NVIDIA CORP

FORM 8-K
(Current report filing)

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Address	2788 SAN TOMAS EXPRESSWAY SANTA CLARA, CA, 95051
Telephone	408-486-2000
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Industry	Semiconductors
Sector	Technology
Fiscal Year	01/29

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): **November 6, 2017**

NVIDIA CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**0-23985**	**94-3177549**
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

2788 San Tomas Expressway, Santa Clara, CA	**95051**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(408) 486-2000**

2701 San Tomas Expressway, Santa Clara, CA 95050
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging Growth Company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Item 1.02. Termination of a Material Definitive Agreement.

On November 6, 2017, NVIDIA Land Development, LLC, or NVIDIA Land, a wholly-owned subsidiary of NVIDIA Corporation, or the Company, exercised its option under a Real Property Lease with Wachovia Service Corporation to terminate a Ground Lease and a Real Property Lease and purchase real property containing the Company's new Santa Clara campus building at the intersection of Walsh Avenue and San Tomas Expressway in Santa Clara, California, or the Property, from Wachovia for approximately $350 million.

On June 19, 2015, NVIDIA Land entered into the Ground Lease, Real Property Lease, Participation Agreement, Agency Agreement and related documents with Wachovia; Wells Fargo Bank, N.A.; and a syndicate of other institutions, or collectively, the Participants, for the construction and lease of the Company's new Santa Clara campus building. As part of the transaction, NVIDIA Land ground leased to Wachovia the Property and, in connection with construction of the Company's new Santa Clara campus building, Wachovia leased the Property back to NVIDIA Land. Construction of the Company's new Santa Clara campus building was substantially completed on October 31, 2017.

The purchase price approximates the sum of: repayment of the Participants' investment in the Property, capitalized interest accrued during the construction period, any accrued but unpaid rent under the Real Property Lease, and the fees and expenses of the Participants incurred in connection with the purchase. Upon completing the purchase, the agreements referenced above and related documents will be terminated and NVIDIA Land will hold all right, title and interest in the Property, free and clear of any secured financing. NVIDIA Land has obtained a waiver from a majority of the Participants of the requirement to provide 90 days advance notice to exercise the purchase option. NVIDIA expects to complete the purchase and take title to the Property during the fourth quarter of fiscal year 2018.

The descriptions of the agreements do not purport to be complete and are qualified in their entirety by reference to the full text of such agreements as filed with the U.S. Securities and Exchange Commission, or the SEC, as follows:

- The Participation Agreement, the Agency Agreement and the Real Property Lease are filed as Exhibits 10.1, 10.2 and 10.3, respectively, to the Company's Quarterly Report on Form 10-Q filed with SEC on August 19, 2015;
- The First Amendment to the Participation Agreement is filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed with the SEC on May 25, 2016;
- The Second Amendment to the Participation Agreement is filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed with the SEC on November 22, 2016; and
- The Third Amendment to the Participation Agreement is filed as Exhibit 10.34 to the Company's Annual Report on Form 10-K filed with the SEC on March 1, 2017.

Item 2.02 Results of Operations and Financial Condition.

On November 9, 2017, the Company issued a press release announcing its results for the third quarter and first nine months of fiscal year 2018. The press release is attached as Exhibit 99.1 and is incorporated herein by reference.

Attached hereto as Exhibit 99.2 and incorporated by reference herein is financial information and commentary by Colette M. Kress, Executive Vice President and Chief Financial Officer of the Company, regarding results for the third quarter and first nine months of fiscal year 2018, or the CFO Commentary. The CFO Commentary will be posted to http://investor.nvidia.com immediately after the filing of this Current Report.

The press release and CFO Commentary are furnished and shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or subject to the liabilities of that Section or Sections 11 and 12(a)(2) of the Securities Act of 1933, as amended. The information in this Current Report shall not be incorporated by reference in any filing with the U.S. Securities and Exchange Commission made by the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

Exhibit	Description
99.1	Press Release, dated November 9, 2017, entitled "NVIDIA Announces Financial Results for Third Quarter Fiscal 2018"
99.2	CFO Commentary on Third Quarter Fiscal Year 2018 Results

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

	NVIDIA Corporation
Date: November 9, 2017	By: /s/ Colette M. Kress
	Colette M. Kress
	Executive Vice President and Chief Financial Officer

FOR IMMEDIATE RELEASE:

NVIDIA Announces Financial Results for Third Quarter Fiscal 2018

- Record revenue of $2.64 billion, up 32 percent from a year ago
- Record GAAP EPS of $1.33, up 60 percent from a year ago
- Growth across all platforms
- Quarterly cash dividend raised 7 percent to $0.15 per share. Company intends to return $1.25 billion to shareholders in fiscal 2019

SANTA CLARA, Calif.-November 9, 2017- NVIDIA (NASDAQ: NVDA) today reported record revenue for the third quarter ended October 29, 2017, of $2.64 billion, up 32 percent from $2.00 billion a year earlier, and up 18 percent from $2.23 billion in the previous quarter, with growth across all its platforms.

GAAP earnings per diluted share for the quarter were a record $1.33, up 60 percent from $0.83 a year ago and up 45 percent from $0.92 in the previous quarter. Non-GAAP earnings per diluted share were $1.33, also a record, up 41 percent from $0.94 a year earlier and up 32 percent from $1.01 in the previous quarter.

“We had a great quarter across all of our growth drivers,” said Jensen Huang, founder and chief executive officer of NVIDIA. “Industries across the world are accelerating their adoption of AI.

“Our Volta GPU has been embraced by every major internet and cloud service provider and computer maker. Our new TensorRT inference acceleration platform opens us to growth in hyperscale datacenters. GeForce and Nintendo Switch are tapped into the strongest growth dynamics of gaming. And our new DRIVE PX Pegasus for robotaxis has been adopted by companies around the world. We are well positioned for continued growth,” he said.

Capital Return

During the first nine months of fiscal 2018, NVIDIA returned to shareholders $909 million in share repurchases and $250 million in cash dividends. As a result, the company returned an aggregate of $1.16 billion to shareholders in the first nine months of the fiscal year. The company intends to return $1.25 billion to shareholders in fiscal 2018.

For fiscal 2019, NVIDIA intends to return $1.25 billion to shareholders through ongoing quarterly cash dividends and share repurchases. The company announced a 7 percent increase in its quarterly cash dividend to $0.15 per share from $0.14 per share, to be paid with its next quarterly cash dividend on December 15, 2017, to all shareholders of record on November 24, 2017.

Q3 FY2018 Summary

GAAP					
($ in millions except earnings per share)	**Q3 FY18**	**Q2 FY18**	**Q3 FY17**	**Q/Q**	**Y/Y**
Revenue	$2,636	$2,230	$2,004	Up 18%	Up 32%
Gross margin	59.5%	58.4%	59.0%	Up 110 bps	Up 50 bps
Operating expenses	$674	$614	$544	Up 10%	Up 24%
Operating income	$895	$688	$639	Up 30%	Up 40%
Net income	$838	$583	$542	Up 44%	Up 55%
Diluted earnings per share	$1.33	$0.92	$0.83	Up 45%	Up 60%

Non-GAAP					
($ in millions except earnings per share)	**Q3 FY18**	**Q2 FY18**	**Q3 FY17**	**Q/Q**	**Y/Y**
Revenue	$2,636	$2,230	$2,004	Up 18%	Up 32%
Gross margin	59.7%	58.6%	59.2%	Up 110 bps	Up 50 bps
Operating expenses	$570	$533	$478	Up 7%	Up 19%
Operating income	$1,005	$773	$708	Up 30%	Up 42%
Net income	$833	$638	$570	Up 31%	Up 46%
Diluted earnings per share	$1.33	$1.01	$0.94	Up 32%	Up 41%

NVIDIA's outlook for the fourth quarter of fiscal 2018 is as follows:

- Revenue is expected to be $2.65 billion, plus or minus two percent.
- GAAP and non-GAAP gross margins are expected to be 59.7 percent and 60.0 percent, respectively, plus or minus 50 basis points.
- GAAP and non-GAAP operating expenses are expected to be approximately $722 million and $600 million, respectively.
- GAAP and non-GAAP other income and expense are both expected to be nominal.
- GAAP and non-GAAP tax rates are both expected to be 17.5 percent, plus or minus one percent, excluding any discrete items. GAAP discrete items include excess tax benefits or deficiencies related to stock-based compensation, which the company expects to generate variability on a quarter by quarter basis.

Third Quarter Fiscal 2018 Highlights

During the third quarter, NVIDIA achieved progress in these areas:

Datacenter

- Set records for attendance at its GPU Technology Conferences for developers in Beijing, Munich, Tel Aviv, Taipei and Washington.
- Announced that Alibaba, Baidu and Tencent will adopt NVIDIA® Volta GPUs for accelerating AI across enterprise and consumer applications, joining Amazon, Facebook, Google and Microsoft.
- Added NVIDIA Tesla® P100 GPU accelerators to Oracle Cloud.
- Launched the NVIDIA GPU Cloud container registry with fully optimized software stacks to accelerate deep learning for developers worldwide.
- Announced that Huawei, Inspur and Lenovo will use NVIDIA Volta HGX architecture to build AI systems for datacenters.
- Shared news that Dell EMC, Hewlett Packard Enterprise, IBM and Supermicro unveiled servers based on NVIDIA Tesla V100 GPU accelerators.
- Launched the NVIDIA TensorRT™ 3 AI inference acceleration platform, opening up new growth in hyperscale datacenters.

Gaming

- Released the GeForce® GTX 1070 Ti GPU, designed to handle the graphical demands of DirectX 12, HDR and immersive VR.
- Announced collaborations to bring NVIDIA GameWorks™ technology to top fall games, including *PlayerUnknown's Battlegrounds* , *FINAL FANTASY XV* and *Shadow of War.*

Professional Visualization

- Released the NVIDIA VRWorks™ 360 Video SDK, enabling production houses to live stream high-quality, 360-degree, stereo video.
- Opened early access to NVIDIA Holodeck™, providing a virtual collaboration space using highly realistic, physically simulated VR.
- Launched the Quadro® Virtual Data Center Workstation, with virtualization software that turns GPU-accelerated servers into powerful workstations.

Automotive

- Announced NVIDIA DRIVE™ PX Pegasus, the world's first auto-grade AI computer designed to enable a new class of driverless robotaxis without steering wheels, pedals or mirrors.

Autonomous Machines/AI Edge Computing

- Added Alibaba and Huawei as partners for the NVIDIA Metropolis AI Smart Cities platform.
- Announced it is collaborating with China's JD.com's X lab to use NVIDIA Jetson™ to create autonomous machines that bring AI to logistics and delivery.

CFO Commentary

Commentary on the quarter by Colette Kress, NVIDIA's executive vice president and chief financial officer, is available at http://investor.nvidia.com/.

Conference Call and Webcast Information

NVIDIA will conduct a conference call with analysts and investors to discuss its third quarter fiscal 2018 financial results and current financial prospects today at 2 p.m. Pacific time (5 p.m. Eastern time). To listen to the conference call, dial (877) 223-3864 in the United States or (574) 990-1377 internationally, and provide the following conference ID: 96232617. A live webcast (listen-only mode) of the conference call will be accessible at NVIDIA's investor relations website, http://investor.nvidia.com, and at www.streetevents.com. The webcast will be recorded and available for replay until NVIDIA's conference call to discuss its financial results for its fourth quarter and fiscal 2018.

Non-GAAP Measures

To supplement NVIDIA's Condensed Consolidated Statements of Income and Condensed Consolidated Balance Sheets presented in accordance with GAAP, the company uses non-GAAP measures of certain components of financial performance. These non-GAAP measures include non-GAAP gross profit, non-GAAP gross margin, non-GAAP operating expenses, non-GAAP income from operations, non-GAAP other income (expense), non-GAAP income tax expense, non-GAAP net income, non-GAAP net income, or earnings, per diluted share, non-GAAP diluted shares, and free cash flow. In order for NVIDIA's investors to be better able to compare its current results with those of previous periods, the company has shown a reconciliation of GAAP to non-GAAP financial measures. These reconciliations adjust the related GAAP financial measures to exclude stock-based compensation expense, legal settlement costs, acquisition-related costs, contributions, restructuring and other charges, gains from non-affiliated investments, interest expense related to amortization of debt discount, loss on early debt conversions, and the associated tax impact of these items, where applicable. Weighted average shares used in the non-GAAP diluted net income per share computation includes the anti-dilution impact of the company's Note Hedge. Free cash flow is calculated as GAAP net cash provided by operating activities less purchases of property and equipment and intangible assets. NVIDIA believes the presentation of its non-GAAP financial measures enhances the user's overall understanding of the company's historical financial performance. The presentation of the company's non-GAAP financial measures is not meant to be considered in isolation or as a substitute for the company's financial results prepared in accordance with GAAP, and its non-GAAP measures may be different from non-GAAP measures used by other companies.

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About NVIDIA

NVIDIA's (NASDAQ: NVDA) invention of the GPU in 1999 sparked the growth of the PC gaming market, redefined modern computer graphics and revolutionized parallel computing. More recently, GPU deep learning ignited modern AI - the next era of computing - with the GPU acting as the brain of computers, robots and self-driving cars that can perceive and understand the world. More information at http://nvidianews.nvidia.com/.

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For further information, contact:

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Certain statements in this press release including, but not limited to statements as to: industries across the world accelerating their adoption of AI; the use of Volta GPUs; the benefits of the TensorRT inference acceleration platform; tapping into strong growth dynamics in gaming through GeForce and Nintendo Switch; DRIVE PX Pegasus being adopted; the company's intended capital return for fiscal 2018 and fiscal 2019; the company's next quarterly cash dividend; the company's financial outlook for the fourth quarter of fiscal 2018; the company's tax rates for the fourth quarter of fiscal year 2018; the impact and benefits of the adoption of Volta GPUs, TensorRT 3 AI inference software, the GPU cloud container registry, GeForce GTX 1070 Ti GPU, VRWorks 360 Video SDK, Holodeck, Quadro Virtual Data Center Workstation, DRIVE PX Pegasus, and collaboration with JD.com's X lab and use of Jetson; use of Volta HGX architecture; and collaborations to bring NVIDIA GameWorks technology to top fall games are forward-looking statements that are subject to risks and uncertainties that could cause results to be materially different than expectations. Important factors that could cause actual results to differ materially include: global economic conditions; our reliance on third parties to manufacture, assemble, package and test our products; the impact of technological development and competition; development of new products and technologies or enhancements to our existing product and technologies; market acceptance of our products or our partners' products; design, manufacturing or software defects; changes in consumer preferences or demands; changes in industry standards and interfaces; unexpected loss of performance of our products or technologies when integrated into systems; as well as other factors detailed from time to time in the reports NVIDIA files with the Securities and Exchange Commission, or SEC, including its Form 10-Q for the fiscal period ended July 30, 2017. Copies of reports filed with the SEC are posted on the company's website and are available from NVIDIA without charge. These forward-looking statements are not guarantees of future performance and speak only as of the date hereof, and, except as required by law, NVIDIA disclaims any obligation to update these forward-looking statements to reflect future events or circumstances.

NVIDIA CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In millions, except per share data)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	October 29, 2017	October 30, 2016	October 29, 2017	October 30, 2016
Revenue	$ 2,636	$ 2,004	$ 6,803	$ 4,737
Cost of revenue	1,067	821	2,782	1,977
Gross profit	1,569	1,183	4,021	2,760
Operating expenses				
Research and development	462	373	1,290	1,069
Sales, general and administrative	212	171	594	487
Restructuring and other charges	—	—	—	3
Total operating expenses	674	544	1,884	1,559
Income from operations	895	639	2,137	1,201
Interest income	17	14	48	37
Interest expense	(15)	(16)	(46)	(39)
Other, net	(1)	(16)	(22)	(19)
Total other income (expense)	1	(18)	(20)	(21)
Income before income tax expense	896	621	2,117	1,180
Income tax expense	58	79	189	168
Net income	$ 838	$ 542	$ 1,928	$ 1,012
Net income per share:				
Basic	$ 1.39	$ 1.01	$ 3.23	$ 1.89
Diluted	$ 1.33	$ 0.83	$ 3.05	$ 1.59
Weighted average shares used in per share computation:				
Basic	603	538	597	536
Diluted	628	653	633	636

NVIDIA CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions)

(Unaudited)

	October 29, 2017	January 29, 2017
ASSETS		
Current assets:		
Cash, cash equivalents and marketable securities	$ 6,320	$ 6,798
Accounts receivable, net	1,167	826
Inventories	857	794
Prepaid expenses and other current assets	135	118
Total current assets	8,479	8,536
Property and equipment, net	600	521
Goodwill	618	618
Intangible assets, net	63	104
Other assets	70	62
Total assets	$ 9,830	$ 9,841
LIABILITIES, CONVERTIBLE DEBT CONVERSION OBLIGATION AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 511	$ 485
Accrued and other current liabilities	493	507
Convertible short-term debt	23	796
Total current liabilities	1,027	1,788
Long-term debt	1,985	1,983
Other long-term liabilities	464	271
Capital lease obligations, long-term	1	6
Total liabilities	3,477	4,048
Convertible debt conversion obligation	1	31
Shareholders' equity	6,352	5,762
Total liabilities, convertible debt conversion obligation and shareholders' equity	$ 9,830	$ 9,841

NVIDIA CORPORATION

RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL MEASURES

(In millions, except per share data)

(Unaudited)

	Three Months Ended			Nine Months Ended	
	October 29, 2017	**July 30, 2017**	**October 30, 2016**	**October 29, 2017**	**October 30, 2016**
GAAP gross profit	$ 1,569	$ 1,302	$ 1,183	$ 4,021	$ 2,760
GAAP gross margin	*59.5%*	*58.4%*	*59.0%*	*59.1%*	*58.3%*
Stock-based compensation expense (A)	6	4	3	14	11
Legal settlement costs	—	—	—	—	10
Non-GAAP gross profit	$ 1,575	$ 1,306	$ 1,186	$ 4,035	$ 2,781
Non-GAAP gross margin	*59.7%*	*58.6%*	*59.2%*	*59.3%*	*58.7%*
GAAP operating expenses	$ 674	$ 614	$ 544	$ 1,884	$ 1,559
Stock-based compensation expense (A)	(101)	(77)	(62)	(251)	(166)
Legal settlement costs	—	—	—	—	(6)
Acquisition-related costs (B)	(3)	(4)	(4)	(11)	(12)
Contributions	—	—	—	(2)	(4)
Restructuring and other charges	—	—	—	—	(3)
Non-GAAP operating expenses	$ 570	$ 533	$ 478	$ 1,620	$ 1,368
GAAP income from operations	$ 895	$ 688	$ 639	$ 2,137	$ 1,201
Total impact of non-GAAP adjustments to income from operations	110	85	69	278	211
Non-GAAP income from operations	$ 1,005	$ 773	$ 708	$ 2,415	$ 1,412
GAAP other income (expense)	$ 1	$ (4)	$ (18)	$ (20)	$ (21)
Gains from non-affiliated investments	—	—	—	—	(3)
Interest expense related to amortization of debt discount	—	1	6	3	20
Loss on early debt conversions	1	3	15	19	15
Non-GAAP other income (expense)	$ 2	$ —	$ 3	$ 2	$ 11
GAAP net income	$ 838	$ 583	$ 542	$ 1,928	$ 1,012
Total pre-tax impact of non-GAAP adjustments	111	89	90	300	243
Income tax impact of non-GAAP adjustments (C)	(116)	(34)	(62)	(224)	(108)
Non-GAAP net income	$ 833	$ 638	$ 570	$ 2,004	$ 1,147

	Three Months Ended			Nine Months Ended	
	October 29, 2017	July 30, 2017	October 30, 2016	October 29, 2017	October 30, 2016
Diluted net income per share					
GAAP	$ 1.33	$ 0.92	$ 0.83	$ 3.05	$ 1.59
Non-GAAP	$ 1.33	$ 1.01	$ 0.94	$ 3.20	$ 1.93
Weighted average shares used in diluted net income per share computation					
GAAP	628	633	653	633	636
Anti-dilution impact from note hedge (D)	(2)	(4)	(45)	(7)	(42)
Non-GAAP	626	629	608	626	594
GAAP net cash provided by operating activities	$ 1,157	$ 705	$ 432	$ 2,144	$ 951
Purchase of property and equipment and intangible assets	(69)	(55)	(38)	(178)	(125)
Free cash flow	$ 1,088	$ 650	$ 394	$ 1,966	$ 826

(A) Excludes stock-based compensation as follows:

	Three Months Ended			Nine Months Ended	
	October 29, 2017	July 30, 2017	October 30, 2016	October 29, 2017	October 30, 2016
Cost of revenue	$ 6	$ 4	$ 3	$ 14	$ 11
Research and development	$ 61	$ 44	$ 35	$ 146	$ 95
Sales, general and administrative	$ 40	$ 33	$ 27	$ 105	$ 71

(B) Consists of amortization of acquisition-related intangible assets and compensation charges.

(C) Income tax impact of non-GAAP adjustments, including the recognition of excess tax benefits or deficiencies related to stock-based compensation under GAAP accounting standard (ASU 2016-09).

(D) Represents the number of shares that would be delivered upon conversion of the currently outstanding 1.00% Convertible Senior Notes Due 2018. Under GAAP, shares delivered in hedge transactions are not considered offsetting shares in the fully diluted share calculation until actually delivered.

NVIDIA CORPORATION
RECONCILIATION OF GAAP TO NON-GAAP OUTLOOK

	Q4 FY2018 Outlook
GAAP gross margin	59.7%
Impact of stock-based compensation expense	0.3%
Non-GAAP gross margin	60.0%

	Q4 FY2018 Outlook	
	(In millions)	
GAAP operating expenses	$	722
Stock-based compensation expense, acquisition-related costs, and other costs		(122)
Non-GAAP operating expenses	$	600

CFO Commentary on Third Quarter Fiscal Year 2018 Results

Q3 FY 2018 Summary

GAAP					
($ in millions except earnings per share)	**Q3 FY18**	**Q2 FY18**	**Q3 FY17**	**Q/Q**	**Y/Y**
Revenue	$2,636	$2,230	$2,004	Up 18%	Up 32%
Gross margin	59.5%	58.4%	59.0%	Up 110 bps	Up 50 bps
Operating expenses	$674	$614	$544	Up 10%	Up 24%
Operating income	$895	$688	$639	Up 30%	Up 40%
Net income	$838	$583	$542	Up 44%	Up 55%
Diluted earnings per share	$1.33	$0.92	$0.83	Up 45%	Up 60%

Non-GAAP					
($ in millions except earnings per share)	**Q3 FY18**	**Q2 FY18**	**Q3 FY17**	**Q/Q**	**Y/Y**
Revenue	$2,636	$2,230	$2,004	Up 18%	Up 32%
Gross margin	59.7%	58.6%	59.2%	Up 110 bps	Up 50 bps
Operating expenses	$570	$533	$478	Up 7%	Up 19%
Operating income	$1,005	$773	$708	Up 30%	Up 42%
Net income	$833	$638	$570	Up 31%	Up 46%
Diluted earnings per share	$1.33	$1.01	$0.94	Up 32%	Up 41%

Revenue by Reportable Segments					
($ in millions)	**Q3 FY18**	**Q2 FY18**	**Q3 FY17**	**Q/Q**	**Y/Y**
GPU Business	$2,217	$1,897	$1,697	Up 17%	Up 31%
Tegra Processor Business	419	333	241	Up 26%	Up 74%
Other	--	--	66	--	Down 100%
Total	$2,636	$2,230	$2,004	Up 18%	Up 32%

Revenue by Market Platform					
($ in millions)	**Q3 FY18**	**Q2 FY18**	**Q3 FY17**	**Q/Q**	**Y/Y**
Gaming	$1,561	$1,186	$1,244	Up 32%	Up 25%
Professional Visualization	239	235	207	Up 2%	Up 15%
Datacenter	501	416	240	Up 20%	Up 109%
Automotive	144	142	127	Up 1%	Up 13%
OEM and IP	191	251	186	Down 24%	Up 3%
Total	$2,636	$2,230	$2,004	Up 18%	Up 32%

Revenue

Third quarter revenue increased 32 percent year over year and 18 percent sequentially to a record $2.64 billion. Growth was driven by GPUs for gaming, datacenter, and professional visualization, as well as Tegra® processors.

GPU business revenue was $2.22 billion, up 31 percent from a year earlier and up 17 percent sequentially, with strength across all platforms, including gaming, datacenter, and professional visualization platforms. Record GeForce GPU gaming revenue of $1.56 billion was led by continued strong adoption of Pascal™-based GeForce® GTX gaming platforms. Datacenter (including Tesla®, NVIDIA GRID™ and DGX™) revenue was a record $501 million, up 109 percent year on year and up 20 percent sequentially, reflecting shipments of our Volta GPU architecture. Datacenter growth was fueled by strong demand by hyperscale and cloud customers for deep learning training and accelerated GPU computing, as well as demand for HPC, DGX AI supercomputing, and GRID virtualization platforms. Professional visualization revenue grew 15 percent year over year and 2 percent sequentially to a record $239 million, led by high-end mobile platforms.

Tegra Processor business revenue, which included gaming development platforms and services, was $419 million, up 74 percent from a year ago and up 26 percent sequentially. Tegra Processor business revenue includes SOC modules for the Nintendo Switch gaming console and development services. Also included was record automotive revenue of $144 million, which was up 13 percent from a year earlier and up 1 percent sequentially, incorporating infotainment modules, production DRIVE PX platforms, and development agreements for self-driving cars.

Revenue from our patent license agreement with Intel concluded in the first quarter of fiscal 2018.

Gross Margin

GAAP gross margin for the third quarter was 59.5 percent and non-GAAP gross margin was 59.7 percent, increasing from the prior year and the previous quarter due to strong growth in datacenter revenue and the mix within our gaming GPUs.

Expenses

GAAP operating expenses were $674 million, including $104 million in stock-based compensation and other charges. Non-GAAP operating expenses were $570 million, up 19 percent from a year earlier and up 7 percent sequentially. This reflects growth in employees and related costs, as well as investments in growth initiatives - including gaming, artificial intelligence, and autonomous driving.

Operating Income

GAAP operating income was $895 million, up 40 percent from a year earlier. Non-GAAP operating income was $1.01 billion, up 42 percent from a year earlier.

Other Income & Expense and Income Tax

GAAP			
($ in millions)	**Q3 FY18**	**Q2 FY18**	**Q3 FY17**
Interest income	$17	$15	$14
Interest expense	(15)	(15)	(16)
Other, net	(1)	(4)	(16)
Total	$1	$(4)	$(18)

Non-GAAP			
($ in millions)	**Q3 FY18**	**Q2 FY18**	**Q3 FY17**
Interest income	$17	$15	$14
Interest expense	(15)	(14)	(10)
Other, net	--	(1)	(1)
Total	$2	$--	$3

Other income and expense, or OI&E, includes interest earned on cash and investments, interest expense associated with corporate bonds and remaining convertible debt, and other gains and losses. GAAP OI&E includes interest expense primarily associated with corporate bonds and remaining convertible debt, interest income from our investment portfolio, and charges from early conversions of convertible debt. Non-GAAP OI&E excludes the charges from early conversions of convertible debt, the portion of interest expense from the amortization of the debt discount and the gains or losses from sales of certain investments.

The GAAP effective tax rate in the third quarter was 6.5 percent, reflecting the recognition of excess tax benefits related to stock-based compensation. The lower-than-expected tax rate contributed $0.15 to our GAAP earnings per diluted share. We expect to generate variability on a quarter-by-quarter basis from excess tax benefits or deficiencies related to stock-based compensation. The non-GAAP effective tax rate was 17 percent.

Net Income and EPS

Third quarter GAAP net income was a record $838 million and earnings per diluted share were $1.33, up 55 percent and 60 percent, respectively, from a year earlier. Non-GAAP net income was a record $833 million and earnings per diluted share were $1.33, up 46 percent and 41 percent, respectively, from a year earlier, fueled by strong revenue growth and improved gross and operating margins.

Weighted Average Shares

Weighted average shares used in the GAAP and non-GAAP diluted EPS calculations were as follows:

Weighted Average Shares		
(in millions)	**GAAP**	**Non-GAAP**
Basic shares	603	603
Dilutive impact from:		
Equity awards	23	23
Convertible notes	2	--
Diluted shares	628	626

Capital Return

Capital Return						
(in millions)	**FY13**	**FY14**	**FY15**	**FY16**	**FY17**	**YTD FY18**
Dividends	$47	$181	$186	$213	$261	$250
Share repurchases:						
$	$100	$887	$814	$587	$739	$909
Shares	8	62	44	25	15	6

During the first nine months of fiscal 2018, we returned to shareholders $909 million in share repurchases and $250 million in cash dividends. As a result, we have returned an aggregate of $1.16 billion to shareholders in the first nine months of the fiscal year. We intend to return $1.25 billion to shareholders in fiscal 2018.

Since the restart of our capital return program in the fourth quarter of fiscal 2013, we have returned $5.18 billion to shareholders. This represents approximately 80 percent of our cumulative free cash flow for fiscal 2013 through the third quarter of fiscal 2018.

For fiscal 2019, we intend to return $1.25 billion to shareholders through ongoing quarterly cash dividends and share repurchases. We announced a 7 percent increase in our quarterly cash dividend to $0.15 per share from $0.14 per share, to be paid with our next quarterly cash dividend on December 15, 2017, to all shareholders of record on November 24, 2017.

Balance Sheet and Cash Flow

Cash, cash equivalents and marketable securities at the end of the third quarter were $6.32 billion, compared with $5.88 billion at the end of the prior quarter. The sequential increase in cash was primarily related to the increase in operating income, as well as strong collections of outstanding accounts receivable.

Accounts receivable at the end of the quarter was $1.17 billion compared with $1.21 billion in the prior quarter. DSO at quarter-end was 40 days, down from 49 days in the prior quarter.

Inventory at the end of the quarter was $857 million, up from $855 million in the prior quarter. DSI at quarter-end was 73 days, down from 84 days in the prior quarter.

Cash flow from operating activities was a record $1.16 billion in the third quarter, up from $705 million in the prior quarter. The sequential increase was primarily due to growth in net income and strong collections of accounts receivable and other changes in working capital.

Free cash flow was $1.09 billion in the third quarter, compared with $650 million in the previous quarter.

Depreciation and amortization expense amounted to $50 million for the third quarter. Capital expenditures were $69 million for the third quarter.

In the fourth quarter of fiscal 2018, we plan to refinance the synthetic lease related to our new Santa Clara campus building and purchase the property for approximately $350 million.

Fourth Quarter of Fiscal 2018 Outlook

Our outlook for the fourth quarter of fiscal 2018 is as follows:

- Revenue is expected to be $2.65 billion, plus or minus two percent.
- GAAP and non-GAAP gross margins are expected to be 59.7 percent and 60.0 percent, respectively, plus or minus 50 basis points.
- GAAP and non-GAAP operating expenses are expected to be approximately $722 million and $600 million, respectively.
- GAAP and non-GAAP other income and expense are both expected to be nominal.
- GAAP and non-GAAP tax rates are both expected to be 17.5 percent, plus or minus one percent, excluding any discrete items. GAAP discrete items include excess tax benefits or deficiencies related to stock-based compensation, which we expect to generate variability on a quarter by quarter basis.
- Capital expenditures are expected to be approximately $75 million to $85 million, excluding the planned purchase of the property containing our new Santa Clara campus building.

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Non-GAAP Measures

To supplement NVIDIA’s Condensed Consolidated Statements of Income and Condensed Consolidated Balance Sheets presented in accordance with GAAP, the company uses non-GAAP measures of certain components of financial performance. These non-GAAP measures include non-GAAP gross profit, non-GAAP gross margin, non-GAAP operating expenses, non-GAAP income from operations, non-GAAP other income (expense), non-GAAP income tax expense, non-GAAP net income, non-GAAP net income, or earnings, per diluted share, non-GAAP diluted shares, and free cash flow. In order for NVIDIA’s investors to be better able to compare its current results with those of previous periods, the company has shown a reconciliation of GAAP to non-GAAP financial measures. These reconciliations adjust the related GAAP financial measures to exclude stock-based compensation expense, legal settlement costs, acquisition-related costs, contributions, restructuring and other charges, gains from non-affiliated investments, interest expense related to amortization of debt discount, loss on early debt conversions, and the associated tax impact of these items, where applicable. Weighted average shares used in the non-GAAP diluted net income per share computation includes the anti-dilution impact of our Note Hedge. Free cash flow is calculated as GAAP net cash provided by operating activities less purchases of property and equipment and intangible assets. NVIDIA believes the presentation of its non-GAAP financial measures enhances the user's overall understanding of the company’s historical financial performance. The presentation of the company’s non-GAAP financial measures is not meant to be considered in isolation or as a substitute for the company’s financial results prepared in accordance with GAAP, and our non-GAAP measures may be different from non-GAAP measures used by other companies.

Certain statements in this CFO Commentary including, but not limited to, statements as to: our expectation to generate variability from excess tax benefits or deficiencies related to stock-based compensation; our intended fiscal 2018 and fiscal 2019 capital return; our next quarterly cash dividend; our planned synthetic lease refinance and property purchase; our financial outlook for the fourth quarter of fiscal 2018; and our tax rates for the fourth quarter of fiscal 2018 are forward-looking statements that are subject to risks and uncertainties that could cause results to be materially different than expectations. Important factors that could cause actual results to differ materially include: global economic conditions; our reliance on third parties to manufacture, assemble, package and test our products; the impact of technological development and competition; development of new products and technologies or enhancements to our existing product and technologies; market acceptance of our products or our partners' products; design, manufacturing or software defects; changes in consumer preferences or demands; changes in industry standards and interfaces; unexpected loss of performance of our products or technologies when integrated into systems; as well as other factors detailed from time to time in the reports NVIDIA files with the Securities and Exchange Commission, or SEC, including its Form 10-Q for the fiscal period ended July 30, 2017. Copies of reports filed with the SEC are posted on the company's website and are available from NVIDIA without charge. These forward-looking statements are not guarantees of future performance and speak only as of the date hereof, and, except as required by law, NVIDIA disclaims any obligation to update these forward-looking statements to reflect future events or circumstances.

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NVIDIA CORPORATION

RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL MEASURES

(In millions, except per share data)

(Unaudited)

	Three Months Ended			Nine Months Ended	
	October 29, 2017	July 30, 2017	October 30, 2016	October 29, 2017	October 30, 2016
GAAP gross profit	$ 1,569	$ 1,302	$ 1,183	$ 4,021	$ 2,760
GAAP gross margin	*59.5%*	*58.4%*	*59.0%*	*59.1%*	*58.3%*
Stock-based compensation expense (A)	6	4	3	14	11
Legal settlement costs	—	—	—	—	10
Non-GAAP gross profit	$ 1,575	$ 1,306	$ 1,186	$ 4,035	$ 2,781
Non-GAAP gross margin	*59.7%*	*58.6%*	*59.2%*	*59.3%*	*58.7%*
GAAP operating expenses	$ 674	$ 614	$ 544	$ 1,884	$ 1,559
Stock-based compensation expense (A)	(101)	(77)	(62)	(251)	(166)
Legal settlement costs	—	—	—	—	(6)
Acquisition-related costs (B)	(3)	(4)	(4)	(11)	(12)
Contributions	—	—	—	(2)	(4)
Restructuring and other charges	—	—	—	—	(3)
Non-GAAP operating expenses	$ 570	$ 533	$ 478	$ 1,620	$ 1,368
GAAP income from operations	$ 895	$ 688	$ 639	$ 2,137	$ 1,201
Total impact of non-GAAP adjustments to income from operations	110	85	69	278	211
Non-GAAP income from operations	$ 1,005	$ 773	$ 708	$ 2,415	$ 1,412
GAAP other income (expense)	$ 1	$ (4)	$ (18)	$ (20)	$ (21)
Gains from non-affiliated investments	—	—	—	—	(3)
Interest expense related to amortization of debt discount	—	1	6	3	20
Loss on early debt conversions	1	3	15	19	15
Non-GAAP other income (expense)	$ 2	$ —	$ 3	$ 2	$ 11
GAAP net income	$ 838	$ 583	$ 542	$ 1,928	$ 1,012
Total pre-tax impact of non-GAAP adjustments	111	89	90	300	243
Income tax impact of non-GAAP adjustments (C)	(116)	(34)	(62)	(224)	(108)
Non-GAAP net income	$ 833	$ 638	$ 570	$ 2,004	$ 1,147

	Three Months Ended			Nine Months Ended	
	October 29, 2017	July 30, 2017	October 30, 2016	October 29, 2017	October 30, 2016
Diluted net income per share					
GAAP	$ 1.33	$ 0.92	$ 0.83	$ 3.05	$ 1.59
Non-GAAP	$ 1.33	$ 1.01	$ 0.94	$ 3.20	$ 1.93
Weighted average shares used in diluted net income per share computation					
GAAP	628	633	653	633	636
Anti-dilution impact from note hedge (D)	(2)	(4)	(45)	(7)	(42)
Non-GAAP	626	629	608	626	594
GAAP net cash provided by operating activities	$ 1,157	$ 705	$ 432	$ 2,144	$ 951
Purchase of property and equipment and intangible assets	(69)	(55)	(38)	(178)	(125)
Free cash flow	$ 1,088	$ 650	$ 394	$ 1,966	$ 826

(A) Excludes stock-based compensation as follows:

	Three Months Ended			Nine Months Ended	
	October 29, 2017	July 30, 2017	October 30, 2016	October 29, 2017	October 30, 2016
Cost of revenue	$ 6	$ 4	$ 3	$ 14	$ 11
Research and development	$ 61	$ 44	$ 35	$ 146	$ 95
Sales, general and administrative	$ 40	$ 33	$ 27	$ 105	$ 71

(B) Consists of amortization of acquisition-related intangible assets and compensation charges.

(C) Income tax impact of non-GAAP adjustments, including the recognition of excess tax benefits or deficiencies related to stock-based compensation under GAAP accounting standard (ASU 2016-09).

(D) Represents the number of shares that would be delivered upon conversion of the currently outstanding 1.00% Convertible Senior Notes Due 2018. Under GAAP, shares delivered in hedge transactions are not considered offsetting shares in the fully diluted share calculation until actually delivered.

NVIDIA CORPORATION
RECONCILIATION OF GAAP TO NON-GAAP OUTLOOK

	Q4 FY2018 Outlook
GAAP gross margin	59.7%
Impact of stock-based compensation expense	0.3%
Non-GAAP gross margin	60.0%

	Q4 FY2018 Outlook	
	(In millions)	
GAAP operating expenses	$	722
Stock-based compensation expense, acquisition-related costs, and other costs		(122)
Non-GAAP operating expenses	$	600