

Bank of America Merrill Lynch Global Technology Conference

Company Participants

- Colette Kress, CFO

Other Participants

- Vivek Arya, Analyst, BofA Merrill Lynch

Presentation

Vivek Arya {BIO 6781604 <GO>}

Good afternoon, everyone. Thank you for joining us in this session. I'm Vivek Arya, semiconductor analyst at BofA Merrill Lynch. I'm absolutely delighted to have Colette Kress, the CFO of NVIDIA, join us. We also have Chris Evenden from NVIDIA's investor relations team. And what we will do is make this a very informal Q&A session. Please feel free to raise your hand if you have a question.

But maybe just as a start, Colette, if you could give us a sense for how's the overall demand environment as you see it right now in your three basic markets? And how does it compare to what you thought it would be like a few months ago?

Colette Kress {BIO 18297352 <GO>}

Sure. So when you think about our key markets in terms of a focus, there's definitely our focus in terms of the GPUs and the GPUs as they relate to gaming, our overall enterprise focus. And also then our focus in terms of mobility.

When we think about the overall GPUs and the GPUs for gaming, we've gone through several quarters now of very good success and seen a lot of things come together in terms of the overall gaming market. The gaming market has been fueled by both the new games coming out into the market, the need for the GPUs. And the work that they've been doing to leverage the GPUs to make that even more beneficial. A lot of the world economy is really typing improvement as well. So the gaming market, substantial growth year over year; sequentially, even from Q3 to Q4; and also a very strong quarter in our just Q1 that we just released as well.

Just overall, the market, probably a pleasant surprise -- a pleasant surprise to see people really upgrading to higher-level GPUs also in there. So the mix of what we're seeing in terms of those top GPUs is being extremely successful.

When we look at the overall enterprise business, our second business, also really strong success. We finished FY14, our 2013 calendar, in a really strong position as well. Our Quadro business, a new launch in terms of this, that prior year. And being very successful in the overall workstations. But what's nice to see is our overall growth in terms of the data center in the cloud, as we've put together both Tesla and GRID for those new opportunities.

GRID is our opportunity in a virtualized GPU, being first to the market in order to establish a virtualization offering using the GPU. A tremendous success in terms of interest, trials, people really looking at this as really helping to solve a unique problem in the industry of that user experience on that side and what a GPU enables you to do in that environment.

As we've seen parallel computing, data analytics. And machine learning also become extremely important workloads that people are trying to solve, the GPU in terms of Tesla as well as in that environment, super-strong. A lot of interest commitments mean a lot of growth opportunities as we see going forward.

Then when we turn to our overall mobile business, also extreme success in terms of our local mobile smartphones in terms of the new China market. You saw Xiaomi with its M3, a very big success. And even this last week, about a week ago Friday, Xiaomi announced the availability of their upcoming tablet that will also be using our new K1 Tegra SoC.

So all strengths, just in terms of those SoCs for smartphones and tablets. But also keep in mind we have a very strong overall automobile business. A lot of interest and excitement as we think about what cars of the future will be, whether they be self-driving in the long-term future or just the great opportunities that we have right now in terms of maybe self-parking and the awareness that they have.

NVIDIA's been investing in that for quite some time, more than eight years. And that eight years of development is truly important, both from our relationship with the overall automotive dealers. But also the partnerships with the other vendors that are going into those cars. So we have an extremely strong pipeline. And when we think about a pipeline, it's not opportunities that we may win. It's a pipeline that we have won. And it's now just the delivery of that, the overall software fine-tuning. But those models will be on the street, using overall NVIDIA.

So when you think about those three businesses -- gaming, the enterprise. And mobile -- really great progress so far. And we'll continue to be excited going forward.

Vivek Arya {BIO 6781604 <GO>}

Got it. Then maybe if we start with the gaming market. So very impressive execution, very impressive market share gains. But as you look over the last few years, we have seen market shares go back and forth between NVIDIA and AMD. And now you are at the high end of -- you know, where one company has managed to get market

share. So how do you think about where your market share lies. And do you see market share being stable over the next couple quarters, one or two years? Or do you see them shifting one way or another?

Colette Kress {BIO 18297352 <GO>}

I think we're all accustomed to looking at market shares over a broad period of time. Definitely, on a month-to-month and a quarter-to-quarter basis, there's a little tit and tat. We'll always go back. And I've gained a little bit and I've gained a little bit there. But I think what we see, both in the gaming desktop, overall notebooks, is, one, the stabilization of the discrete GPU and its importance is still there. It has very nicely stabilized, even in what has not been an overall stable in terms of PC market.

Our ability to overall grow, time and time again, year and year, in terms of that is something that we're focused on. What is that is enabling us is customers are continuing to come back and purchase the GPUs over and over again. That allows us to continue to think about what the customers are looking for and better build the products for them.

We are not finished when we just actually sell them the GPU. They do have those "phone home" capabilities in terms of the support from a drivers aspect to really optimize for what their use cases is. So we have built an entire ecosystem around it. It's not just the market share at the point of sale. The point is how strong our overall ecosystem is in the overall gaming world. From the actual gamers to the gaming developers and the industry as a whole as that transforms from just a normal PC environment to a mobile, connected type of environment in terms of that. So we are the market leader, the market leader in GPUs. And also market leaders in terms of the gaming workload.

Vivek Arya {BIO 6781604 <GO>}

Got it. So where do you think market share goes over the next year?

Colette Kress {BIO 18297352 <GO>}

I think -- I don't see it particularly changing. I don't think that's our focus to say we have a specific goal in mind. But I think we're very confident in our roadmap and what we have. And I think it is very stable in terms of our overall market share that we have.

Vivek Arya {BIO 6781604 <GO>}

Understand. If you look right within your GeForce business, how do you look at the trends in the OEMs, the notebook channel versus what you have on the gaming side? What are the relative proportions in terms of sales or profits, if you could give us a sense? Then say that, if let's say, the PC market does continue to be under pressure for the next few years, what does that imply for your overall GeForce business?

Colette Kress {BIO 18297352 <GO>}

Got you. So I even think, as we finished the end of last year, where we knew the overall PC market would probably still be in a general decline. And there's a lot of discussion about 2014 on whether or not it may stabilize, may grow again in this time. What I think we surprised a lot of people was our ability to actually grow our overall GPU revenue, even though the PC market declined. So I think what you're seeing is a true separation that it's not all the same and perfectly correlated or tied to the overall PC market.

When you think about that GPU, the GPU comes in many different forms, both around the world and how you purchase it. It's not always a full (inaudible) of the PC from the GPU. We're seeing the upgrade cycle on the GPU be a lot faster than the overall PC, particularly in that gaming workload. So on that side, I think there's continued strength as people -- gaming is here to stay. It is a very hot market. And people in terms of those investments and what they'd like to see.

What's been interesting is to see that transition to the overall notebook, okay? In the past it was your PC. And in terms of your overall environment, that may be in your living room, in your home. And well established. They want to be mobile as well. They want to move from room to room. They want to stream. And what you're seeing is the emergence of gaming in overall notebooks. Again, a very, very important growth area for us. Coming from a relatively small base. But we're seeing very, very strong GPUs that are being particularly used for that overall gaming.

When you think about the underlying mainstream, people that buy a PC and notebook for just its work purposes, no, that's not going to be an area where we're focused on. We're not here to optimize for those very low-end, low-cost type of PCs, because we know what that means. It means pretty much a very low ASP -- not a particular area that we want to focus on. We want to focus where that visual computing experience is extremely important to the user, because that's what we're doing best. And we see that will happen.

The PC market, whether or not it stabilizes, whether it may go through some troughs of growth or some troughs of decline, I still think we have a very solid roadmap for growth in terms of the overall gaming business still.

Vivek Arya {BIO 6781604 <GO>}

Got it. And in terms of ASPs, obviously, you're right. The gaming card has much richer ASPs. Can you give us a sense of where NVIDIA's GeForce ASPs are right now?

Colette Kress {BIO 18297352 <GO>}

It's amazing in terms of the ranges of GeForce ASPs. They can be in the low two-digit number. And they can be as high as in the three digits. So you will see some very, very expensive GPUs. And it's a market that they want the best of breed. And you're

talking about refresh cycles that could be, "I'm going to buy the newest one every single time."

So from our ASPs, for a lot of people, your ASPs are growing. In a way, it is just a mix to that super-high end, the plus-\$200 or plus, even therefore higher in terms of overall GPU pricing that people are buying. And that is moving the entire stack, or the overall weighted average ASP for those GPUs out there.

Vivek Arya {BIO 6781604 <GO>}

And you think there is more room still to move there, or are we at the limit of where ASPs can get to?

Colette Kress {BIO 18297352 <GO>}

I think there's always going to be movement in terms of mix over that period of time. It's going to be what type of instances and what do we enable from their experience on whether or not the market will enable higher overall ASPs and whether or not they'll transform in terms of that.

It always just depends on the overall market conditions. We're in a pretty good upswing in terms of the market regionally, both in Europe, both in China. And we are seeing in the aspects of China, actually purchasing or upgrading, which is pretty unusual for that region of the world as well.

So I think everything is impossible. But the innovation in terms of our GPUs has to be there as well.

Vivek Arya {BIO 6781604 <GO>}

Got it. And you mentioned China. And there's been this news about opening that market to game consoles. Do you think that has any effect on your business, because that's a pretty strong market for your GPUs.

Colette Kress {BIO 18297352 <GO>}

Yes. So I think it's interesting that even over this last holiday season, that was a very big console launch. We're talking about two major consoles in their once every three; or four-year cycle, yet it was extremely successful for us on the overall gaming side. So I think there's an aspect of is it 100% correlated to the overall consoles? No, because that PC market is still very important.

But PC gaming in China is very particularly strong. There is a very strong ecosystem, a very strong social market associated with gaming. Gaming is associated with i-cafes, a market of going into malls, building up those types of things. So from our research, consoles in China are not unable to be found. They're actually there. And they're actually -- you can find it. If you want a console, you can actually get it. So

again, this is a question of is there really not consoles in China? I don't think that is the case.

Sure, if it does become legal, maybe things change. But again, we've built an overall ecosystem. It's not just selling the overall GPUs. We feel very, very confident about it.

Vivek Arya {BIO 6781604 <GO>}

Got it. Then let's talk about the quarter business on the professional graphics side. You know, we had AMD present today. And they were very excited about their market share gains in professional graphics. They said they're up to 18% to 20%. What's going to drive growth in professional graphics. And how can you maintain your strong market share?

Colette Kress {BIO 18297352 <GO>}

Yes. We have pretty much been number-one market share in the workstations for many, many years. I haven't seen, from the past, any material change in terms of the market share. They may gain a couple workstations here and there. But essentially, I think our term is that anything that's flying across the sea or on the land is designed by NVIDIA GPUs. Anything in film, any award, anything in that aspect, it's all NVIDIA workstations in terms of that.

You again go back, it's not necessarily from the OEM and the manufacturer putting in the GPU. It's about the customer and what they need to execute their design and their overall modeling. The overall applications that they need and whether or not they have been certified at the GPU and whether or not there's a wide variety, NVIDIA has just a huge strength of more than 300 different apps.

So the workstation business is about both innovating and helping them do their work faster, easier with the GPU. But we've had to already done the work with the overall applications and certifying that. So what will come true is we'll continue to innovate. But the ability for also us to integrate that from the application will drive that overall market.

Again, looking quarter to quarter, sure, you gained a tad bit of share. But if you don't have the mind share from the design, there's not an automobile on the street that is not designed using NVIDIA at this time. I can't see that materially changing any time soon, because it is well established that it is the best of breed to use for that design.

Vivek Arya {BIO 6781604 <GO>}

Right. Now, in quarter up, your world has enjoyed very high ASPs, right? It's a very different market than the consumer market. But when I look at the growth over the last one or two years, it was far above what we saw in just the number of workstations being sold. So what drove that extraordinary growth? It sounds like ASPs. But your ASPs are high to begin with.

Colette Kress {BIO 18297352 <GO>}

So what you did is, again, a workstation is both a very well-solidified workstation. The question is, can we get a mobile workstation? And I do remember talking to a designer who says, "Yes, I'm mobile now," and they're carrying around 30 pounds of their workstation to be mobile. So we also enabled a mobile type of GPU for those overall workstations. So again, new technology to overall help them there.

The world economy's also improving and increasing back. You'll see that upgrade cycle of what they need to do with the workstation. Additionally, we came out with a new set of Kepler towards the fall. And people are continuing to move and upgrade their overall cycle for that new Kepler aspect. So that's what we saw. We finished, I think, this last year in the double digits in terms of growth over that.

We continue to see we're not probably done with that upgrade cycle as we look at the current year. But those are some of the things that influence that overall design change and that upgrade cycle as it relates to the enterprise.

Vivek Arya {BIO 6781604 <GO>}

Got it. And maybe let's talk about GRID. It sounds like a very exciting product -- desktop virtualization, streaming games. I can understand the applications. But what I cannot get my arms around is what problem exists that you're trying to fix? On desktop virtualization, people have spoken about VDI for a long time. But it has not become so mainstream. And I don't understand which problem you're trying to solve there. Then we'll talk about the other application.

Colette Kress {BIO 18297352 <GO>}

So one of the aspects of VDI is companies, enterprises, are trying to solve multiple aspects of the security of having desktops all around, desktops in the backs of cars, those types of things, with extreme amounts of confidential data. Also, the ability to be able to replicate a certain persona on multiple PCs when there's upgrades is enormous in terms of an enterprise. Being able to have that VDI back in your overall data centers and being able to have that desktop there and re-update along the way is key.

The challenge has been on the user experience of that. When you are streaming that application over a cloud environment. And it is very graphic intensive, or it's streamed where it is refreshing often, it's not a viable user experience. And particularly in your industry, in the overall financial community, you can imagine the stocks and not wanting to be upgraded every three seconds in terms of that. It's a very unappealing user experience for there. We've come in and solved that problem with the overall GPU. You now have ability to where that user experience is usable and actually a viable option for so many of these options of VDI in terms of what we've seen.

But what it takes is the overall coordination with the virtualization companies. You've seen us come out in partnership with Citrix. Citrix is one of the key people in terms of that overall desktop virtualization. You've seen us also announce our relationship with overall VMware. We will come out from the software aspect with VMware.

The architecture of VMware in the data center and Citrix on the desktop is the most popular overall configuration that we have in the market. And we will be enabling that. That is driving a significant amount of trials and a significant amount of interest to say, "Now there is an upcoming solution that can help us solve the problem that we're doing." That is just for VDI.

But you also had talked about in terms of additional streaming, additional streaming gaming and the overall possibilities that are there. Just enabling the virtualization of that GPU has what we've learned in terms of additional workloads, applications where that streaming is going to be extremely important. So more to come on that. But again, we're super-excited in terms of what we've seen so far.

Vivek Arya {BIO 6781604 <GO>}

So on this business, is this a business that can be tens of millions of dollars, hundreds of millions of dollars? How do I get my arms around it? Because it sounds like a very interesting business. But I have absolutely no way of really quantifying it, because it's so new. It's such a unique business that you have.

Colette Kress {BIO 18297352 <GO>}

There's different ways that we've tried to quantify. We're pretty much taking it step by step and really looking at this year. And we've talked about this year. I think we had discussed in our earnings release of probably tens of millions of dollars in terms of this year. When we look forward and we think about the overall TAM and the overall opportunities out there, we look at the overall server market, we look at the overall server workloads that may be there, how many GRIDs we could actually put in the servers. And how many people we could host per overall server in terms of that environment.

Some of those types of maps help us understand the size of this business. Can it grow very nicely? Absolutely. Are we in some of the initial stages? Yes. But do we think it's a huge opportunity in a world of cloud and how fast that will grow? Yes.

Vivek Arya {BIO 6781604 <GO>}

And is this an opportunity in that you can -- is this a greenfield opportunity in that you only install it when somebody is deploying a new VDI? Or can you actually upgrade existing installations with this to improve their -- ?

Colette Kress {BIO 18297352 <GO>}

You would absolutely be able to install against existing on that side. But again, just trying to understand what their baseline architecture is, it's going to depend on that side. But yes, I do believe it can be done on both.

Vivek Arya {BIO 6781604 <GO>}

Got it, okay. Then on the Tegra business, different aspects of Tegra. So the auto side, the mobile phone side. And others. On the smartphone and tablet side, yes, NVIDIA has a number of very interesting wins. You mentioned Xiaomi before. But we just saw, for example, yesterday Broadcom said that they are pulling back from that business. In the past, DI has said that they'll pull back from that business. Is smartphones and tablets a business that NVIDIA can really sustainably be profitable in? Are you committed to that business? And if yes, do you have all the piece marks to make yourself successful in the longer term there?

Colette Kress {BIO 18297352 <GO>}

So when we think about Tegra and the overall SoC business and what we're here, we're really trying to leverage our overall importance that we have in the GPU and what we've enabled in terms of visual computing. We are moving in the direction of where does visual computing matter in a mobile type of application or a mobile form factor and what may be. What we see today and what we may in the US use a smartphone for, or what we use a tablet for, is not always the case worldwide. You see many, many different type of local brand holders wanting to differentiate against the standards that are out there and really make visual computing truly powerful.

Gaming, as it relates to those devices, is very important. When we think about the US, we have multiple form factors. We all carry around multiple devices around. When you get in some of the other regions of the world, they don't. And so when you have only a single device, that may be your gaming device, that may be your phone, that may be your overall connectivity type of standpoint.

The optionality that we have to serve those markets. And leading with the GPU and leading with the best of the breed. And then whether or not the customer needs that connectivity is where we are focused on. It's not that we're going after straight in terms of a mobile business. We are trying to lead in terms of where gaming will be important and where that visual computing will be important. And we do believe the markets that we currently are in, you can see that in terms of the differentiation that we're doing.

Vivek Arya {BIO 6781604 <GO>}

Maybe let me push back a little bit on that. NVIDIA has always had great GPUs, Integra and in the mobile product. I have no doubt about that, from all the benchmark data that we saw. And gaming has always been important in those emerging markets. So why is it that you're only going after a niche opportunity? Like why isn't Huawei or Lenovo or ZTE, like a lot of other mainstream emerging market handset OEMs, using NVIDIA? You know, Xiaomi is a very important brand, no doubt

about that. But why don't you have more share in that market if that market has been growing and it desires what you guys are the best at?

Colette Kress {BIO 18297352 <GO>}

So I think it's a question in terms of where all of those players are trying to position themselves. Are they trying to position themselves in a low-cost, low ASP? Are they trying to be at a medium pace? We, in terms of our go-to-market, is more about how are we serving what the overall community is going to want, based on the developments that we have. If we only worked on, "Hi. I want to be the lowest cost," we're not going to be that. There's many other types of options in terms of the market. So we're really, really trying to concentrate on how things are overall going to transform.

If we think about today where gaming is. And we think about where gaming is going to be in 10 to 15 years from now, it is going to be different. It is going to be more and more mobile, more and more streaming, more moving to every single type of device that is out there.

I think the form factors that we see today right now that people are using for gaming, whether it be consoles, whether it be set-top boxes or anything, will move. And those new form factors will be there. We have now built an SoC that is able to enable all those different types of form factors going forward.

Vivek Arya {BIO 6781604 <GO>}

So if, let's say, if I'm an app developer and I'm very attracted to this mobile gaming market. But then when I look at where all the eyeballs are, they are on iPhones or Samsung phones and a lot of phones that, even though NVIDIA might have a great GPU. But you don't have the market share in the broad reach of the market. So if I'm an app developer, why won't I optimize my games around where the eyeballs are, rather than around an NVIDIA GPU?

Colette Kress {BIO 18297352 <GO>}

That's an interesting aspect when we think about the Apple and being a relatively closed overall development cycle. But if you think about the overall Android and what we have as being very open, we've built those relationship, we see the importance of overall Android. And although Apple, maybe. And Samsung have a portion of that market, there's a tremendous amount of the market that is just Android focused. Knowing and seeing the continued evolving of games for that Android market, we do see that coming. And we are one step with them all the way in terms of building the Android market for all of those different devices as well.

Vivek Arya {BIO 6781604 <GO>}

Got it. Let me pause there and see if there are any questions. If not, maybe let's discuss the -- you know, one thing I really admire about NVIDIA is that you have

managed to develop all these capabilities without really -- it's all organic, right? You have not done too much M&A, other than maybe a few tuck-ins here or there. Very different than, I think, a lot of the other players in the semiconductor industry.

Do you have what you need in your portfolio, or do you think, as you look over the next few years, that you would be open to looking at other opportunities to accelerate growth in other areas? And if yes, are these going to be complementary areas? Are these going to be new areas? How do you just conceptually think about M&A as a source of growth for the Company?

Colette Kress {BIO 18297352 <GO>}

So thinking about -- I think there's different forms of M&A. There's M&A as building existing businesses that have already established. There is M&A to acquire talent, acquire something that may be in early stage. Then there's overall keeping heads up in terms of startups, key aspects that are emerging in terms of overall technology.

We think about those altogether in terms of those overall possibilities. We're very connected from that overall emerging community. It's attached to our overall GPU technology conference, to really get a good understanding of how people are leveraging GPUs, what may be surfacing. So we keep a very close watch in terms of new market transitions. We think about investments in those types of companies in their early stages. And we have a list of those that we have invested in and those that we have really helped them almost get to a public stage on some of those.

Additionally, we have done a lot of bit of technology acquisitions in terms of early talent and people that can help us build the best of breed. And as you've mentioned, we've done a few in terms of the overall acquisitions. That doesn't stop. We're always looking across there. The question is, where will those opportunities be? Being things that can really help us in terms of our vision, our key strategic areas, we will absolutely look at.

Do we see anything in this last year? The answer is no, nothing overly material. Some pretty small things. But that doesn't mean things could change in the past. But nothing at this time.

Vivek Arya {BIO 6781604 <GO>}

Got it. Then I think on one thing I forgot to ask was Tegra and autos? But I think you had mentioned a very large backlog of opportunities, I think close to \$2 billion. How do I put that in the context of, let's say, there is 80 million or 100 million TAM in annual car production?

Colette Kress {BIO 18297352 <GO>}

That's right.

Vivek Arya {BIO 6781604 <GO>}

How do I take that \$2 billion and match it against this 80 million or 100 million cars that are being sold every year?

Colette Kress {BIO 18297352 <GO>}

Right. Right now, in terms of the work that we're doing in terms of the GPU, is we're starting at the high end. It's always better to probably start on the high end and work your way down than trying to be a small, low-end player and work your way up. What we are doing is helping the high-end models that are coming in to make it mainstream -- mainstream in terms of parking your car, the visualization, the software in terms of that.

What we're seeing is not just of the number of cars that may hit the road, one GPU per car. We're seeing multiple GPUs per car. Every car company is developing this differently, developing whether or not they want their infotainment system to be standalone, whether or not they want their dashboard to be separate, what they have running the car versus what they have running the things that are just user-friendly over there. We're in both of those aspects.

We have probably the best technology in terms of not visual. People think about it, "Why do I need something really fancy to visually do?" It's not about what's visually coming out; it's about what we're able to see that's out in the road -- the multiple, multiple amount of cameras, the pictures that are taken that are being able to be processed to determine the alertness that needs to happen to the driver and/or what it needs to alert the car to do. And that's where we're overall working on.

So when we think about that pipeline and we think about that backlog, it's not these are opportunities for this. These are LAN designs that we've already done. And what we're seeing is once we're in a single design with a certain manufacturer, it starts to move down the overall models, moving from all those high ends to the mid-range. And it will be standard in most of the cars. And whether that be five or ten years, we're going to see it all throughout the overall industry.

Vivek Arya {BIO 6781604 <GO>}

Got it. Then maybe in the time we have left, I wanted to address two issues. One was on gross margins and then on capital returns. So on gross margins, I think in the last few quarters, you have upside in gross margins on a regular basis. And we need to keep on updating the model for that. But in the last quarter, I think the guidance that you gave, the guidance was somewhat -- we are seeing some reduction in gross margin. How do you conceptually think about gross margin? Do you think this mid-50s level is the right level for the Company to be at, or do you think they can be much higher?

Colette Kress {BIO 18297352 <GO>}

I think it's going to really depend, if you look at the broad portfolio that we have and the broad portfolio of different margins across there. As we can well understand, our enterprise business definitely has higher margins than the overall Company average. Those are extremely important GPUs running mission-critical applications, need to be 24/7 up. And we're also with them in terms of advanced service understanding about what they need to make those happen. The growth and the pace of that is what we want to see. But that's going to influence our overall gross margins going forward.

We've seen gaming ASPs and the overall growth in terms of people upgrading to the higher ASPs. Can we see that exist going forward as we move out of mainly that low-end mainstream and that moves in a different direction? All again positive from an overall gross margin standpoint.

On the flip side, if we look in terms of some of the SoCs, those are probably below the Company average. So the guidance that we had given for the quarter was really tied to thinking about, what is our mix of our Tegra business against the overall gaming market? And when we talked about the overall business, Q2's overall gaming is not usually the highest overall quarter. But again, we expect quite a bit of strength in terms of the mix on Tegra.

So I think those are things that can change your gross margin from quarter to quarter. Do I think it is in the stable realms of in the 50s? Absolutely. Is there a chance for higher? Of course, depending on that speed of both gaming ASPs and overall enterprise, I think there's an opportunity in there.

Vivek Arya {BIO 6781604 <GO>}

Got it. Then finally, on capital returns, I think NVIDIA has had a very strong program of accelerated stock repurchases. You initiated a dividend. How do you think about just an ongoing stream of buybacks as a percentage of free cash flow, like a number of other semi companies, whatever number, of 80%, 90%, or 100%? So how do you think about dividends versus repurchases as a percentage of free cash flow on an ongoing basis?

Colette Kress {BIO 18297352 <GO>}

Yes. We definitely set out of a resurgence of the capital return program. Post the recession, we're really trying to balance what was there and where our investment needs were. But it became pretty clear that there was a huge opportunity for additional capital return. So right now we're in a phase over the last two years of not a percentage of free cash flows or operating cash flow. We're actually over it, meaning we're returning more in terms of that overall free cash flow or operating cash flow that we have right now.

When you look back over the four years, we're still in a very, very nice spot as a percentage of that operating cash flow and free cash flow. So it is something definitely for review. We look at the dividend as an important structure of continued

and long-term aspect in terms of what that can be. So that is a key pillar in terms of our focus. And then what we need to also do on additional capital return and that right balance.

At this time. And as soon as we finish what our current year plan is, we'll continue to think about do we want to take it to a certain percentage? Do we want to give more grounds on that? But I would say it is definitely top of mind -- the investor, that capital return. And balancing it with overall operating performance as well, because I don't think it's one or the other. I think it is both how can we improve the overall profitability and those capital returns, hand in hand.

Vivek Arya {BIO 6781604 <GO>}

Got it. Then last question before I forget. And this is often top on investors' minds, is the royalty structure that you have with Intel. That's supposed to end by, I think, early 2017. Is that something that will be renewed? Is that something that will be changed? I know it's a few years out. But people who are building like long-term DCF models, it's a very important component of that. So how do you think about that?

Colette Kress {BIO 18297352 <GO>}

Yes. So to clarify in terms of where we are, probably about three years from now, that current royalty agreement that we are in will actually end. So about April of 2017, three years from now, will be the end. We are focused not only on that existing Intel and what will be next in that. But also thinking about other types of arrangements that we can do.

We had announced that we are very passionate about overall patent licensing and also overall core licensing. And those are two different pieces. We have an extremely strong patent portfolio for the overall size of the Company. But not surprising, given our top-of-breed overall GPUs. We've got about 7,000 overall patent assets that are available in terms of a different type of either licensing from us, purchasing from us. And/or taking that and understanding how you can license our overall core. We are actively working that work in terms of with many out in the industry. And hopefully, we'll be able to come forward with something and announce at this time.

Vivek Arya {BIO 6781604 <GO>}

Got it. So what needs to happen, or when will we actually have more confidence that that thing specifically with Intel will be renewed?

Colette Kress {BIO 18297352 <GO>}

You know, I don't think that's something we can 100% say we can control and/or Intel. We'll announce something where we have. It's just a question on how that's going to play out. And it can play out in many different types of scenarios in terms of how that will come through.

Vivek Arya {BIO 6781604 <GO>}

Understand.

Colette Kress {BIO 18297352 <GO>}

Okay.

Vivek Arya {BIO 6781604 <GO>}

Great. I think we are at the end of our time. Thank you very much Colette, really appreciate it.

Colette Kress {BIO 18297352 <GO>}

Thank you. Thank you very much.

Vivek Arya {BIO 6781604 <GO>}

And thank you, everyone, for joining us.

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