

## What are the Value Expectations® priced-in to NVIDIA (NVDA) shares?

### The Financial Facts

- Over the past three years, NVDA shares are up 429% (02/20/2021 - 02/23/2024)
- Demand for the firm's high-end semiconductors has rocketed, a result of Artificial Intelligence and the need for more processing and computing power.
- The company now commands a \$1.9T market valuation and is now the third most valuable company in the U.S. only behind Microsoft and Apple.
- In the latest recent earnings release, NVDA reported annual sales growth of 126% (from \$27B in FY23 to \$60.9B in FY24), and 50% EBITDA margins.

### The Valuation Question

**What would Nvidia have to deliver in terms of growth, profitability and efficiency to substantiate its current valuation?**

This exercise requires us to make some assumptions using three major value drivers: Sales Growth, Profitability (EBITDA) and productive efficiency (asset turns).

- **Sales Growth:** Nvidia's sales were up 126% in 2023, indicating huge demand and growth. In the model, we can project growth to remain strong over the next two years consistent with the high end of the latest street estimates, but gradually normalize to 20% by 2027, reflecting a transition from explosive growth to sustainable growth.

**EBITDA Margin:** The EBITDA margin of 50% in 2023 highlights Nvidia's operational efficiency and profitability. Technology companies like Nvidia can maintain high levels of profitability, but in the model, we assume small declines in profitability each year through 2027.

- **Asset Turnover:** Starting with an actual asset turnover ratio of 0.95 in 2023, which indicates efficient use of assets to generate sales, we factor in a gradual decrease to 0.70 by 2027.

	2023 (Act)	2024	2025	2026	2027
<b>Sales Growth</b>	126%	90%	50%	23.5%	20%
<b>EBITDA</b>	50%	47.5%	45%	42.5%	40%
<b>Asset Turns</b>	0.95	0.89	0.82	0.76	0.70

With these assumptions in mind, we can see what it would take to substantiate Nvidia's current market valuation – **Nvidia currently trades at a price of \$788 per share**. Whether or not Nvidia can deliver on these growth and profitability hurdles are unknown, but this exercise helps us understand the expectations embedded in the current share price and how optimistic the market is pricing Nvidia's future. If Nvidia fails to meet these expectations, there could be downside risk given the valuation levels today. On the flip side, if the company exceeds these projections, it could justify an even higher valuation. This is not a call one way or another on Nvidia's investment prospects, but rather an exercise in showing the level of expectations embedded in the current valuation. We have made calls such as these in the past, like the [one on Cisco in 2000](#), but this should not be looked at as a buy or sell endorsement.

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Below you will find a sensitivity table showing how value changes as profitability and sales growth change. We have also included an Intrinsic Value chart along with Sales Growth, EBITDA and Asset Turnover charts that show historical and projected levels so you can see historical comparisons vs. the estimates in the above model.

Because most of the value of the company is derived from future cash flows, small changes in Sales Growth or EBITDA margins can have a big impact on the valuation. If Sales Growth and EBITDA margins were to both increase above the model's assumptions, shares would be undervalued as of today. If future Sales Growth or EBITDA margins decrease from the model's input assumptions, the shares would be overvalued as of today.

**NVDA Matrix**  
Market Price = \$788.17

2.00%	\$674.77	\$761.28	\$856.90	\$962.36	\$1078.41
1.00%	\$648.06	\$730.86	\$822.36	\$923.25	\$1034.25
0.00%	\$622.20	\$701.43	\$788.96	\$885.44	\$991.58
-1.00%	\$597.17	\$672.95	\$756.66	\$848.90	\$950.34
-2.00%	\$572.94	\$645.40	\$725.41	\$813.57	\$910.49
	-6.0%	-3.0%	0.0%	3.0%	6.0%

Sales Growth

The chart below shows, for each year, the high and low in the stock price (blue bars) and our Intrinsic Value calculation over time. This gives you a visual of sense of where the stock has traded relative to our intrinsic value estimate.

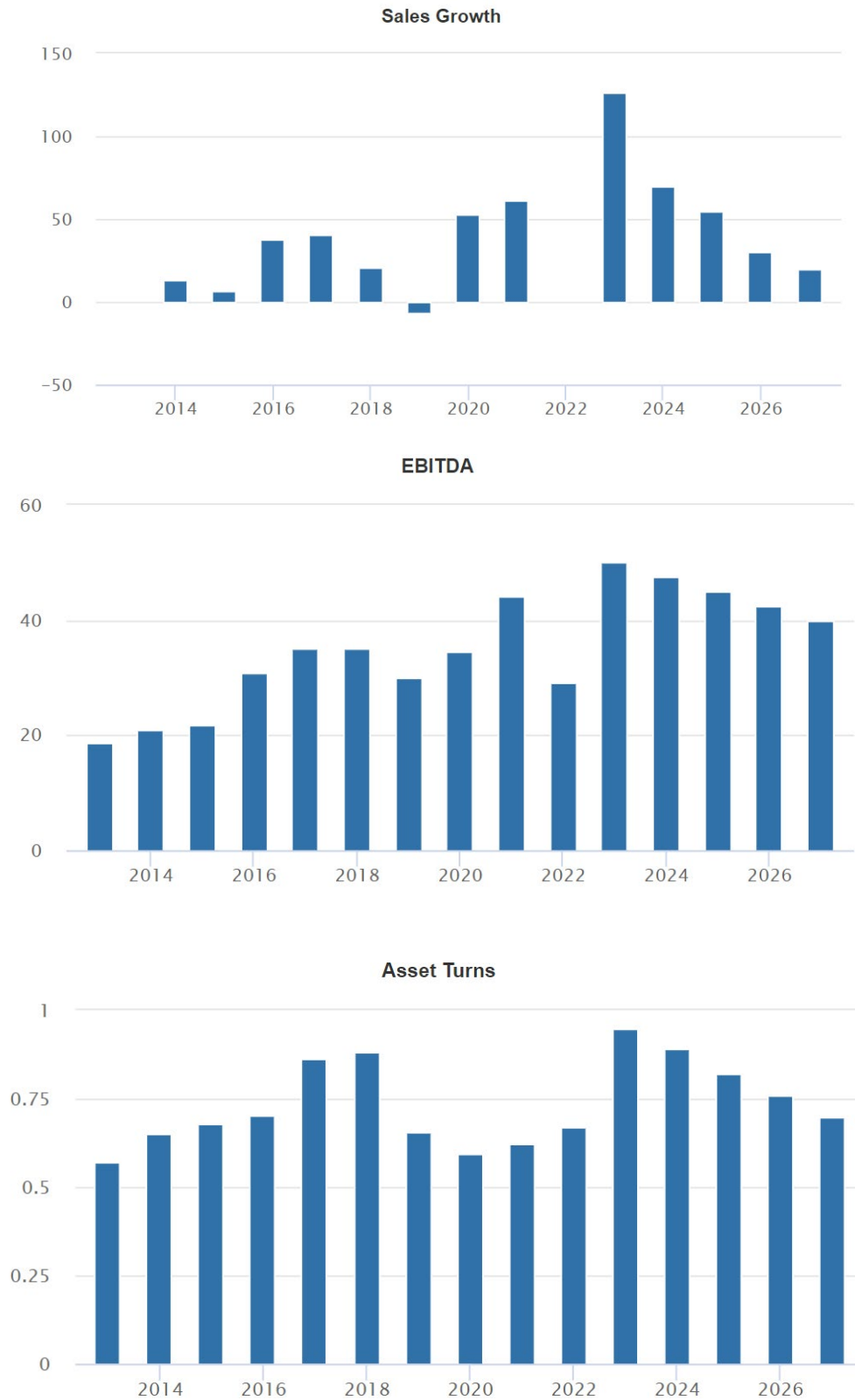


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Below are charts of historical and the priced in / projected Sales Growth, EBITDA margins and Asset Turnover so you can see how the projections compare to NVDA's historical results.



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