NVIDIA Equity Research Note

Business model, financial review, assumptions and investment conclusion

Company	NVIDIA Corporation
Reference date	11 November 2026
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Purpose	Educational equity-research portfolio case study

Research conclusion

NVIDIA remains an exceptional operating business, with Data Center demand and Blackwell Ultra execution driving unusually rapid revenue and cash-flow growth. However, the market already values that strength highly. The base-case DCF produces an implied value of $169.16 per share, almost identical to the $168.89 market reference on 11 November 2026. The research stance is therefore balanced: the business case is compelling, but the valuation leaves limited room for a slowdown in AI infrastructure spending, gross-margin normalisation or a less favourable funding environment.

Scope. This is an educational research note, not investment advice or a recommendation to buy, sell or hold a security.

At a glance

Metric	Current evidence	Research read-through
Q2 FY27 revenue	$96.2bn, +106% year on year	Demand remains unusually strong
Q2 FY27 Data Center revenue	$89.0bn, +117% year on year	The core profit engine remains concentrated in AI infrastructure
Q3 FY27 company outlook	$108.0bn revenue, +/-2%	Supports a strong FY27 run-rate before Q4 assumptions
Q2 FY27 gross margin	75.0%	Still very high; model assumes gradual normalisation
Base DCF output	$169.16 per share	Close to the $168.89 market reference

1 Business model and sector research

NVIDIA has developed from a graphics-chip company into a data-center-scale AI infrastructure provider. It sells accelerated-computing platforms built from GPUs, CPUs, networking, systems and software. The economic value is not only in a chip sale: the CUDA software ecosystem, development tools, networking and system-level integration can deepen customer reliance and help the company sustain a differentiated platform position.

The latest Form 10-Q identifies two reportable segments: Compute and Networking, and Graphics. For the latest reported quarter, Compute and Networking generated $88.3bn of revenue and Graphics generated $7.9bn. Management separately reported $89.0bn of Data Center revenue and $7.2bn of Edge Computing revenue, illustrating that the investment case is overwhelmingly tied to AI infrastructure rather than the legacy gaming cycle.

What drives the growth case

- Hyperscaler and AI-cloud demand: Data Center revenue reached $89.0bn in Q2 FY27, with both hyperscale and AI cloud, industrial and enterprise demand contributing to growth.
- Architecture transition: Blackwell Ultra was the key Q2 growth driver. Vera Rubin began production shipments in Q3 FY27, creating a potential next product-cycle catalyst but also introducing execution and supply-chain risk.
- Broader end markets: Enterprise AI, sovereign AI, robotics, automotive and local AI can diversify demand over time, although they are materially smaller than Data Center today.
- Software and platform depth: CUDA, libraries, networking and full-rack systems make customer switching a system-level decision, not simply a GPU comparison.

Sector framing

The near-term sector question is whether AI infrastructure spending becomes productive enough to justify continued capacity additions. NVIDIA benefits when customers expand training and inference

deployments, but it is exposed when power, land, data-center construction or financing constraints delay installations. The relevant competition includes alternative accelerators, in-house customer silicon and other semiconductor vendors; the research case should be tested against an eventual mix shift or pricing pressure, rather than assuming the present margin structure lasts indefinitely.

2 Financial statement review

Six months ended Q2 FY27	Reported value	Analyst interpretation
Revenue	$177.8bn	+96% year on year; the central operating momentum indicator
Gross profit	$133.3bn	75.0% gross margin, helped by Blackwell Ultra mix
Operating income	$117.3bn	66.0% operating margin; scale drives strong operating leverage
Net income	$118.0bn	Includes material other income; operating metrics are cleaner for valuation
Operating cash flow	$74.4bn	Strong conversion, but working capital absorbed cash
Accounts receivable	$63.1bn	Up from $38.5bn at FY26 year end; extended terms require monitoring
Inventories	$31.6bn	Up from $21.4bn; supports demand but raises obsolescence risk in fast cycles

Liquidity remains substantial, with $56.6bn of cash, cash equivalents and marketable debt securities at Q2 FY27. This is offset by $33.4bn of short- and long-term debt. The model treats the resulting $23.2bn as net cash and deliberately excludes marketable and non-marketable equity investments, as their value and liquidity are different from cash-like assets.

The cash-flow read-through is mixed rather than unambiguously positive. First-half operating cash flow was $74.4bn, but accounts receivable absorbed $24.6bn and inventory absorbed $10.2bn. NVIDIA disclosed extended payment terms for certain investment-grade customers on large, multi-quarter agreements. This does not invalidate demand, but it makes cash conversion and customer-credit quality important monitoring points.

3 Assumption log and model rationale

The accompanying model is deliberately driver-led. Every assumption below is editable, and the base case is not a prediction. The purpose is to show how reported data, management guidance and explicit judgement convert into a valuation.

Input	FY27E	FY28E	FY29E	Rationale
Data Center growth	90%	20%	15%	FY27 bridges Q1 and Q2 actuals plus Q3 guidance; later years taper to reduce reliance on a sustained boom
Gross margin	74%	72%	70%	Q3 guide is 74%; later moderation reflects mix, supply and competition risk
Opex as revenue	9.5%	10.0%	10.5%	Q2 was 8.7%; assumes rising R&D, compensation and infrastructure spend
Cash tax rate	17%	17%	17%	Within management FY27 guidance of 16% to 18%
D and A / Capex as revenue	3.0%	3.5%	4.0%	Higher than the starter template to reflect a larger infrastructure asset base
Working capital investment	3% of revenue increase	3%	3%	Reflects receivables and inventory build; kept explicit rather than buried in cash flow
WACC / terminal growth	9.0%	n/a	3.0%	Conservative long-run framing for a high-growth, high-expectation semiconductor platform

Forecast and valuation read-through

The model forecasts revenue of $393.8bn in FY27E, $469.7bn in FY28E and $537.8bn in FY29E. FY27E is not a simple year-over-year percentage extrapolation: it is informed by reported Q1 and Q2 revenue and the Q3 company outlook. The most judgemental part is the Q4 run-rate and the pace at which Data Center growth slows after the current buildout.

The base DCF value is $169.16 per share. This output should be viewed as a range rather than a precise answer. It is especially sensitive to the discount rate, terminal growth, the level at which gross margin normalises, and whether capital commitments translate into durable customer demand. At the reference share price of $168.89, the model supports a fair-value conclusion rather than an obvious valuation discount.

Key evidence that could change the model

- Q3 FY27 results, scheduled for 17 November 2026, should be used to replace the Q3 guidance and reassess the Q4 run-rate.
- A further improvement in Data Center demand breadth, especially from enterprise, sovereign and inference workloads, could support a higher terminal growth or margin assumption.
- Evidence of customer capex pressure, delayed data-center buildouts or weaker cash collection should lower revenue-growth and working-capital assumptions.
- A faster shift to alternative accelerators or lower system pricing would challenge the gross-margin path.

4 Investment summary

Investment view

NVIDIA has a clear fundamental strength: it is capturing a large share of a rapidly expanding AI-infrastructure market while converting revenue into unusually high gross profit, operating income and cash flow. The business also benefits from a broad platform proposition spanning compute, networking, systems and software. The issue is not whether the recent operating performance is strong; it is whether future growth and profitability can exceed an already demanding set of market expectations.

Catalysts

Catalyst	Why it matters	What to monitor
Vera Rubin ramp	A successful new architecture cycle can extend product leadership and customer upgrades	Shipment cadence, supply availability and gross-margin impact
AI demand broadening	Enterprise, sovereign and inference demand can reduce reliance on a small customer group	Data Center split and AI cloud, industrial and enterprise revenue
Cash conversion	Improved collections would validate that revenue quality is keeping pace with growth	Receivables, payment terms and operating cash flow
Capital-return execution	NVIDIA had $99.3bn of repurchase authorisation remaining at Q2 FY27	Repurchases relative to cash generation and debt

Principal risks and bear case

Risk	Evidence	Model implication
Customer concentration	Three direct customers represented 16%, 15% and 13% of first-half FY27 revenue	Lower Data Center growth and weaker cash collection
Infrastructure commitments	$279bn of supply commitments, plus cloud and lease commitments	Higher capital intensity or charges if demand fails to convert
China and export controls	China Data Center shipments were less than 1% of Q2 Data Center revenue	Lost market access can favour local competitors and cap growth
Margin normalisation	Current 75% gross margin is exceptional	Lower DCF value if mix or pricing deteriorates
Counterparty and execution risk	Guarantees and AI cloud	Potential financial exposure and

Risk	Evidence	Model implication
	arrangements depend on partner performance	revenue volatility

Decision relevant conclusion

The appropriate portfolio conclusion at this stage is watchlist / neutral, not because the business lacks quality but because the base-case valuation is close to the prevailing market reference. A more constructive view would require evidence that demand breadth, software/platform durability and cash conversion can sustain growth beyond the modelled taper. A more cautious view would follow from slowing Data Center orders, continued receivables expansion, margin pressure or a reduction in customer AI infrastructure budgets.

Sources

[1] NVIDIA, Q2 FY27 earnings release, 26 August 2026. https://investor.nvidia.com/news/press-release-details/2026/NVIDIA-Announces-Financial-Results-for-Second-Quarter-Fiscal-2027/

[2] NVIDIA, Form 10-Q for the quarter ended 26 July 2026, filed 27 August 2026. https://investor.nvidia.com/files/doc_financials/2027/NVDA-2027-Q2-10Q-Final-including-exhibits.pdf

[3] NVIDIA, FY26 annual report and financial reports. https://investor.nvidia.com/financial-info/annual-reports-and-proxies/default.aspx

[4] Market reference price for NVDA: $168.89, captured 11 November 2026. Market data is included for valuation context only.