Analysis prepared by Equity Analyst Christine Arnacost on Feb 19, 2013, when the stock traded at $12.62.

**Highlights**

- We see sales declining 4% in FY 14 (Jan.) and climbing 8% in FY 15, after a 7% rise in FY 13. NVDA remains affected by the decline in PC sales, although it is focused on the top 20% of the market. Further, it remains committed to penetrating the mobile device market with its Tegra wireless chip offerings, with its new Tegra 4 chip sampling in the market and being a key driver of NVDA’s growth. Overall, while strong new product cycles may create some near-term volatility as traction builds, we see sequential revenue improvements through FY 14.

- We think that gross margins will remain stable at around 53% through FY 15, as product mix shifts to Tegra and new high-end graphics platforms benefit margins. However, operating expenses are ramping well above our revenue growth forecast, which is limiting NVDA’s leverage. We estimate FY 14 and FY 15 operating margins of 15% and 17%, respectively.

- Our FY 14 and FY 15 cash EPS estimates are $0.82 and $0.97. In its January quarter, NVDA initiated an annual dividend of $0.30.

**Investment Rationale/Risk**

- Our buy recommendation is based on our belief that NVDA continues to maintain share and grow its graphics processor business, especially as it looks to leverage gaming applications. Further, Nvidia has little exposure to the low-end notebook market that is getting cannibalized by tablets. Lastly, NVDA’s push into the mobile device category with its Tegra offerings will remain key to NVDA’s success, as we await design wins to be announced and to ramp. Overall, we see only a handful of companies with the core processing strength, ability to commit to high levels of R&D and execution skills to compete long term in the largest unit opportunity for semiconductors -- mobile.

- Risks to our opinion and target price include weaker-than-anticipated desktop graphics chip sales, slower-than-expected traction for the Tegra mobile platform, and increased competition from other semiconductor vendors that offer a broader portfolio of products.

- Our 12-month target price of $15 is based on our price-to-earnings (P/E) analysis. We apply a multiple of 18X to our FY 14 cash EPS estimate, above the industry average but within its five-year trading range.

**Quantitative Evaluations**

- S&P Quality Ranking: B
- Relative Strength Rank: MODERATE
- Revenue/Earnings Data

**Dividend Data** (Dates: mm/dd Payment Date: mm/dd/yy)

<table>
<thead>
<tr>
<th>Amount ($)</th>
<th>Date Decl.</th>
<th>Ex-Div. Date</th>
<th>Stk. of Record</th>
<th>Payment Date</th>
</tr>
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<tbody>
<tr>
<td>0.075</td>
<td>11/08</td>
<td>11/20</td>
<td>11/23</td>
<td>12/14/12</td>
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<tr>
<td>0.075</td>
<td>02/13</td>
<td>02/26</td>
<td>02/28</td>
<td>03/21/13</td>
</tr>
</tbody>
</table>

Dividends have been paid since 2012. Source: Company reports.
CORPORATE OVERVIEW. NVIDIA Corporation, which invented the graphics processing unit (GPU) in 1999, makes products for "visual computing," high-performance computing, and mobile computing markets. The company has three major reporting segments: Graphics Processing Unit (GPU), Tegra Processor, and Other. In FY 13 (Jan.), GPU accounted for 76% of sales, Tegra 18%, and Other 6%.

The GPU business includes its GeForce graphics chips for PCs, Tesla for super-computing, Quadro for workstations, GRID gaming platform, and other chipset solutions. Its Tegra Processor segment includes its mobile application processor, Tegra, baseband and radio frequency solutions, automotive, legacy game console and other associated revenue. Last, its Other business is largely its cross-licensing agreement with Intel (INTC 21, Hold).

CORPORATE STRATEGY. The company seeks to expand from its visual computing roots into end markets such as the super, mobile and cloud computing markets. Coupled with this is its mobile strategy to penetrate smartphones, tablets and auto infotainment systems with its applications processors.

The company runs on a fabless model, relying on contract manufacturers that include Taiwan Semiconductor and United Microelectronics for wafer fabrication.

MARKET PROFILE. Since the GPU is commonly used with the central processing unit to enhance graphics, GPU shipments tend to move directionally with the PC market. However, we believe the ratio of PC to GPU sales is near two to one due to trends within the computing markets that heavily influence GPU sales. For instance, GPUs are more commonly used in consumer than enterprise computers, and in desktop than laptop PCs. The faster growth of laptops over desktops is also impacting market sales.

NVDA and Advanced Micro Devices (AMD) are the main players in the discrete GPU markets, and share tends to shift back and forth between the two companies when they introduce new products. According to market research in May 2011, NVDA leads in desktop market share and AMD in laptops. Over time, we believe that GPU usage in low to mid-range PCs could decline as chip offerings from Intel and AMD that combine microprocessors and GPUs on the same die gain acceptance. To counter this threat, NVDA is aggressively pursuing the PC and server markets with competing offerings.

FINANCIAL TRENDS. NVDA’s revenues are generally cyclical and should trend with the economy and broader semiconductor market. However, industry-specific trends, such as the increasing popularity of laptop computers, maturation of desktop computers, and market share, can lead to more volatile sales swings. Company-specific issues that can impact results include product cycles and technology. Over the past couple of years, the combination of the aforementioned issues have contributed to below-industry sales growth.

The company outsources production, which helps to reduce the dramatic swings in gross margins that chipmakers with in-house manufacturing tend to experience. Although product pricing and efficiency problems have led to below-40% gross margins in the past, we believe that an improved sales mix and NVDA’s focus on execution can help keep gross margins at or above 50% for the foreseeable future. NVDA invests heavily in new product development, which, combined with stock-based compensation and non-recurring charges, have contributed to expenses that have generally been above the industry average. Consequently, its operating margins have trailed the industry’s.

We view NVDA’s balance sheet as strong, with about $6 of cash and equivalents per share and no long-term debt.
Quantitative Evaluations

S&P Fair Value

<table>
<thead>
<tr>
<th>Rank</th>
<th>3-5</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Based on S&amp;P’s proprietary quantitative model, stocks are ranked from most overvalued (1) to most undervalued (5).</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Fair Value Calculation

$12.50 Analysis of the stock’s current worth, based on S&P’s proprietary quantitative model suggests that NVDA is slightly overvalued by $0.32 or 2.5%.

Investability Quotient

Percentile

83 LOWEST = 1 HIGHEST = 100

NVDA scored higher than 83% of all companies for which an S&P Report is available.

Volatility

LOW AVERAGE HIGH

Technical Evaluation

NEUTRAL Since January, 2013, the technical indicators for NVDA have been NEUTRAL.

Insider Activity

UNFAVORABLE NEUTRAL FAVORABLE

Company Financials Fiscal Year Ended Jan. 31


Tangible Book Value NA 5.19 4.29 3.87 3.49 4.35 3.32 2.52 2.08 1.83

Cash Flow NA 1.27 0.75 0.23 0.28 1.54 0.95 0.73 0.38 0.30

Earnings 0.90 0.94 0.43 -0.12 -0.05 1.32 0.77 0.55 0.19 0.14

S&P Core Earnings NA 0.95 0.37 -0.25 -0.05 1.31 0.79 0.42 0.03 -0.00

Dividends NA Nil Nil Nil Nil Nil Nil Nil Nil

Payout Ratio NA Nil Nil Nil Nil Nil Nil Nil Nil Nil


Prices:High 16.90 26.17 18.96 18.95 39.67 25.97 12.83 9.12 7.95 5.82

Prices:Low 11.15 11.47 8.65 7.08 5.75 4.52 3.10 2.48 1.90 1.64

P/E Ratio:High 19 28 44 NM NM 30 34 23 48 65

P/E Ratio:Low 12 12 20 14 15 16 22

Income Statement Analysis (Million $)

Revenue NA 3,998 3,543 3,326 3,425 4,098 3,069 2,100 1,833

Operating Income NA 859 366 29.1 334 976 593 452 216 172

Depreciation NA 204 187 197 185 136 108 98.0 103 82.0

Interest Expense NA 3.09 3.13 3.22 0.41 0.05 0.02 0.07 12.0

Pretax Income NA 663 271 -82.3 -43.0 901 494 360 248 168

Effective Tax Rate NA 12.4% 6.65% 17.4% NM NM 19.5 14.6 12.7 5.0 4.1

Net Income NA 581 253 -68.0 -30.0 798 448 303 100 74.4

S&P Core Earnings NA 586 215 -140 -140.0 798 460 230 14.6 -1.44

Balance Sheet & Other Financial Data (Million $)

Cash NA 3,130 2,491 1,728 1,255 1,217 1,080 1,118 950 670 604

Current Assets 4,775 3,905 3,227 2,481 2,168 2,899 2,032 1,549 1,305 1,053

Total Assets NA 5,553 4,944 3,586 3,351 3,748 2,675 1,915 1,629 1,399

Current Liabilities NA 930 943 784 779 967 639 439 421 334

Long Term Debt NA NA NA NA 25.6 Nil Nil Nil 0.86

Common Equity NA 4,146 3,181 2,665 2,395 2,618 2,007 1,458 1,178 1,051

Capital Expenditures NA 139 97.9 77.6 408 188 145 79.6 67.3 128

Cash Flow NA 789 440 129 155 933 556 401 203 196

Current Ratio NA 4.2 3.4 3.2 2.8 3.0 3.2 3.5 3.2 3.1

% Long Term Debt of Capitalization NA Nil Nil 1.1 Nil Nil Nil 0.1

% Net Income of Revenue NA 14.5 7.1 NM NM 19.5 14.6 12.7 5.0 4.1

% Return on Assets NA 11.6 6.3 NM NM 24.8 19.4 17.1 6.6 4.9

% Return on Equity NA 15.9 8.7 NM NM 34.5 25.6 23.0 9.0 7.5

Investman...
Sub-Industry Outlook

We have a positive fundamental outlook for the semiconductors sub-industry for the next 12 months. We expect stabilizing economic conditions to result in 4% revenue growth in 2013, up from a decline of about 3% in 2012, and forecast mid-single digit growth in 2014. Given a weak end to 2012, we view as likely a weak first quarter, followed by sequentially improving sales through the year. We expect a fairly lean inventory supply chain to leave the supply-demand balance even-to-slightly favorable for inventory replenishment, which could contribute to potential upside as demand improves.

Based on forecasts from Standard & Poor’s Economics, research from industry and trade groups, and our own bottom-up analysis for semiconductor companies within our coverage universe, we see the various end markets performing differently. We see the structural shift towards tablets in the PC sector being the biggest drag on the sub-industry. We believe the communications and consumer end markets will be the strongest, as carrier comments suggest to us an improved spending outlook, and continued growth in smartphones. We believe the automotive sector has some favorable tailwinds despite weak global trends. We think industrial will remain weak. Given the high exposure to this end market, analog semiconductors are particularly exposed to this trend. All of this is against the backdrop of the proliferation of semiconductors across a range of electronic products and markets.

Industry margins continue to be a function of manufacturing utilization and inventory supply-demand imbalances. While companies that outsource manufacturing typically have more stability in gross margins (a trade-off for capped upside), others that have their own manufacturing see more variability. We believe some companies, especially in analog, have slightly elevated inventory levels, reducing potential leverage. However, it’s becoming clear to us that the cost of moving to leading-edge manufacturing is reaching a tipping point as the cost-benefits of moving to more advanced nodes diminish. Intel believes that a vendor needs to generate 2X the amount of revenue generated annually per dollar of R&D. As such, we expect a continued shift towards outsourcing and market share shifts between the companies with sufficient resources to move ahead.

Long term, growth in semiconductors is highly correlated to global GDP, due to changes in inventory levels.

Year to date through February 22, the S&P Semiconductors sub-industry index increased 4.4%, versus a 6.5% advance for the S&P 1500 Index.

--Christin Armacost, CFA

Stock Performance

GICS Sector: Information Technology
Sub-Industry: Semiconductors

Based on S&P 1500 Indexes
Month-end Price Performance as of 02/28/13

Sub-Industry: Semiconductors Peer Group*: Semiconductors - Graphics

<table>
<thead>
<tr>
<th>Peer Group</th>
<th>Stock Symbol</th>
<th>S&amp;L Mkt. Cap. (Ml. $)</th>
<th>Recent Stock Price($)</th>
<th>52 Week High/Low($)</th>
<th>Beta</th>
<th>Yield (%)</th>
<th>P/E Ratio</th>
<th>Fair Value Calc.$</th>
<th>Quality Ranking</th>
<th>Return on Revenue (%)</th>
<th>LTD to Cap (%)</th>
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<tbody>
<tr>
<td>NVIDIA Corp</td>
<td>NVDA</td>
<td>7,942</td>
<td>12.82</td>
<td>15.49/11.15</td>
<td>1.51</td>
<td>2.3</td>
<td>14</td>
<td>12.50</td>
<td>B</td>
<td>83</td>
<td>14.5</td>
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<td>Cirrus Logic</td>
<td>CRUS</td>
<td>1,516</td>
<td>23.55</td>
<td>45.49/28.08</td>
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<td>Nil</td>
<td>10</td>
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<td>B</td>
<td>91</td>
<td>20.6</td>
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<tr>
<td>Pixelworks Inc</td>
<td>PXLW</td>
<td>41</td>
<td>2.30</td>
<td>3.63/2.15</td>
<td>2.12</td>
<td>Nil</td>
<td>Nil</td>
<td>1.70</td>
<td>C</td>
<td>4</td>
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<tr>
<td>Silicon Image</td>
<td>SIMG</td>
<td>391</td>
<td>4.71</td>
<td>6.20/3.53</td>
<td>1.47</td>
<td>Nil</td>
<td>Nil</td>
<td>4.10</td>
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<td>38</td>
<td>NA</td>
</tr>
</tbody>
</table>

NA-Not Available NM-Not Meaningful NR-Not Rated. *For Peer Groups with more than 15 companies or stocks, selection of issues is based on market capitalization.
S&P Analyst Research Notes and other Company News

February 21, 2013
04:54 am ET ... S&P REITERATES BUY OPINION ON SHARES OF NVIDIA CORP. (NVDA 12.38****): We view NVDA’s announcement of its new Tegra 4i applications processor chip as a positive indication of its commitment to the mobile space, with advantageous performance metrics cited by the company. Also, we expect NVDA to have positive momentum through the year as it expands its graphics solutions with its new handheld device, GRID, and SHIELD gaming servers. Although investor sentiment remains largely tied to the PC outlook, we believe the underlying business trends will enable the company to outperform over the long term. Our P/E-based 12-month target price remains $15. /C Armacost, CFA

February 15, 2013
07:58 am ET ... S&P MAINTAINS BUY OPINION ON SHARES OF NVIDIA CORP. (NVDA 12.73****): We lower our FY 14 (Jan.) cash EPS forecast $0.39 to $0.82 (with our prior operating EPS estimate being reduced by $0.39 to $0.61), and introduce our FY 15 cash EPS forecast of $0.97. We lower our target price by $2 to $15, using a higher multiple of 18X vs. 16X on what we see as trough cash earnings. Near term, we think shares will remain constrained by higher expenses and lower Apr-Q revenue. That said, we think NVDA has one of its strongest new product offerings that we expect to grow through FY 14. NVDA reported Jan-Q cash EPS of $0.35, vs. $0.26, $0.05 above our estimate. /C Armacost, CFA

January 9, 2013
05:13 am ET ... S&P REITERATES BUY OPINION ON SHARES OF NVIDIA CORP. (NVDA 12.49****): We maintain our 12-month target price of $17, applying an above-peers P/E multiple of 17X to our FY 14 (Jan.) EPS estimate of $1.00. We see improving execution as NVDA recently announced its new generation of Tegra application processor chips with integrated 4G wireless technology, Tegra 4, and expanded non-personal computing (PCP) opportunities, announcing a host of gaming platforms. Although we think investor sentiment on the shares remains largely tied to the PC outlook, we believe the underlying business trends will enable the stock to outperform over the long term. /C Armacost, CFA

December 12, 2012
07:10 am ET ... S&P MAINTAINS BUY OPINION ON SHARES OF NVIDIA CORP. (NVDA 12.65****): Our meeting with NVDA supported our long-term positive view that it remains an innovative and profitable company that will outgrow the computer market. We agree that the computer industry faces many headwinds to which NVDA’s outlook is often tied. However, we believe a combination of a better case of NVDA’s more high-end computer exposure vs. the erosion at the low-end segment to tablets, success of new Tegra wireless designs expected in 2013, and continued strong cash flow will enable the shares to outperform. /C Armacost, CFA

November 9, 2012
07:46 am ET ... S&P REITERATES BUY OPINION ON SHARES OF NVIDIA CORP. (NVDA 12.68****): We are increasing our FY 13 (Jan.) operating EPS estimate by $0.03 to $0.90 and lowering our FY 14 (Jan.) operating EPS estimate by $0.06 to $1.00. NVDA posted Oct-Q operating EPS of $0.34 vs. $0.33, $0.07 better than our estimate on lower taxes. The company posted stronger revenue and gross margins, but sees lower Jan-Q revenue similar to other PC-related companies. NVDA continues to see growth in its key Tegra platform, up 50% sequentially. We continue to see growth in tablets and a 2013 launch of integrated modem and apps processor chip as positive catalysts, with little exposure to low-end PCs. /C Armacost, CFA

August 10, 2012
NVDA posts $0.27 vs. $0.32 Q2 non-GAAP EPS despite 2.7% revenue rise. Capital IQ consensus forecast was $0.22. Sees Q3 revenue of $1.15B-$1.25B.

August 10, 2012
10:08 am ET ... S&P REITERATES BUY OPINION ON SHARES OF NVIDIA CORP. (NVDA 12.79****): We are raising our FY 13 (Jan.) and FY 14 operating EPS estimates each by $0.23 to $0.57 and $1.06, respectively. We are raising our target price by $1 to $17 based on our higher EPS estimates and a slightly lower multiple of 16X, due to lower industry multiples. NVDA raised its Oct-Q outlook, while maintaining solid operating expense discipline. We expect strong product ramps for Tegra and Kepler to continue their momentum. NVDA reported Jul-Q operating EPS of $0.22, vs.$0.30, $0.07 above our estimate on higher revenue of $1.04B. /C Armacost, CFA

June 27, 2012
05:31 am ET ... S&P UPGRADES OPINION ON SHARES OF NVIDIA TO BUY FROM HOLD (NVDA 12.73****): Our upgrade is based on positive announcements of customers adopting its new Tegra 3 processor, expected to ramp in the second half, and what we view as solid growth prospects for its base graphics business. We believe the shares are being dragged down by concerns about a weakening outlook, from which we acknowledge NVDA isn’t immune. However, we find NVDA’s ability to maintain leading edge technology investments and translate this lead into long-term share gains, and its strong cash position of $5.02 per share, attractive in the current environment. /C Armacost, CFA

June 19, 2012
UP 0.99 to 13.39... NVDA shares higher after MICROSOFT announces its entry into the tablet mfg business with two models of the “Surface”, which have PC and tablet features. NVDA processor is in the Arm-based Windows RT version of the Surface tablet.

June 11, 2012
UP 0.32 to 12.44... UBS reportedly upgrades to buy from neutral. Further details, co. unavailable.

May 11, 2012
NVDA posts $0.16 vs. $0.27 Q1 non-GAAP EPS on 3.9% revenue drop. Capital IQ consensus forecast was $0.16. Sees Q2 revenue of $990M-$1.05B. Capital IQ consensus forecast was $979.42M.

May 11, 2012
11:16 am ET ... NVIDIA CORPORATION (NVDA 13.48) UP 1.06, NVIDIA (NVDA) POSTS Q1. RAYMOND JAMES REITERATES STRONG BUY, $22 TARGET... Analyst Hans Mosemann tells salesforce NVDA’s $924.9M Q1 sales 1% above his $915M estimate, $916M consensus. Says relative to his model, “operating” EPS beat his estimate by $0.01 largely due to 90 bps in upside on gross margin line where 50.1% performance was at higher end of 48.2%-50.2% guidance. Notes, given investor concerns over potential gross margin hit from 28nm yields heading into Q1, this is a significant positive. Says midpoint of Q2 guidance implies ~$0.17 EPS exc. $25M non-op. payment, above $0.14 consensus. Sees $0.70 ‘13 GAAP EPS, $1.05 ‘14. B.Brodie

May 11, 2012
10:09 am ET ... S&P KEEPS HOLD RECOMMENDATION ON SHARES OF NVIDIA CORP. (NVDA 13.44****): NVDA posts Apr-Q operating EPS of $0.10 vs. $0.32, beating our $0.09 estimate. Sales fell 3% from Jan-Q, but were above our model, as lower graphic processing unit and professional solution sales were partly offset by higher consumer product revenue. Margins narrowed on less favorable mix, given supply constraints for high end products. We are encouraged by Tegra 3 momentum and see robust growth for Kepler GPU. We up our FY 13 (Jan.) operating EPS forecast $0.08 to $0.64, but trim FY 14’s by $0.10 to $0.83. We reduce our 12-month target price by $2 to $16, on P/E above peers. /C Armacost, CFA, /A. Zino-CFA

Source: S&P.
Of the total 49 companies following NVDA, 36 analysts currently publish recommendations.

### Analysts' Recommendations

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>No. of Ratings</th>
<th>% of Total</th>
<th>1 Mo. Prior</th>
<th>3 Mos. Prior</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buy</td>
<td>6</td>
<td>17</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Buy/Hold</td>
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<td>11</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Hold</td>
<td>25</td>
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<td>Weak Hold</td>
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<td>Sell</td>
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<tr>
<td>Total</td>
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<td>37</td>
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### Wall Street Consensus Estimates

#### Fiscal Years

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<tr>
<th>Year</th>
<th>Avg Est.</th>
<th>High Est.</th>
<th>Low Est.</th>
<th># of Est.</th>
<th>Est. P/E</th>
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<tbody>
<tr>
<td>2015</td>
<td>1.02</td>
<td>1.30</td>
<td>0.74</td>
<td>16</td>
<td>12.6</td>
</tr>
<tr>
<td>2014</td>
<td>0.94</td>
<td>1.15</td>
<td>0.74</td>
<td>16</td>
<td>13.6</td>
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#### Fiscal Year 2015 vs. 2014

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<tr>
<th></th>
<th>▲ 9%</th>
<th>▲ 13%</th>
<th>▲ 0%</th>
<th>▲ 0%</th>
<th>▼ -7%</th>
</tr>
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</table>

#### Q1'15 vs. Q1'14

<table>
<thead>
<tr>
<th></th>
<th>▲ 19%</th>
<th>▲ 47%</th>
<th>▲ -7%</th>
<th>▲ 450%</th>
<th>▼ -16%</th>
</tr>
</thead>
</table>

A company’s earnings outlook plays a major part in any investment decision. Standard & Poor’s organizes the earnings estimates of over 2,300 Wall Street analysts, and provides their consensus of earnings over the next two years. This graph shows the trend in analyst estimates over the past 15 months.

### Wall Street Consensus vs. Performance

For fiscal year 2014, analysts estimate that NVDA will earn $0.94. For fiscal year 2015, analysts estimate that NVDA’s earnings per share will grow by 9% to $1.02.

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Source: S&P Capital IQ Estimates, Inc.
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S&P STARS
Since January 1, 1987, Standard and Poor’s Equity Research Services has ranked a universe of common stocks based on a given stock’s potential for future performance. Under proprietary STARS (Stock Appreciation Ranking System), S&P equity analysts rank stocks according to their individual forecast of a stock’s future total return potential versus the expected total return of a relevant benchmark (e.g., a regional index (S&P Asia 50 Index, S&P Europe 350 Index or S&P 500 Index), based on a 12-month horizon). STARS was designed to meet the needs of investors looking to put their investment decisions in perspective. Data used to assist in determining the STARS ranking may be the result of the analyst’s own models as well as internal proprietary models resulting from dynamic data inputs.

S&P 12-Month Target Price
The S&P equity analyst’s projection of the market price a given stock will have reached based on a combination of intrinsic, relative, and private market valuation metrics, including S&P Fair Value.

Investment Style Classification
Characterizes the stock as Growth or Value, and indicates its capitalization level. Growth is evaluated along three dimensions (earnings, sales and internal growth), while Value is evaluated along four dimensions (book-to-price, cash flow-to-price, dividend yield and sale-to-price). Growth stocks score higher than the market average on growth dimensions and lower on value dimensions. The reverse is true for Value stocks. Certain stocks are classified as Blend, indicating a mixture of growth and value characteristics and cannot be classified as purely growth or value.

S&P EPS Estimates
Standard & Poor’s earnings per share (EPS) estimates reflect analyst projections of future EPS from continuing operations, and generally exclude various items that are viewed as special, non-recurring, or extraordinary. Also, S&P EPS estimates reflect either forecasts of S&P equity analysts; or, the consensus (average) EPS estimate, which are independently compiled by Capital IQ, a data provider to Standard & Poor’s Equity Research. Among the items typically excluded from EPS estimates are asset sale gains; impairment, restructuring or merger-related charges; legal and insurance settlements; income, excluding gains or losses from sales of property, plant and equipment; and income from discontinued operations. Also, since the current version of EPS does not include discontinued operations, S&P EPS estimates exclude the earnings from discontinued operations at the time of the announcement. The items typically excluded from EPS estimates are asset sale gains; impairment, restructuring or merger-related charges; legal and insurance settlements; income, excluding gains or losses from sales of property, plant and equipment; and income from discontinued operations.

S&P Core Earnings
Standard & Poor’s Core Earnings is a uniform methodology for adjusting operating earnings by focusing on a company’s after-tax earnings generated from its principal businesses. Included in the Standard & Poor’s definition are employee stock option grant expenses, pension costs, restructuring charges from ongoing operations, write-downs of depreciable or amortizable operating assets, purchased research and development, and M&A related expenses and unrealized gains/losses from hedging activities. Excluded from the definition are pension gains, impairment of goodwill charges, gains or losses from asset sales, reversal of prior-year charges and provision from litigation or insurance settling.

Qualitative Risk Assessment
The S&P equity analyst’s view of a given company’s operational risk, or the risk of a firm’s ability to continue as an ongoing concern. The Qualitative Risk Assessment is a relative ranking to the S&P U.S. STARS universe, and should be reflective of risk factors related to a company’s operations, as opposed to risk and volatility measures associated with share prices.

Quantitative Evaluations
In contrast to our qualitative STARS recommendations, which are assigned by S&P analysts, the quantitative evaluations described below are derived from proprietary arithmetic models. These computer-driven evaluations may at times contradict an analyst’s qualitative assessment of a stock. One primary reason for this is that different measures are used to determine each. For instance, when designating STARS, S&P analysts assess many factors that cannot be reflected in a model, such as risks and opportunities, management changes, recent competitive shifts, patent expiration, litigation risk, etc.

S&P Quality Ranking
Growth and stability of earnings and dividends are deemed key elements in establishing S&P’s Quality Rankings for common stocks, which are designed to encapsulate the nature of this record in a single symbol. It should be noted, however, that the process also takes into consideration certain adjustments and modifications deemed desirable in establishing such rankings. The final score for each stock against a scoring matrix determined by analysis of the scores of a large and representative sample of stocks. The range of scores in the array of this sample has been aligned with the following ladder of rankings:

A+ Highest
A High
A- Above Average
A+ Average
B+ Average
B Below Average
B- Lower
C Lowest
NR Not Ranked

S&P Fair Value Rank
Using S&P’s exclusive proprietary quantitative model, stocks are ranked in one of five groups, ranging from Group 5, listing the most undervalued stocks, to Group 1, the most overvalued issues. Group 5 stocks are expected to generally outperform all others. A positive (+) or negative (-) Timing Index is placed next to the Fair Value ranking to further aid the selection process. A stock with a (+) added to the Fair Value Rank simply means that this stock has a somewhat better chance to outperform other stocks with the same Fair Value Rank. A stock with a (-) has a somewhat lesser chance to outperform other stocks with the same Fair Value Rank. The Fair Value rankings imply the following: 5-Stock is significantly undervalued; 4-Stock is moderately undervalued; 3-Stock is fairly valued; 2-Stock is modestly overvalued; 1-Stock is significantly overvalued.

S&P Fair Value Calculation
The price at which a stock should trade, according to S&P’s proprietary quantitative model that incorporates both actual and estimated variables (as opposed to only actual variables in the case of S&P Quality Ranking). Relying heavily on a company’s actual return on equity, the S&P Fair Value model places a value on a security based on a formula-derived price-to-book multiple on a company’s consensus earnings per share estimate.

Investor Activity
Gives an insight as to insider sentiment by showing whether directors, officers and key employees who have proprietary information not available to the general public, are buying or selling the company’s stock during the most recent six months.

Funds From Operations (FFO)
FFO is Funds from Operations and equal to a REIT’s net income, excluding gains or losses from sales of properties, plus real estate depreciation.

Investability Quotient (IQ)
The IQ is a measure of investment desirability. It serves as an indicator of potential medium-to-long term return and as a caution against downside risk. The measure takes into account variables such as technical indicators, earnings estimates, liquidity, financial ratios and selected S&P proprietary measures.

Technical Evaluation
In researching the past market history of prices and trading volume for each company, S&P’s computer models apply special technical methods and formulas to identify and project price trends for the stock.

Relative Strength Rank
Shows, on a scale of 1 to 99, how the stock has performed versus all other companies in S&P’s universe on a rolling 13-week basis.

Global Industry Classification Standard (GICS)
An industry classification standard, developed by Standard & Poor’s in collaboration with Morgan Stanley Capital International (MSCI). GICS is currently comprised of 10 Sectors, 24 Industry Groups, 68 Industries, and 154 Sub-Industries.

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Exchange Type
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with shares falling in price on an absolute basis.

**Relevant benchmarks:** In North America the relevant benchmark is the S&P 500 Index, in Europe and in Asia, the relevant benchmarks are generally the S&P Europe 350 Index and the S&P Asia 50 Index.

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