### Equity Research: Morning Meeting Notes

November 11, 2016

KBCM Topics: TTEK, JWN, QVCA, MTZ  
PCS Topics: QVCA, NVDA

#### Rating Changes

<table>
<thead>
<tr>
<th>Ticker</th>
<th>Company</th>
<th>Old Rating</th>
<th>New Rating</th>
<th>Analyst</th>
</tr>
</thead>
<tbody>
<tr>
<td>▼ TTEK</td>
<td>Tetra Tech, Inc.</td>
<td>Overweight</td>
<td>Sector Weight</td>
<td>Afzal</td>
</tr>
</tbody>
</table>

#### Price Target Changes

<table>
<thead>
<tr>
<th>Ticker</th>
<th>Company</th>
<th>Old Price Target</th>
<th>New Price Target</th>
<th>Analyst</th>
</tr>
</thead>
<tbody>
<tr>
<td>▲ JWN</td>
<td>Nordstrom, Inc.</td>
<td>$65.00</td>
<td>$68.00</td>
<td>Yruma</td>
</tr>
</tbody>
</table>

#### Estimate Changes

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>JWN</td>
<td>2.73</td>
<td>2.93</td>
<td>2.74</td>
<td>3.02</td>
<td>3.26</td>
<td>3.00</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>Yruma</td>
</tr>
<tr>
<td>NVDA</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1.89</td>
<td>2.39</td>
<td>1.87</td>
<td>1.98</td>
<td>2.65</td>
<td>1.96</td>
<td>McConnell</td>
</tr>
<tr>
<td>TTEK</td>
<td>1.87</td>
<td>1.88</td>
<td>2.21</td>
<td>2.24</td>
<td>2.18</td>
<td>2.21</td>
<td>-</td>
<td>2.45</td>
<td>2.41</td>
<td>Afzal</td>
</tr>
</tbody>
</table>

---

Important disclosures for the companies mentioned in this report can be found at [https://key2.bluematrix.com/sellside/Disclosures.action](https://key2.bluematrix.com/sellside/Disclosures.action).

Please refer to the analysts' recently published reports for company-specific valuation and risks.
Industrial: TTEK: Downgrading to Sector Weight on Valuation — Afzal

Tetra Tech, Inc. (TTEK, Downgrade to Sector Weight): FY17E $2.24 to $2.18 (FS $2.21); FY18E $2.45 (FS $2.41). We downgrade TTEK from Overweight to Sector Weight following the Company’s F4Q16 earnings report. We were encouraged by notable 7% YOY organic revenue growth and believe MSD organic growth remains sustainable supported by a solid book-to-bill (1.2x vs. KBCM 1.1x). Further, given the short-cycle profile of TTEK’s midstream business, we view a recovery in domestic shale activity as a potential upside driver for F2H17. That said, while TTEK remains one of our higher-quality E&C names with lower execution risk, strong FCF, and relatively higher mix from defensive end markets, we believe current trading levels fully reflect TTEK’s return to consistent earnings performance and visibility, as well as recognition of momentum in its core end markets. With the stock reaching our previous $40PT, we are moving to the sidelines at this time. We would be recommending investors rotate into names such as ACM (Overweight, $38PT). We highlight ACM as a key beneficiary of the infrastructure theme and hold a positive bias into the Company’s F4Q16 earnings (Nov. 14 BMO) as we anticipate strong FCF and an inflecting revenue and GAAP EPS outlook for FY17.

• Valuation: 10.2x EV/EBITDA on our FY17E vs. peer avg. of 7.7x and TTEK’s 10-yr avg. of 8.3x.
• Ratings: 4/6/0. Short Interest (10/31): 3.2d, 2.0%.

Consumer: JWN - Flywheel Spinning Faster — Yruma

Nordstrom, Inc. (JWN, Overweight, PT from $65 to $68): FY16E $2.73 to $2.93 (FS $2.74); FY17E $3.02 to $3.26 (FS $3.00). We reiterate our Overweight rating on JWN and raise our PT and estimates following the Company’s solid 3Q earnings report. JWN reported strong EPS of $0.84 (FS $0.51, KBCM $0.51). 3Q sales increased 7.2% to $3.54B (FS $3.48B, KBCM $3.56B), and gross margin expanded +101 bps YOY, primarily driven by leveraging buying and occupancy costs, along with an improvement in merchandise margin due to tight inventory control (inventories +0.4%). Given strong results, JWN raised FY EPS guidance to $2.85-$2.95 ($2.60-$2.75 previously). We continue to believe JWN is in the early stages of unlocking earnings growth and are encouraged as despite the consumer environment, we believe JWN can drive double-digit earnings growth in 2017 with solid execution.

• Valuation: 17.2x P/E on our FY17E vs. the specialty retail/department store peer group at 15.5x. PT=20.8x.
• Ratings: 9/18/4. Short Interest (10/31): 11.5d, 24.3%.

Technology: QVCA: Analyst Day: Not Easy, but Underway — Yruma

Liberty Interactive Corporation, QVC Group: (QVCA, Overweight, PT $29): QVCA: Analyst Day: Not Easy, but Underway: Liberty’s analyst day and QVC 3Q earnings give us confidence that weakness is transient and largely merchandising-related. We think a patch of consumer softness and adjustments to Easy Pay may have contributed, but data tell a story of lower ASPs in select categories. Steps taken in jewelry and kitchen should drive stronger medium-term results. Risk/reward at 10.4x 2017 P/E (ex-purchase amortization) is compelling.

• Less structural, more a merchandise miss.
• Easy Pay is a key promotional lever, and we continue to monitor trends.
• We think the long-term benefits from the zulily acquisition remain underappreciated.

Industrial: MTZ - ALERT: Positive Updates on Rover, Other Key Projects — Tucker

MasTec, Inc. (MTZ, Overweight, $36PT): We are incrementally positive on the outlook for Overweight-rated MTZ’s Oil & Gas segment as we highlight favorable commentary that key customer Energy Transfer (ETP) delivered yesterday. ETP provided a positive update on the major planned Rover Pipeline as ETP confirmed it had awarded 100% of the construction contracts for the project, addressed a key concern regarding the creditworthiness of an anchor shipper (Ascent Resources), and indicated the project is on track and highly likely to move forward with final FERC approval expected “any day now”. MTZ expects to book Rover before year-end, and we believe MTZ’s scope could be ~$1.5B. Additionally, ETP provided updates on the Trans-Pecos and Comanche Trail pipelines and Dakota Access pipeline, with commentary on the respective projects progress consistent with expectations, in our view.

• Ratings: 9/3/0. Short Interest (10/31): 9.1d, 5.7%.
Building Products: Our A to Zener analysis of existing home sales trends showed September sales slowed (+3%) following August’s rebound (+8%), with the 3-month average now flat YOY. We continue to see higher-priced CA and FL slowing relative to more affordable regions, including the Midwest, Mid-Atlantic, and parts of South. Overall, our thesis “7th Inning Stretch” remains intact, with slower existing sales supportive of our more cautious view on the Building Products space. With the election past, we note the move in Treasury rates highlights potential for waning monetary stimulus, which is hopefully offset by more fiscal policy. If this plays out, we would expect to continue our shift from traditional early-cycle stocks and increasingly consider stocks like SWK (Sector Weight) given greater industrial and infrastructure exposure. That said, we remain on the sidelines as we await further details.

Technology: Strong Gaming and Data Center Demand Drive Impressive FQ3 Results — McConnell

NVIDIA Corporation (NVDA, Sector Weight): Strong Gaming and Data Center Demand Drive Impressive FQ3 Results:

We remain on the sidelines with the shares given peaking GPU unit share versus AMD, modest operating-margin expansion in F2018 and the stock’s premium valuation.

- FQ3 results are impressive.
- Gaming and Data Center drove significant upside in FQ3.
- FQ4 guidance exceeds expectations.
- Strong results and guidance prompt higher estimates.
Tetra Tech, Inc.

TTEK: Downgrading to Sector Weight on Valuation

We are downgrading TTEK from Overweight to Sector Weight on valuation, with our price target of $40 being reached. We gauge current trading levels now fully reflect TTEK’s return to consistent earnings performance and visibility, as well as recognition of momentum in its core end markets. We continue to view TTEK as one of our higher quality E&C names in terms of lower execution risk, strong free cash flow and its relatively higher mix from defensive end markets.

Key Investment Points

View Mid-Single-Digit Organic Top-Line Growth as Sustainable. Post our review of management’s growth outlook by sub-segment and considering the estimated 8% YOY organic backlog growth, we remain comfortable on TTEK being able to deliver mid-single-digit organic growth over the next few years. Incrementally, we gauge TTEK’s core state and local end markets gained momentum in the quarter, supporting a strong double-digit growth outlook for FY17. Our FY17 estimate continues to reflect a roughly 3.5% organic growth outlook (slightly above the midpoint of guidance) and we have introduced our FY18 estimate, reflecting roughly 5% organic growth. Importantly, management’s outlook bakes in another 20% decline in oil & gas, which we think could present potential upside given our initial take on the midstream outlook post the election.

View Domestic Shale Recovery/Acquisitions as Potential EPS Upside Drivers; Adjusting Our EPS Estimates. Given the short cycle profile of TTEK’s midstream business, we view a recovery in domestic shale activity as a potential upside driver for F2H17. Importantly, TTEK’s midstream work carries a high margin, suggesting upside potential to our EPS estimate. Furthermore, we view TTEK’s clean balance sheet (net leverage is 0.9x vs. management’s target range of 1-2x) and FCF outlook as potentially driving upside to our organic assumptions through acquisitions and buybacks. We have lowered our FY17 EPS estimate to $2.18 (from $2.24) to reflect higher interest expense and a higher tax rate with a largely intact outlook at the operating line. We have introduced our FY18 EPS estimate at $2.45, supported by operating leverage on growth and the amortization roll-off.

TTEK Remains One of Our Quality Plays with Consistent EPS, with Strong FCF as Backup. We continue to view TTEK as a higher quality, lower execution risk play that has demonstrated back on track EPS consistency; as such, we view its current premium multiple as justified. While we are watchful of a potential shift in federal spending buckets under the new administration, we view TTEK’s strong FCF outlook and potential upside from oil & gas as being sufficient offsets to support our EPS estimates.

Estimates

<table>
<thead>
<tr>
<th></th>
<th>FY ends 9/30</th>
<th>F2016A</th>
<th>1Q17E</th>
<th>2Q17E</th>
<th>3Q17E</th>
<th>4Q17E</th>
<th>F2017E</th>
<th>F2018E</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPS (Net)</td>
<td>$1.88</td>
<td>$0.47</td>
<td>$0.44</td>
<td>$0.59</td>
<td>$0.67</td>
<td>$2.18</td>
<td>$2.45</td>
<td></td>
</tr>
<tr>
<td>Cons. EPS</td>
<td>$2.21</td>
<td>$0.51</td>
<td>$0.48</td>
<td>$0.55</td>
<td>$0.68</td>
<td>$2.21</td>
<td>$2.41</td>
<td></td>
</tr>
<tr>
<td>Previous</td>
<td>$1.87</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>$2.24</td>
<td>--</td>
</tr>
</tbody>
</table>

Valuation

P/E | 21.1x | -- | -- | -- | -- | 18.2x | 16.2x |

Sources: Company reports, FactSet, KeyBanc Capital Markets Inc.
Nordstrom, Inc.

JWN: 3Q - Flywheel Spinning Faster

As we called out in our August 11 note, controlled inventory levels can drive stronger results. 3Q sales grew 7.2% YOY, but inventory grew a mere 0.4%. This, coupled with broad-based industrywide inventory reductions, drove stronger gross margins (+101 bps YOY, the highest increase since 2011). Overall comps remain somewhat tepid (0.4% 2Q/3Q combined comp) and mall traffic remains a headwind. Nevertheless, sharper tactical execution can drive double-digit earnings growth in 2017.

Key Investment Points

Expense control allows for reinvestment and earnings growth. Nordstrom has demonstrated strong sales growth over a five-year period, but an inability to meaningfully grow earnings. As we reported in our July 25 note, we think that the Company is in the early stages of unlocking earnings growth. The 3Q’s results show some of this potential; $0.84 EPS was a record for the 3Q (benefit from an Anniversary Shift, but hurt vs. previous years due to credit changes). The Company leveraged SG&A for the first time since 1Q15. Changes in key cost buckets like Trunk Club and pre-opening Canadian rent expense should be earnings tailwinds in 2017. We are raising our 2016 and 2017 earnings estimates accordingly.

Tighter inventory drives a better assortment. Nordstrom’s inventory discipline has given it ability to invest in key, faster growing brands. Management noted that the fastest 20 growing brands were up 20% in the quarter. We see investments in Olivia Kim’s pop-ups, Topshop, Good American and others as examples of a redoubled effort to pivot away from widely accessible brands. We also see opportunities to tactically add higher-priced point brands at flagship stores and online.

E-commerce remains the key driver of growth. Full-line store comps fell 4.5%, which is particularly noteworthy given the benefit from the Anniversary Sale shift. Importantly, e-commerce sales grew 20% and represented about 25% of total full-price sales in the quarter. The replatforming will drive a better experience on the website and mobile app, and we have a more constructive long-term view on Rack.com. Changes in Trunk Club’s business (see our September 26 note) should help accelerate sales and importantly reduce the amount of unpurchased inventory-in-transit. We think Trunk offers a high-touch and high-end consumer offer that is unique in e-commerce.

Estimates

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>EPS (Net)</td>
<td>$3.30</td>
<td>$0.26</td>
<td>$0.67</td>
<td>$0.84</td>
<td>$1.16</td>
<td>$2.93</td>
<td>$3.26</td>
</tr>
<tr>
<td>Cons. EPS</td>
<td>--</td>
<td>$0.26</td>
<td>$0.67</td>
<td>$0.84</td>
<td>$1.28</td>
<td>$2.74</td>
<td>$3.00</td>
</tr>
<tr>
<td>Previous</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>$0.51</td>
<td>$1.31</td>
<td>$2.73</td>
<td>$3.02</td>
</tr>
<tr>
<td>Revenue (M)</td>
<td>$14,438.0</td>
<td>$3,249.0</td>
<td>$3,651.0</td>
<td>$3,542.0</td>
<td>$4,408.0</td>
<td>$14,850.0</td>
<td>$15,729.0</td>
</tr>
<tr>
<td>Cons. Revenue</td>
<td>--</td>
<td>$3,249.0</td>
<td>$3,651.0</td>
<td>$3,542.0</td>
<td>$4,420.6</td>
<td>$14,809.8</td>
<td>$15,556.1</td>
</tr>
<tr>
<td>Previous</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>$3,585.0</td>
<td>$4,554.0</td>
<td>$15,039.0</td>
<td>$15,937.0</td>
</tr>
</tbody>
</table>

Valuation

| P/E | 17.0x |

Sources: Company reports, FactSet, KeyBanc Capital Markets Inc.
Liberty Interactive Corporation, QVC Group

**QVCA: Analyst Day; Not Easy, but Underway**

Liberty's analyst day and QVCA 3Q earnings give us confidence that weakness is transient and largely merchandising-related. We think a patch of consumer softness and adjustments to Easy Pay may have contributed, but data tell a story of lower ASPs in select categories. Steps taken in jewelry and kitchen should drive stronger medium-term results. Risk/reward at 10.4x 2017 P/E (ex-purchase amortization) is compelling.

**Key Investment Points**

**Less structural, more a merchandise miss.** Categories representing approximately 32% of the mix were down 24% in the June-September timeframe. Management provided a very comprehensive postmortem, as well as category-specific plans to restart growth. In particular, the 7% decline in ASP in the "struggling" bucket underscores the impact that weaker electronics and kitchen can drive. Customer engagement and satisfaction remain high and the introduction of the new Beauty iQ channel (40+ million households initially) provides a more contemporary growth offering.

**Easy Pay is a key promotional lever, and we continue to monitor trends.** We think the pullback in June exacerbated already weak underlying trends. An improvement in bad debt trends and a reduced focus on electronics make us comfortable with a targeted increased use of Easy Pay. The company has cycled the introduction of QCard Easy Pay Every Day, so AR growth should moderate. Nevertheless, we always maintain a level of caution surrounding internal credit programs, particularly those that lack a direct funding mechanism.

We think the long-term benefits from the zulily acquisition remain underappreciated. In particular, we believe revenue synergy opportunities, including new brands (115 added YTD), owned brand apparel and a private QVC sale area, can help the business maintain solid double-digit revenue and earnings growth. We also believe zulily's speed allows it to front run many traditional closeout retailers and become a preferred channel for product disposition.

**Estimates**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EPS (Net)</strong></td>
<td>$1.33</td>
<td>$0.18</td>
<td>$0.26</td>
<td>$0.13</td>
<td>$0.43</td>
<td>$1.00</td>
<td>$1.16</td>
<td></td>
</tr>
<tr>
<td><strong>Cons. EPS</strong></td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>$0.40</td>
<td>$0.97</td>
<td>$1.18</td>
</tr>
<tr>
<td><strong>EBITDA (M)</strong></td>
<td>$1,887.0</td>
<td>$433.0</td>
<td>$487.0</td>
<td>$406.0</td>
<td>$609.5</td>
<td>$1,935.5</td>
<td>$2,064.5</td>
<td></td>
</tr>
</tbody>
</table>

**Valuation**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th>1.5x</th>
<th>1.4x</th>
</tr>
</thead>
<tbody>
<tr>
<td>EV/Sales</td>
<td>1.7x</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sources: Company reports, FactSet, KeyBanc Capital Markets Inc.
MasTec, Inc.

MTZ - ALERT: Positive Updates on Rover, Other Key Projects

Matt Tucker / (917) 368-2203 / mtucker@key.com
Grier Buchanan / (917) 368-2376 / gbuchanan@key.com

Key Investment Points
We highlight commentary from key customer Energy Transfer (ETP) on Thursday that we view as highly favorable to the outlook for MTZ's Oil & Gas segment. In particular, ETP provided positive updates on the major planned Rover Pipeline, which MTZ expects to book before YE and execute in 2017, in addition to key pipeline projects MTZ is currently constructing.

Rover Pipeline. MTZ expects to book a contract to build a majority of the $3.7B, 710-mile Rover Pipeline before YE, with construction expected to start in early 2017 and finish by YE17. We believe MTZ's scope could be at the $1.5B level, and view the project as the key driver for its Oil & Gas segment in 2017. On Thursday, ETP confirmed it had awarded 100% of the construction contracts for the project, addressed a key concern regarding the creditworthiness of an anchor shipper, and indicated the projects is on track and highly likely to move forward. We highlight the following:

- **Timeline:** ETP expects to start construction around YE16 and reiterated targeted in-service dates, including service to Defiance, OH, by the end of June 2017 and service to Michigan and the Union Gas Dawn Hub in Ontario by November 2017. We view the timeline as roughly consistent with MTZ's commentary and our expectations.
- **Permitting:** ETP is highly optimistic it will receive final FERC approval "any day now" after receiving a favorable final Environmental Impact Statement (EIS) on July 29, although it would not be concerned about meeting targeted in-service dates unless approval is not received by mid-1Q17. ETP continues to work on some state permits, but also expects to secure those "anytime."
- **Financing:** ETP expects to close financing for Rover in 1Q17, and is seeing attractive pricing and terms in the Term Loan B market.
- **Customer Creditworthiness:** ETP highlighted it was "very excited" that Ascent Resources, an anchor customer on Rover, announced a $787M equity raise on Thursday, thereby significantly improving its balance sheet. Ascent indicated it would use the proceeds to reduce debt and fund its Utica natural gas development program, which supports its need for capacity on Rover. While Rover has had binding long-term customer commitments for a substantial majority of planned capacity for some time now, we gauge that Ascent's creditworthiness has been a key concern among skeptics of Rover's prospects.

Trans-Pecos and Comanche Trail. ETP indicated the related Trans-Pecos and Comanche Trail pipelines, which MTZ is also building and owns a stake in, have received all necessary permits (including the Presidential Permit for border crossing from Texas to Mexico). The projects are currently under construction and remain on track to enter service in 1Q17, consistent with our expectations.

Dakota Access. ETP indicated the major Dakota Access pipeline, of which MTZ is constructing six out of eight spreads, is 84% complete overall. The highly protested project continues to wait for a U.S. Army Corps of Engineers easement to complete its crossing under Lake Oahe, but construction continues on the remaining segments, and ETP expects to receive the easement in time to place the project into service in 1Q17. The Lake Oahe crossing is not within MTZ's scope, and we view ETP's comments as consistent with MTZ's expectation that it will substantially complete its work on the project before YE, as originally planned.
A TO ZENER: LOCAL HOME SALES AND INVENTORY (SEPTEMBER 2016)

Kenneth R. Zener / (415) 486-3420 / kenneth.zener@key.com
Adam Ballantyne / (917) 368-2306 / adam.ballantyne@key.com

Key Investment Points

Sept sales slow following Aug. rebound; 3 months average flat YOY. September’s existing home sales rose 3% YOY (A to Zener units) vs. the comparable up 3% rate (not seasonally adjusted) from the National Association of Realtors (N.A.R.) and up 3% MOM seasonally adjusted to 5.47M units. Our thesis “7th Inning Stretch” remains intact, as past year sales activity becomes a more difficult comparison, resulting in moderating growth YOY and MOM. We continue to see higher-priced CA and FL to slow relative to more affordable regions, including the Midwest, Mid-Atlantic, and parts of South.

Election Impact? Stimulus less monetary, more fiscal. The election impact remains to be seen, but the move in Treasury rates highlights waning monetary stimulus, hopefully offset by a more fiscal policy. If this thesis plays out, we expect to continue our shift from traditional early-cycle stocks ("7th Inning Stretch": Slowing Growth = More Defensive Outlook) and increasingly consider stocks like SWK, with greater industrial and infrastructure exposure as more likely to benefit prospectively, although we await further details before making any rating changes.

“7th Inning Stretch” = slowing growth = LT cyclical discount warranted. Our thesis "7th Inning Stretch" reflects the Building Products’ maturing sequence of growth led by slowing 1) existing homes sales and 2) new starts amid steady 3) home price gains of 5-6%. We do not forecast a decline in housing activity in 2017 (R&R up ~5%, starts up ~7%), but think the likelihood of falling estimates make the sector less attractive prospectively. Our forward demand drivers (3 above factors ~80% correlated to 9-month forward demand) point to slower 1H17 growth (4-5%), with 3Q16 results pointing to lower sales amid a favorable cost tailwind.

CA, TX, FL grow slower than more affordable South, Mid-Atl, MW in Sept. In CA and FL, sales remained largely flat/down YOY (CA flat, FL down 2%) on high-single-digit growth in September 2015, with higher inventory levels in FL and TX reflecting slower selling higher-priced homes. We expect past price gains to support positive R&R growth tied to owners’ confidence and rising equity ratios. CA high end is pressing affordability for many incremental buyers in many markets, while in the absence of foreign demand in FL is a drag in Miami.

Methodology: A to Zener data 85%+ of NAR sample from local realtors. NAR existing home sales data samples ~160 Multiple Listing Services (MLS) equal to ~30-40% of total monthly activity compared to our ~30% coverage. Our data is neither seasonally adjusted, nor benchmarked each decade (last 2011) like the NAR. NAR data covers ~90% of the total existing home sales, including homes sold by owner. Our data pulls the home sales and inventory from local realtor associations’ releases and correlates well to the NAR’s non-seasonally adjusted data YOY.
NVIDIA Corporation

Strong Gaming and Data Center Demand Drive Impressive FQ3 Results

We remain on the sidelines with the shares given peaking GPU unit share versus AMD, modest operating-margin expansion in F2018 and the stock’s premium valuation.

Key Investment Points

FQ3 results are impressive. Sales of $2.00 billion (+40% q/q/+54% y/y) were well above our recently raised estimate of $1.72 billion (+20% q/q/+32% y/y). Demand was particularly strong for gaming, VR, self-driving cars and data center AI computing applications, with strong adoption of Pascal. Gross margin of 59.0% was also notably higher than our estimate of 57.7%, and led to EPS of $0.83 versus our estimate of $0.56.

Gaming and Data Center drove significant upside in FQ3. Gaming (~62% revenue) grew 63% y/y, driven by the strong ramp of the Pascal GPU across notebooks, desktops and consoles for VR, as well as an expanding gaming market and ASPs, with the rise of eSports being a positive catalyst. Data Center (~12% revenue) grew 193% y/y, driven by strong demand for accelerating deep learning and AI inference training cycles. Besides the strong growth from hyperscale cloud customers and major research institutions, NVIDIA also credited the increasing number of applications and industries that are now using Tesla, as well as the efficacy of its platform approach. Quadro (~10% revenue) and automotive (~6% revenue) grew 9% y/y and 61% y/y, respectively.

FQ4 guidance exceeds expectations. Sales were guided to a midpoint of $2.10 billion (+5% q/q/+50% y/y), above our estimate of $1.76 billion and implied seasonality of +3% q/q. Gaming and data center are expected to grow q/q in FQ4, while automotive and Quadro workstation sales were guided flat q/q. Gross margin was guided flat q/q at 59.0%, above our estimate of 58.1%. Operating expenses were guided to grow 10% q/q to 27.2% of revenue on higher head count and sales/marketing costs to support Data Center sales. We estimate EPS at $0.80 versus our previous estimate of $0.59 and the Street’s $0.56.

Strong results and guidance prompt higher estimates. We view fair value for NVDA at $80, or 30x our new F2018 EPS estimate of $2.65.

Estimates

<table>
<thead>
<tr>
<th>FY ends 1/31</th>
<th>F2016A</th>
<th>1Q17A</th>
<th>2Q17A</th>
<th>3Q17A</th>
<th>4Q17E</th>
<th>F2017E</th>
<th>F2018E</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPS (Net)</td>
<td>$1.34</td>
<td>$0.33</td>
<td>$0.40</td>
<td>$0.83</td>
<td>$0.80</td>
<td>$2.39</td>
<td>$2.65</td>
</tr>
<tr>
<td>Cons. EPS</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>$0.83</td>
<td>$0.56</td>
<td>$1.87</td>
<td>$1.96</td>
</tr>
<tr>
<td>Previous</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>$0.56</td>
<td>$0.59</td>
<td>$1.89</td>
<td>$1.98</td>
</tr>
<tr>
<td>Revenue (M)</td>
<td>$5,010.0</td>
<td>$1,355.0</td>
<td>$1,428.0</td>
<td>$2,004.0</td>
<td>$2,100.2</td>
<td>$6,837.2</td>
<td>$7,931.9</td>
</tr>
<tr>
<td>Cons. Revenue</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>$2,004.0</td>
<td>$1,691.0</td>
<td>$6,106.6</td>
<td>$6,555.0</td>
</tr>
<tr>
<td>Previous</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>$1,716.6</td>
<td>$1,761.5</td>
<td>$6,211.1</td>
<td>$6,734.4</td>
</tr>
</tbody>
</table>

Valuation

P/E 50.6x 28.4x 25.6x

Sources: Company reports, FactSet, KeyBanc Capital Markets Inc.
**Disclosure Appendix**

Important disclosures for the companies mentioned in this report can be found at https://key2.bluematrix.com/sellside/Disclosures.action.

Please refer to the analysts' recently published reports for company-specific valuation and risks.

**Reg A/C Certification**

The research analyst(s) responsible for the preparation of this research report certifies that: (1) all the views expressed in this research report accurately reflect the research analyst's personal views about any and all of the subject securities or issuers; and (2) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this research report.

**Rating Disclosures**

**Distribution of Ratings/IB Services**

**KeyBanc Capital Markets**

<table>
<thead>
<tr>
<th>Rating</th>
<th>Count</th>
<th>Percent</th>
<th>IB Serv./Past 12 Mos.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overweight [OW]</td>
<td>289</td>
<td>40.99</td>
<td>64</td>
</tr>
<tr>
<td>Sector Weight [SW]</td>
<td>407</td>
<td>57.73</td>
<td>51</td>
</tr>
<tr>
<td>Underweight [UW]</td>
<td>9</td>
<td>1.28</td>
<td>0</td>
</tr>
</tbody>
</table>

**Rating System**

**Overweight** - We expect the stock to outperform the analyst's coverage sector over the coming 6-12 months.

**Sector Weight** - We expect the stock to perform in line with the analyst's coverage sector over the coming 6-12 months.

**Underweight** - We expect the stock to underperform the analyst's coverage sector over the coming 6-12 months.

*Note: KeyBanc Capital Markets changed its rating system after market close on February 27, 2015. The previous ratings were Buy, Hold and Underweight. Additionally, Pacific Crest Securities changed its rating system to match KeyBanc Capital Markets' rating system after market close on April 10, 2015, in conjunction with the merger of the broker dealers. The previous ratings were Outperform, Sector Perform and Underperform.*
Other Disclosures

KeyBanc Capital Markets is a trade name under which corporate and investment banking products and services of KeyCorp and its subsidiaries, KeyBanc Capital Markets Inc., Member NYSE/FINRA/SIPC ("KBCMI"), and KeyBank National Association ("KeyBank N.A.") are marketed. Pacific Crest Securities is a division of KeyBanc Capital Markets Inc.

KeyBanc Capital Markets Inc. ("KBCMI") does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

This report has been prepared by KBCMI. The material contained herein is based on data from sources considered to be reliable; however, KBCMI does not guarantee or warrant the accuracy or completeness of the information. It is published for informational purposes only and should not be used as the primary basis of investment decisions. Neither the information nor any opinion expressed constitutes an offer, or the solicitation of an offer, to buy or sell any security. The opinions and estimates expressed reflect the current judgment of KBCMI and are subject to change without notice. The opinions and estimates expressed reflect the current judgment of KBCMI and are subject to change without notice. Actual results may differ significantly from the forward-looking statements. This report is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the specific needs of any person or entity.

No portion of an analyst's compensation is based on a specific banking transaction; however, part of his/her compensation may be based upon overall firm revenue and profitability, of which investment banking is a component. Individuals associated with KBCMI (other than the research analyst(s) listed on page 1 of this research report) may have a position (long or short) in the securities covered in this research report and may make purchases and/or sales of those securities in the open market or otherwise without notice. As required by FINRA Rule 2241(C)(4)(A), financial interest, if any, by any research analysts listed on page 1 of this report will be disclosed in Important Disclosures, Company-specific regulatory disclosures located above in the Disclosure Appendix. KBCMI itself may have a position (long or short) in the securities covered in this research report and may make purchases and/or sales of those securities in the open market or otherwise without notice. As required by FINRA Rule 2241(C)(4)(F), if KBCMI, or its affiliates, beneficially own 1% or more of any class of common equity securities in the subject company(ies) in this research report, it will be disclosed in Important Disclosures, Company-specific regulatory disclosures located above in the Disclosures Appendix. This communication is intended solely for use by KBCMI clients. The recipient agrees not to forward or copy the information to any other person without the express written consent of KBCMI.