

Flash Comment — November 29, 2023

Semiconductors

Nvidia Corporation (NVDA)

NVDA: Takeaways from 7th Annual Wells Fargo TMT Summit— Competitive Advantage = Platform/Full-Stack Approach; Still Early

Our Call

Today (11/29) we hosted a keynote w/ NVIDIA EVP & CFO, Colette Kress. Our conversation reinforced our positive *platform-driven* thesis on NVDA as a full stack provider of accelerated computing to address the rapid adoption of AI. Our takeaways:

Initial Thoughts

Accelerated Computing & Generative AI Opportunity—Still Very Early: Ms. Kress emphasized that we are still at the beginning of the evolution of the datacenter toward accelerated compute and the adoption of generative AI. There is a \$1T compute installed base out there that has been of the same type (x86 CPU based) for decades, providing opportunity for acceleration. Enterprises are very focused on investing in generative AI but there are also opportunities in sovereign AI (outside of U.S.).

Supply/Demand Imbalance; Visibility: While NVIDIA has quickly scaled supply thus far, it remains supply constrained and will take some time before equilibrium is reached; supply continuing to increase q/q into fiscal 2025. Ms. Kress noted that visibility is strong and relationships with customers have grown stronger (1+ years to fully stand up a datacenter). NVIDIA's faster product cadence spurred by increasing AI complexity we think is also driving improved visibility.

Competitive Landscape — TCO is Key: Ms. Kress noted that while competitor chips could address certain workloads, NVIDIA's competitive advantage stems from their full-stack approach. Purchasing a full-stack solution (e.g., DGX system w/ software stack) provides TCO savings vs. purchasing a single chip from a competitor and having to buildout remainder of stack themselves. CUDA also provides the advantage of a strong development platform and community; customers can count on NVIDIA to innovate.

Networking - \$10B Annual Run-Rate: NVIDIA highlighted its success in integrating Mellanox and scaling the networking business to a \$10B run-rate, with a sizable amount of GPU systems (GPUs + networking). The company noted that the InfiniBand business has grown faster than networking overall. Ethernet-based 400G/800G Spectrum-X solutions (avail. by year-end) expected to be accretive to total networking business and geared toward AI cloud deployments vs. AI factories (standardized on InfiniBand)

U.S. Export Restrictions to China: Ms. Kress reiterated prior comments that the company is working to expand its solutions that do not require USG licenses, but expects sales to China + other restricted countries (~20%-25% of DC segment) to *decline significantly* in F4Q24. NVIDIA is having much more through discussions with the USG given the detail/length of the latest restrictions; focused on mutual understanding.

Continued...

Signature Picks

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Nvidia Corporation (NVDA)

Overweight

Price: \$478.21/Price Target: \$675.00

Market Cap: \$1,181,179 MM

Note: Pricing as of 11/28/2023

Source: Company Data, Wells Fargo Securities estimates, and Refinitiv.

Additional Topics:

- **Software Monetization:** Ms. Kress reiterated that NVIDIA is on a path to a \$1B/annum software run rate exiting this year. This is inclusive of **1. NVIDIA AI Enterprise/DGX Cloud:** Key piece of software story and currently bulk of software ARR. Enterprises, NVIDIA's true end-customers need help building out AI ; every method of GPU consumption is a potential software monetization opportunity (\$4,500-\$5,000 per GPU per year pricing range). **2. Omniverse:** Have been seeing good progress with more types of users coming to Omniverse every day; manufacturers/factories and warehouses are key beneficiaries. **3. Automotive / ADAS:** Remained focused on pilots with Mercedes-Benz and Jaguar / Land Rover in 2025 / 2026 timeframe. As a reminder, NVDA's Multi-Year Cloud Services Agreement balance exited F3Q24 at \$3.6B vs. \$2.43B and \$3.50B exiting F1Q24 and F2Q24, respectively. Although a significant portion is for internal NVIDIA workloads, it also represents capacity for DGX Cloud, which we think serves as a leading software indicator.
- **Grace Hopper / GH200:** NVIDIA noted that it began shipping GH200 within F3Q24. As a reminder, the GH200 features 72 Arm cores, 624GB of HBM3e, and 4.9TB/s of memory bandwidth to deliver 4 petaflops of AI performance per chip. At Amazon re:Invent this week the company announced that it will be the first CSP to offer GH200 on EC2 instances as well as via DGX Cloud. NVIDIA also noted that it sees opportunity for standalone Grace Arm-based CPUs in the datacenter.
- **Gross Margin %:** Ms. Kress noted that GM% is expected to remain at current levels (F3Q24 reported at 75.0%), with potential for software accretion beyond this.
- **Capital Allocation:** NVDA's capital allocation priorities are **1.** continue to invest in the business, **2.** offset stock-based compensation dilution, and **3.** M&A opportunities.

Investment Thesis, Valuation and Risks

Nvidia Corporation (NVDA)

Investment Thesis

Our Overweight rating is based on our positive stance on NVIDIA's competitive positioning in gaming GPUs and expanding growth opportunities in data center, HPC, and emerging / expanding AI opportunities (autonomous vehicles, healthcare, robotics, etc.). We see sustainability in NVIDIA's CUDA software platform differentiation, as well as the company's continually deepening system software capabilities. We see NVIDIA as one of the most attractive secular growth stories in large-cap semis.

Target Price Valuation for NVDA: \$675.00 from NC

Our \$675 price target is ~33x our C2025 EPS and reflective of our increasing confidence that NVDA's datacenter momentum + software monetization can drive EPS upside and valuation support. We think a premium multiple for NVIDIA is warranted given its strong multi-year competitive positioning for data center growth driven by cloud and AI, gaming, next-generation autonomous vehicles, and an expanding ecosystem of products/applications (e.g., Omniverse).

Risks to Our Price Target and Rating for NVDA

Risks include: (1) increased competition in the PC gaming, cloud data center markets, and high-performance computing, (2) the continued development of new markets, including artificial intelligence/machine learning and autonomous driving, (3) delays in product introduction due to use of third-party process technology, component availability, etc.

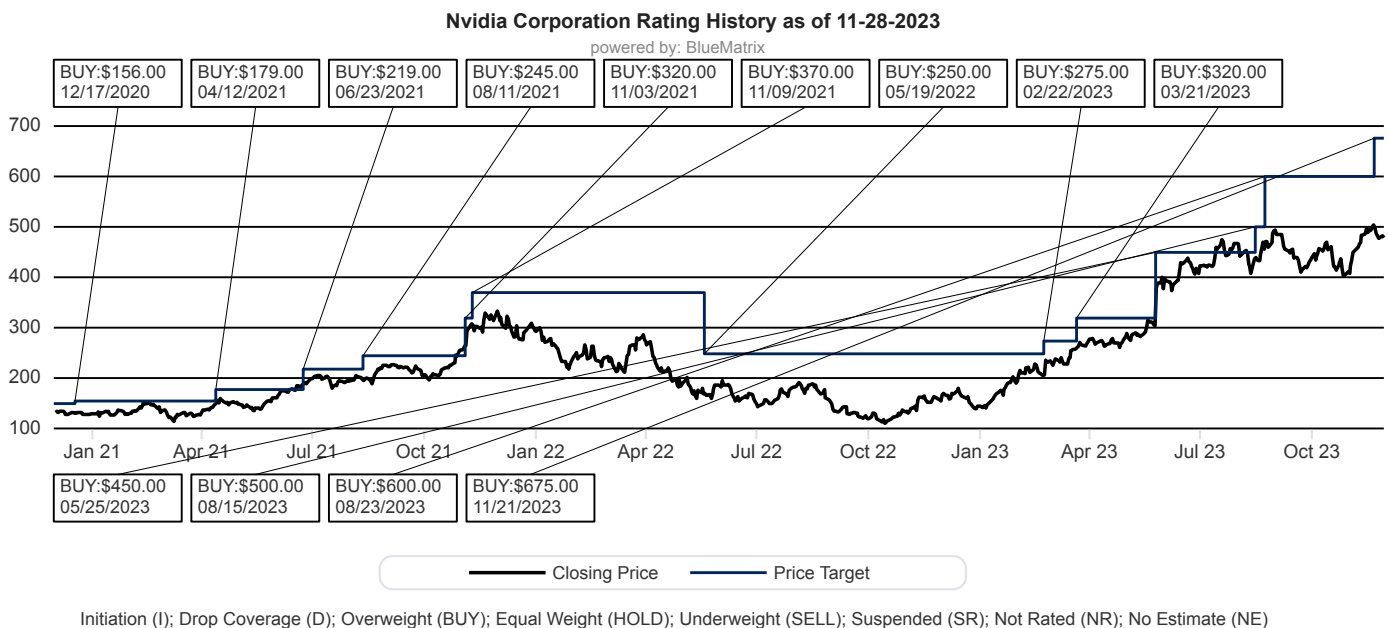
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