

UBS Global Technology Conference

Company Participants

- Rob Csongor, VP of IR

Other Participants

- Stephen Chin, Analyst, UBS
- Unidentified Participant, Analyst, Unknown

Presentation

Stephen Chin {BIO 5565507 <GO>}

Good afternoon, everyone. Welcome to the 2:45 session this afternoon. I have the pleasure of introducing NVIDIA today. And speaking for NVIDIA is Rob Csongor who is the Head of Investor Relations. Rob will go through a roughly 15 minute presentation and then we will have some time for Q&A afterwards. With that I will -- Rob will kick off.

Rob Csongor {BIO 3210739 <GO>}

Okay. Thank you very much. Thanks for having me, thanks, Stephen. Like Stephen mentioned, I'm going to go through a couple slides. I will give you an overview of NVIDIA's business, what is driving our growth. Also give you an update on some things this week -- this week was Supercomputing 2013. And there were a couple of interesting announcements. So I will touch on some of the more recent news on our business. Okay?

So with that please note our safe harbor. For those of you familiar with NVIDIA, we are all about visual computing. And specifically what we do is target segments of the market, segments of different places where visual computing matters. So whether it is automobiles, whether it is movies. For those of you who have seen the movie Gravity, if you marveled at the special effects in the movie Gravity, then those were done using NVIDIA.

So sometimes people ask, hey, are you in danger of being displaced by integrated graphics? One of the first things I always point to is, well, you can't build a movie and the special effects of a movie like Gravity using integrated graphics. So that is just an example, of course.

But across all of these different segments there is really vertical segments we focus on that are things like gaming, PC gaming, professional visualization, design, high-

performance computing and big data analytics. I will touch on some new announcements we made this week at Supercomputing specifically for that market. Then we have an OEM business.

And the OEM businesses are basically products manufactured by other companies that put our GPU into them. These range anywhere from notebooks, tablets, phones, automobiles and a lot of volume business. When we sold into the PC market we basically monetized our technology in the form of chips and boards, that is historically where we have come from. We view ourselves as a technology Company. We don't view ourselves as a chip Company per se.

As a technology Company, now that we've moved into some new markets, like into the Android market and into the enterprise market, we have expanded our business model to include licensing, technology licensing, as well as to build completely integrated systems. So we now build systems for the server, we build a completely integrated Android game device and we also license our technology in addition to processors and boards.

Touching on some of the highlights from our recent quarter -- We had revenues of \$1.054 billion, up 8% from the previous quarter. The key fundamental and I think one of the things that people continue to point out and I think there's an increasing awareness of, that NVIDIA's GPU business continues to outperform the PC market. And I will touch on the moving parts within that.

First and foremost PC gaming is driving our GPU growth both in desktop and notebook. I will touch on some of that. This was a record quarter for our Quadro business; this is our professional graphics workstation business. This was also a record quarter for Tesla. This was our compute business. And again, I will touch on some of the details. Then Tegra was up significantly in this last quarter. Coming off of a trough quarter in Q2 revenues more than doubled quarter on quarter from Q2 to Q3. So I will touch on some of the dynamics there.

We had near record high gross margins of 55.7% non-GAAP, slightly down from a previous quarter where we had our record high gross margins as a Company. The slight dip in the gross margins was due to the increase in Tegra revenues quarter on quarter.

I'm also going to touch on momentum that we have. We have three growth businesses that we are very excited about -- one is Tegra, which is Android; one is Tesla, which is the compute business; and one is GRID, which is putting GPUs into the data center and streaming graphics. So these are -- I will touch on some of the things going on there. Also in Q3 we announced our intent to return \$1 billion in capital to shareholders in fiscal 2015.

Okay, the first item that I talked about and this is one of the fundamental questions that we always get, which is, how is it possible for NVIDIA's GPU business to be

growing when the PC market is in decline? The answer starts with NVIDIA doesn't and hasn't ever addressed the bottom 70% of the market.

For a lot of applications if you're doing email, browsing, those kinds of things, using the integrated graphics that comes inside of your notebook or your PC is just fine. However, what we do is focus on vertical segments or visual computing matters a lot. And within those segments we develop a lot of technology and we are also paid a lot for the value that we deliver in those segments.

So this is year-to-date revenues and what it is is compared against Gartner year-to-date revenue for PC, okay? Year-to-date meaning Q1 through Q3. So if you look at Gartner PC market decline of 11%, overall NVIDIA's GPU business is up 4%. And the numbers within that, the moving parts underneath of that are PC gaming, up 6%, that reflects pretty much the steady state growth that we're seeing in PC gaming.

Our Quadro business is up 12% this is up quite a bit and in a large part driven to the refresh of Quadro. A lot of our workstation customers went through a refresh this year to bring them up on the latest Kepler based products from NVIDIA. But other than the graphics and the Quadro workstation business what you also saw was a significant ramp in one of the growth opportunities that I described, which is Tesla. So Tesla year-to-date revenues are up 43%.

Now a lot of the -- a lot of when people look at a declining market and if they note declining PC units NVIDIA is not immune to that, we do see segments of our business that are declining and that is our mainstream OEM notebook business, are mainstream OEM business.

Now this business is characterized by reasonably high units but very low ASP and low gross margin, this is our lowest ASP, lowest gross margin business. But the net effect of all of this is and hopefully the take away that you get from this is that NVIDIA's business is primarily driven by vertical segments. In other words, 20% of the volume drives roughly 70% to 80% of the gross profits. So the end result of that is that declines in the PC market, declines in mainstream OEM business are likely more than offset by the increases in our GPU business in growth segments. Does that make sense?

So the first one of those segments that I talked about was PC gaming. This quarter we introduced a new product, the GeForce GTX 780 Ti. One of the things that is very important in PC gaming is to have the performance crown. I didn't include the reviews here. But the reviews on the 780 Ti clearly put NVIDIA back on the pedestal in terms of having the performance crown. This is very important for the PC gaming market.

One of the surprises for us has been the emergence of gaming notebooks. So gaming notebooks, even though the overall notebook market is declining, gaming notebook revenue for NVIDIA, our GPU business, has more than doubled the last two years and is now a pretty significant component of our notebook business.

So these are essentially very thin and light notebooks. But they have a GeForce GPU in them that operates at zero power when you are using it for most of the time during the day, they use integrated graphics. But then you can launch a game and at that point it switches to the GeForce GTX GPU and you get the best of both worlds. You get a notebook with very long battery life, which can also play Call of Duty, Ghost. So this segment is the fastest-growing PC SKU that we currently serve.

Aside from PC gaming, I mentioned earlier we had a record revenue quarter for Tesla. Accelerated computing is growing very fast. This is our business where we take a GPU, the GPU is used for compute, it is used to address applications that are highly parallel in nature. This is market research data from Intersect360. And what you are seeing is a 2x growth in one year of the % of HPC systems with accelerators. And of those systems NVIDIA's market share is roughly 85% with 4% of the market going to Intel's Xeon Phi. Then a variety of other solutions including custom and so on.

So we believe this is a tremendous opportunity for us. All right, this is clearly an area we've invested in. For those of you familiar with us, we have been investing in compute and CUDA for a number of years. And what you are now seeing is steady run rate business based on off-the-shelf applications within the design world that are now running on Tesla, as opposed to the lumpy revenue you saw last year which was based on a single large supercomputer, for example.

I mentioned that I was going to touch on some of the news this week at Supercomputing 2013. So some of the highlights -- this week we launched the Tesla K40, this is the world's fastest accelerator for supercomputing and Big Data analytics. Big Data analytics involves massive computation involving sorting and comparing against a large amount of data. We've highlighted some examples where NVIDIA Tesla GPU's are used for example Shazam this week at Supercomputing we were showcasing Tesla GPU's being used in twitter doing Big Data analytics. So we believe this is a segment of the market that we have a big opportunity in.

We announced this week that IBM and NVIDIA were partnering to build next-generation supercomputers. And probably more exciting that we'll be developing accelerated versions of their enterprise software applications with NVIDIA CUDA GPU's. So this is a complete suite of enterprise software. Just imagine this is I think -- this is roughly a \$20 billion software enterprise business for IBM. And those applications are now going to be accelerated using NVIDIA GPU's. So that is very exciting for us.

I think, as you know, the path to revenue for NVIDIA starts with technology. But then requires software applications to take advantage of that technology. So this is basically a great early indicator.

NVIDIA Tesla GPU's are also -- we announced power Europe's number one supercomputer and we launched CUDA 6. So one of the things that we have been working on is to come up with ways to facilitate programming, making it easier to do

parallel programming in CUDA 6 with Unified Memory is a big step forward to achieving that.

The other growth opportunity that we are very excited about. And I know a lot of people on the Street are also, is a product called GRID. And what GRID does is take graphics, takes GPU's and puts them into the data center. Then we can stream interactively across the Internet. There are three segments that we are targeting. The first engagement is with enterprise, the second is within the design world to stream Autodesk and Adobe apps to small and medium-size designers. And then the third area is in gaming.

Our first engagement and the earliest path to revenue is on the enterprise side. So what we've done is we've worked together with companies like Citrix and VMware and we are accelerating the hypervisor, this is a component of code within their product, to GPU accelerate virtual desktops.

So the end result of that is we are now in trial at over 200 companies, these are large very well-known companies in a variety of different industries from finance to aerospace and a variety of different applications from finance to product lifecycle management, PLM.

And the end result is every -- in order to make all of that happen and to make revenue happen there is an ecosystem that you have to engage. It starts with Citrix and VMware but it also includes all of the major server OEMs. At this point I think every major server OEM from HP, Dell, Citrix -- or Cisco, rather, in Japan, Fujitsu and Hitachi in Europe all at this point have a GRID server product.

In addition to that you need to have applications that take advantage of it. I think within the finance world usually whenever I try to articulate the benefit of accelerating a virtual desktop the financial world is usually the first to nod their head and say, you don't need to go through it, I get it. If you use a virtualized desktop today even just for moving data the performance can be slow sometimes. So just imagine an accelerated version of that and imagine that you can accelerate it to move media rich assets, not just text or data but to move pictures and videos and so on.

All right. So this is a key big area for us and at this point we -- trial revenue is already starting to grow for us. The big question on the GRID is really the time to revenue. The good news is it is very exciting but the other part of this is that it does take a while to go through trials at some of these large companies.

When we were asked on Q3 earnings call, in addition to Tesla and to GRID, what are the big growth drivers for the Company the number one biggest growth driver for us at this point is Tegra. So I don't think right now there is a single business unit at NVIDIA that does not have Tegra on its roadmap.

Tegra is essentially taking the GPU. You can look at NVIDIA's business as visual computing, the GPU that we sell is matched with an x86 to go into a PC or a server. What we have done is take a GPU and put it into a system on a chip and then we market that to the Android world.

Our strategy with Tegra is the same as it is with our GPU business. Within the GPU business we do not target 100% of the PC market. As I mentioned earlier, 70% of the PC market does not need an NVIDIA GPU. What we do is we target PCs where visual computing matters.

Our strategy with Tegra is exactly the same, we target segments of the Android market where visual computing matters and we don't address a majority of the market because it doesn't matter for a lot of that market.

So a great example. And you saw some proof points of this in this quarter. I think most of you are familiar with a Company called Xiaomi, this is a very hot phone Company in China. Xiaomi had the goal of launching a smartphone that would get press reviews in China that said it was faster than an iPhone, faster than a Galaxy S4. Would record the fastest benchmarks of any smartphone in the world.

They were going to take this phone and then target it against the Chinese Android gaming market which is the largest Android gaming market in the world. In order to do that they didn't use QUALCOMM, they didn't use MediaTek, they used NVIDIA. So that was a perfect example of an Android device where visual computing mattered. They achieved exactly what they set out to do.

They won every benchmark review. They outperformed the iPhone, they outperformed the Samsung Galaxy S4 and they targeted that market into Android's China into the gaming market in China. They sold out the first production lot and 86 seconds, the next production lot in another couple minutes and it is a very, very popular phone.

Now I point out this opportunity just because it is a perfect example of our Tegra strategy. Our strategy and our goal there is not to become the phone supplier for the entire world but to focus on phones where visual computing matters. If you look at these other devices there are also examples of that.

The Transformer, the new Transformer from ASUS, with a 2500 by 1600 resolution screen which is absolutely beautiful, is a Tegra device. The new (Stylus) device from Toshiba, the Tegra Note 7 device that we released, the all-in-one PC -- HP just released a series of all-in-one devices, those are all based on Tegra. There are a variety of other devices coming. So that is the other thing.

When you say the word Android I think a lot of people automatically come back and think, well that means phone. And today the phone market is the most mature segment of the Android market. But we know that Android is revolutionizing a lot of different markets other than just phone. So whether it is set-top boxes, displays,

clamshells, all-in-one PCs, automobiles, there is just a variety of new devices coming and we believe that there will be segments of those markets where visual computing matters and that is basically where our strategy is.

This year we know that the other component of this is that this year we were late with Tegra 4. This coming year we are not going to be late with our next-generation Tegra. I think we have already -- people know that our next-generation Tegra is already out; we showed it off recently and gave a sneak preview at an editor's day in Montreal recently. So we are looking forward to growth. At this point we believe Tegra will be up in Q4 and we will believe it will be up next year.

This focus, right, this focus on visual computing and on segments of the market has not just been driving our outperformance of the PC market. But it has been driving our gross margins. If you -- sometimes we are asked the question about ASP's and margins and about how we can compete with integrated graphics. If you look at the size of the GPU's that gamers use, I mean they are huge boards like this. Those are boards that aren't going to be replaced by an integrated graphics solution. And in fact on the gaming side those sell for \$1,000, within the professional world they sell for many thousands of dollars.

So the end result of that has been a steadily increasing gross margin line. It dipped slightly in the last quarter which was primarily due to the growth of Tegra, basically Tegra revenues came back in Q3 and that is what dipped it slightly.

I mentioned we increased our capital return to shareholders. I think it is pretty straightforward. I think for those of you who checked our results it was reasonably straightforward. We increased our quarterly dividend from \$0.75 to -- or sorry, \$0.075 to \$0.085 per quarter. We announced our intent to return \$1 billion in capital in FY15 and then we increased the share repurchase authorization through the end of FY16.

So I think this is good, I think the response to that has been good. I think this just reflects that we continue to generate cash. At this point we believe we have enough cash for our own purposes to have as a war chest. And just given the amount of cash that we have and the amount we are generating we have -- we just have a fair amount of confidence that we can continue to generate cash. Even in what was probably a pretty poor market over the last year we are able to do that.

Okay, let's see. So this is just a summary and then we can get into the Q&A, just summarizing I think our growth drivers. GPUs again outperforming the PC market is key. At this point GRID is lifting off the runway, I think it is starting to generate revenues. Then hopefully we will have some more visibility for you on the time to revenue for GRID.

Another key component again for us is Tegra revenues ramping back. So Tegra 4 is now shipping in over 15 devices. Android, as I mentioned, is not just about phones, that is going to drive our growth. We had another record automotive quarter, I didn't talk much about automotive. But automotive just continues to ramp steadily for us.

Automotive is Tegra and automotive is right now the largest revenue backlog at NVIDIA.

The bad news on automotive is it takes you a long time to get in but the good news is once you are in they give you a purchase order that extends out for a number of years. So it gives us -- we have a lot more visibility on Tegra in automotive revenue. Then again Project Logan is out there, it is out at customers. Project Logan brings the Kepler GPU to the mobile market and to the Android market and we are excited about that. Okay.

Questions And Answers

Q - Stephen Chin {BIO 5565507 <GO>}

Great. Thanks, Rob.

A - Rob Csongor {BIO 3210739 <GO>}

Sure.

Q - Stephen Chin {BIO 5565507 <GO>}

We have ample time for some questions. Want to see if anything from the audience first?

A - Rob Csongor {BIO 3210739 <GO>}

Yes, sir.

Q - Unidentified Participant

First off, Rob, would you mind -- can you quantify a little bit the size of the backlog in automotive that you currently have?

A - Rob Csongor {BIO 3210739 <GO>}

The backlog in automotive we have disclosed previously is close to \$2 billion in revenue. It extends out obviously for quite a number of years.

Q - Unidentified Participant

Is there a customer concentration issue there at all?

A - Rob Csongor {BIO 3210739 <GO>}

Meaning -- sorry, what do you mean?

Q - Unidentified Participant

Where it's disproportionately -- the revenues that you are getting right now from automotive, is it disproportionately skewed toward a particular OEM?

A - Rob Csongor {BIO 3210739 <GO>}

Well revenues that we receive now are obviously production vehicles.

Q - Unidentified Participant

Right.

A - Rob Csongor {BIO 3210739 <GO>}

So I think if you look at our production vehicles, they include Audi, BMW, Volkswagen, companies like that.

Q - Unidentified Participant

So it is pretty spread out?

A - Rob Csongor {BIO 3210739 <GO>}

Yes. We obviously have a lot more design wins that we just can't talk about yet. So like I mentioned, there is -- the time to market takes a while. So we have a number of design wins, we have had them for a while, we just can't talk about them until we are allowed to.

Q - Unidentified Participant

In the aggregate can you -- speaking of design wins, can you give us a sense for where NVIDIA stands today in design win momentum versus if we were having this conversation a year ago?

A - Rob Csongor {BIO 3210739 <GO>}

Design win momentum is increased and the reason is that there is really three movements occurring within automotive. One is to provide better visuals for fundamental things like navigation. So the idea of -- when you look at the Tesla S for example, the Tesla S has two Tegra's in it. That is just a beautiful -- that is basically a Google Earth complete with 3-D topographical, very, very smooth seamless streaming.

And once you get used to that level of directions, it is hard to go back to the one that just kind of chunks very slowly and it's just hard to go back to. So that is one component of it. But there is really two new segments that you're starting to see and I can talk about some of this just because it has been announced.

You are going to see Tegra's used for rendering instrument panels. So physical gauges disappearing and being replaced by rendered panels, which are able to convey a lot more information and they are safer. Then the third area has to do with advanced driver systems.

So in this case you are using the GPU inside of Tegra to do things like computer vision. You are -- pedestrian detection or collision avoidance, things like this where an object blows in front of the car and you have to quickly identify is it a child or a paper bag. So depending on the answer to that you may brake or you may not, the answer is different.

Q - Unidentified Participant

Rob, I apologize. I wasn't clear. My question about design win momentum versus a year ago. It wasn't so much confined to automotive as it was corporate just as a whole.

A - Rob Csongor {BIO 3210739 <GO>}

As a whole, wow. Well I would say that I would have to break it down because it's hard to say.

Q - Unidentified Participant

By all means go ahead.

A - Rob Csongor {BIO 3210739 <GO>}

Yes, I mean within the PC gaming market, I don't think that is much of a design win business, right? That is more of a growing business that is driven by a number of gamers and by games that come out. Massively multiplayer games drives that business more than anything. So that is not so much of a design win. I would say it is probably the same on the professional side.

Obviously the growth businesses are very much driven by design wins. So for example, within the Tegra business, that is obviously very much a design win business within our OEM business that is design win oriented. We saw a big increase in the number of design wins for Tegra this year. But as you know, that doesn't always tell the whole picture on your revenue. You can have a few design wins that matter a lot more than a whole bunch of small ones.

But so what we look at is, especially a businesslike, for example, Tesla, a design win at a supercomputer results in a very lumpy big growth in revenue but then it would kind of fall off. So over time what we look for is enough design win momentum that starts running into steady state revenue. Then I think right now I would characterize Tesla, GRID and Tegra as being driven by not just design wins but I the buildup of this run rate business.

Q - Unidentified Participant

Thanks.

Q - Stephen Chin {BIO 5565507 <GO>}

Rob, maybe a couple of -- sorry.

Q - Unidentified Participant

What is the business model for something like the Shazam situation? I mean is that you are selling chips to them or do you get some kind of pennies every time you use it or something?

A - Rob Csongor {BIO 3210739 <GO>}

Yes. That would be great, every time -- for those of you -- the question is, how are we -- what is our business model for Shazam. The business model for Shazam is we sell very big large Tesla GPU's that go inside a data center. So it is an OEM sale. There is not -- we're not compensated on per hit on Shazam, which would be kind of cool. Maybe we should do that next time. Yes.

Q - Stephen Chin {BIO 5565507 <GO>}

Rob, maybe I can drill down a little more on GRID as well. So just first of all on the technical specs end of things, do you have like a general sort of assumption that you can provide about how large each of these GRID deployments might be? Is it X number of racks and each track as 20 Tesla's in there as an example? Does it vary depending on the end market vertical that you are targeting?

A - Rob Csongor {BIO 3210739 <GO>}

Yes. It is actually very dependent on -- it is exactly that and it is very specific. So it is by application. So the way that it ends up happening is that there is a certain number of instances per GPU that you need to support. Then depending on what the application is that is going to change -- that is going to move back and forth. So that is one of those questions the devil is in the details. But it is very application-specific.

Q - Stephen Chin {BIO 5565507 <GO>}

And from an actual real-world user experience standpoint, can you talk a little bit about what the implication of GRID is? Is it just purely faster response times from the service provider or is there actually an easier usage model associated with some of these applications or services?

And what I mean by that is, is a Tesla -- is GRID basically just a faster Xeon in the data center or is there actually a new usage model where it is just a simple video stream now as opposed to having the end-user log into multiple services and software clients in order to get that same service? If you can (multiple speakers).

A - Rob Csongor {BIO 3210739 <GO>}

No. That is a great question. The promise of virtual desktops, the promise of VDI was that if you are a company that cares about centralized data, for example you guys, right, the financial world. You have centralized data, you don't necessarily want to put all that data out locally onto clients everywhere where it can be lost or stolen or whatever. So you want a virtualized desktop on a tablet or on a notebook or something like that and then you want to be able to access it.

So in fact the financial world uses VDI, you use Citrix, you use VMware, Bloomberg, FactSet -- all of these guys will use Citrix or you'll use virtual desktop clients. In the case of the financial world those are all data-driven. We actually didn't even expect that the financial world would be one of the early adopters of GRID because it was just data. But as it turns out for those of you that have used VDI, the performance can be slow even with VDI -- sorry, even with data.

So imagine if you approached a company -- an aerospace company and said in addition to data you need to move around assets like CAD models, videos, large diagrams, pictures, I mean when you look at all of the assets that are used in product lifecycle management for the design of airplanes or anything like that, you can imagine there is a lot of assets that you would want to use but you simply need better performance in order for virtual desktop to be practically useful.

So the answer to your question is there is one segment of users where they are using it. But the acceleration of VDI means that you will save money elsewhere. Within the financial world it means that you could just have -- you don't need high-powered desktops or clients, you could use lower powered ones and they work just fine. In the case of rich media assets it just simply wasn't possible. So that is why Citrix and VMware are enthusiastically promoting GRID because it opens up opportunities for them that they never had before.

Q - Stephen Chin {BIO 5565507 <GO>}

In terms of ease or pain of adoption for GRID is there a similar sort of CUDA 1 and 2 steep learning curve for GRID or is it different this time around?

A - Rob Csongor {BIO 3210739 <GO>}

No. It is not -- you certainly have to collect. You have to get the ecosystem, you have to get server folks on board, you have to have applications that are certified. But it is not on the order of CUDA and Tesla. With the Tesla world you have -- you had to rewrite applications and it was almost on a per app basis. Within the enterprise VDI world we already have Citrix and VMware and Microsoft and KVM and a lot of these companies. And what we are doing is simply accelerating their application.

So in other words the added attraction here is you don't rip out what you had, you keep what you had but now you just add GPU's and now you are accelerated. So we believe that the time to revenue here is not in terms of rewriting apps and everything, it is just simply the trials. You don't show up at a large aerospace company, show them a demo and the next day they give you a purchase order. It takes a while to go through the trial and go through a testing and all of that kind of stuff.

Q - Stephen Chin {BIO 5565507 <GO>}

Okay. And just two questions on Tegra. First of all in the automotive market is basically any sort of infotainment and driver assistant aid systems, are those all targeted by Tegra? Or is there a certain price range? Is it only luxury cars or does it

include mainstream? Because I know TI has been talking a good game also about OMAP in infotainment and driver assisted aid systems.

A - Rob Csongor {BIO 3210739 <GO>}

Yes. That is a good question. I think historically a lot of these high-end features and capabilities have started at the higher end cars. It is kind of like car nav. Car nav started at higher end cars and then over time it came down into more mainstream. I think -- I do think some of the new ones are doing that. But a lot of this type of technology we believe is going to become very fundamental.

It is kind of like it used to be an anomaly, it used to be just a point of interest whenever you saw a car with a car nav. And today you don't even think twice about it anymore when you get into a car. So it moves down rapidly.

Q - Stephen Chin {BIO 5565507 <GO>}

And given that you are more selective on the mobile -- (inaudible) the mobile side of things, the business that you are going after, what does that mean in terms of NVIDIA's ASP and gross margin profile for those products relative to everybody else is going after everything out there?

A - Rob Csongor {BIO 3210739 <GO>}

Well we have products that are below the corporate gross margin, we have products above it. Within the Tesla and GRID growth opportunities, those are well above corporate average. If you look at the notebook business, that is well below corporate gross margin. Then on the Tegra side, the Tegra business is actually becoming -- it's hard to say what exactly one piece of Tegra is, it kind of varies.

So overall Tegra is below corporate gross margin. For devices like automotive it is a little higher. For devices like SHIELD it is lower because we are building SHIELD. In that case the gross margins are much lower. But the gross -- the margin dollars are obviously larger.

Q - Stephen Chin {BIO 5565507 <GO>}

Sorry, maybe I should rephrase my question. For Tegra in particular, wherever Tegra is competing with another product from any of your peers, would you say that Tegra is able to garner a premium relative to peers or is it in line?

A - Rob Csongor {BIO 3210739 <GO>}

Oh, yes, absolutely. I guarantee that MediaTek is priced better than NVIDIA, for example. So NVIDIA has never been a price competitive supplier, it is just not -- that is not how we are structured. You obviously get integrated graphics for free. So whatever we provide and when we sell a GPU to the PC it is obviously at a premium. And in the markets we serve that premium is potentially thousands of dollars.

Q - Stephen Chin {BIO 5565507 <GO>}

Then a couple last questions on Tegra. For Tegra 4i with the integrated modem I think a year ago Jensen was still talking about how that was progressing and the importance of the modem. With the current message of focusing on visual computing, how much of the visual computing market, as far as mobile or low power devices go, how much of that requires broadband connectivity or cellular connectivity?

A - Rob Csongor {BIO 3210739 <GO>}

Well we believe there is going to be a large segment of Android devices coming which will require a data modem. There was a report out recently that stated that by 2017, for example, almost every car will be connected via LTE. And not just connected but connected continuously. So we believe that the investment we made in the modem, the LTE modem for automotive for a variety of different Android devices is very important.

There is one device in the Android market that requires the voice modem and that is phone. So on the phone side we view it again per our strategy which is our strategy on Tegra is to focus on devices where visual computing matters. The Xiaomi phone is an example of that. So we believe that there is an opportunity with phones because there will still be segments of the phone market where they care about visual computing. Then Xiaomi is an example of that.

So I think this quarter -- I think we announced in the earnings we disclosed that we got certification. We are very pleased with that. I think it was satisfying. There were definitely skeptics out there. So it is just satisfying to have it done.

Q - Stephen Chin {BIO 5565507 <GO>}

And that was full certification at AT&T for voice and data or just --?

A - Rob Csongor {BIO 3210739 <GO>}

Voice and data, yes.

Q - Stephen Chin {BIO 5565507 <GO>}

How quickly do you think you can get certification in other geographies and other service providers such as NTT or Vodafone?

A - Rob Csongor {BIO 3210739 <GO>}

We think -- I mean the biggie is done. We do have certification on others, some of them just haven't been disclosed yet.

Q - Stephen Chin {BIO 5565507 <GO>}

Okay.

Q - Unidentified Participant

Rob, there is in my mind confusion out there about your licensing agreement with Intel. Could you articulate what exactly the agreement is and isn't? Some people think I think in 2017 you are going to hit this waterfall and others have said, no, no, no, there are aspects of the technology that go on in perpetuity.

And to the extent Intel desires to continue to integrate graphics they are going to owe NVIDIA some type of money and there's going to be a renegotiation. And if that is true at what point would that tend to happen? Is that a 2015 story, 2016? Can you do speak to that part of your business?

A - Rob Csongor {BIO 3210739 <GO>}

Sure. It is reasonably straightforward and it is all public. You can go read all the details of it. But we are roughly now -- roughly halfway -- almost halfway through a licensing deal, a patent licensing agreement with Intel. And it goes through Q4 of FY17 at which point it expires. It is a perpetual license, it goes both ways. So it applies to us and it applies to them.

This is the second licensing deal we have done with Intel. So the first licensing deal we did was in 2004. They received a perpetual license for graphics and we received access to the front side bus. And as a result of that what we did was build chipsets and the value we derived was \$4.5 billion of revenue from chipsets.

Now we didn't just re-up, I think you guys are familiar with -- we had a disagreement over the terms of the agreement. We ended up suing Intel and then the end result of all of that was we announced a new cross-licensing agreement. And this one goes from 2011 to 2017. And the value that we derived from that agreement was \$1.5 billion of cash.

Now by 2017 the question is, what is going to happen? Who knows. Between now and then a lot of things can happen. I think from an investor perspective the question is just simply is it conceivable that you can replace \$266 million of profit? Because the concern is if you are 100% certain that you don't -- that disappears and if you are 100% certain that it is not replaceable then you lose half -- NVIDIA loses half its profit.

But I don't think -- somewhere between you're 100% sure that you will and 100% sure that you won't is probably reality. Now between now and then we have a lot of irons in the fire and it is our intent to drive profits and to grow them and to not count on re-upping them. So across license agreement it works both ways. We may not want to, right. And we're generating patents at the rate of 500 to 1,000 a year. So we may not want to re-up on a license agreement. So we will just see.

But in the meantime we've announced a number of initiatives that I would say you are certainly seeing enough early indicators of things that can drive profits for NVIDIA beyond where we are today. GRID, Tesla, IP patent licensing, IP core licensing, there is just a number of things -- a number of irons in the fire that you see. So we will see.

Q - Stephen Chin {BIO 5565507 <GO>}

Actually we are out of time, Rob. So maybe you can take any other questions off-line. So appreciate your time today and thanks for the updates.

A - Rob Csongor {BIO 3210739 <GO>}

Okay, my pleasure. Thank you very much.

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