairly and equally on the first day, and met quite often to make sure everyone was on the same pace. Everyone one of us got to choose their parts, and took full responsibility of the parts assigned. However, last moment, one of our group members, Josh Ahern, withdrew from the course on the last day without completing any of his tasks, or giving us any prior notice. Because of this, we were not able to meet our self-enforced deadline and had to rush. We, therefore, understand that our report has room for improvement, but this was the best we could do in such a short notice. Yangshuai Fan did parts 1, 5 and 6 whereas I, Faraz Malik, took care of the remaining parts 2, 3 and 4 as well as the overall format and look of the report.

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