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Nvidia's Earnings Report: It's All Relative

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Nvidia's Earnings Report: It's All Relative

Nvidia's earnings report underwhelmed Wall Street's expectations for another spectacular quarter, while its profit margin outlook caught investors by surprise.

The DeepSeek phenomenon made investor question whether the industry really needs so many high-end chips. Nvidia is manufacturing the Ferrari's of the chip industry. But does everyone need a Ferrari, or would a Toyota be just fine?

"Good, not great", "underwhelming", "subdued". These were some of the ways in which the financial media described Nvidia's fourth quarter earnings report this past Wednesday. To be honest, Nvidia's earnings report and outlook were not bad. In fact, for most other companies, the numbers reported would have been considered great. But not for Nvidia. Investors got used to blow-out reports, where the company beat expectations and raised its guidance in spectacular fashion. Although the company did

beat expectations and raised guidance this quarter as well, it was not as much as in past quarters. Much like when a student that only gets "A's" might get a warning from strict parents when he or she gets a "B," Nvidia got a warning last week. The market is an unforgiving parent.

In his book Predictably Irrational, Dan Ariely, Behavioral Economics professor at Duke University and MIT, states "Everything is relative, and that's the point. Like an airplane pilot landing in the dark, we want runway lights on either side of us, guiding us to the place where we can touch down our wheels." That is what the Street wanted to see from Nvidia, big bright runway lights guiding in the quarter. Why? Because that is what Wall Street has grown accustomed to over the past two years. This time Nvidia failed to deliver, and it was met with a harder landing than usual, closing 8.5% lower on the day after it reported earnings.

To provide some context, this is a stock that, on average, has risen close to 7% after each of its quarterly earnings reports over the past 2 years. In fact,

the stock rose over 16% after it reported earnings around this time just last February.

To get a better understanding of what exactly happened this quarter, let us delve into the company's earnings report in greater detail. Nvidia reported sales of \$39.3 billion for the quarter, compared with Wall Street's expectations of \$38.25 billion. At the same time, it expects sales of \$43 billion for next quarter, compared with Wall Street's expectations of \$42.3 billion. These figures represent healthy revenue growth; however, expectations for next quarter were too high, with some on the Street expecting close to \$50 billion in sales. At the same time, the company reported adjusted earnings per share of \$0.89, close to 5% higher than what the Street expected. However, considering that the company tends to exceed expectations by 10% or higher, a 5% beat underwhelmed investors.

Profit margin forecasts for the next quarter were also a cause of concern for Wall Street, as the anticipated margin of 71% missed expectations by 1%. If we think about it, 71% profit margins would be astounding for most companies. In fact, the Wall Street Journal reported that the thirty companies in the Philadelphia Semiconductors Index posted an average profit margin of 51% over the last year. However, with profit margins close to 79% over the same period, Nvidia was held to a different standard. Once again, it's all relative.

After Deepseek's revelation that large language models may not need the most expensive chips in the market to run effectively, a large amount of emphasis had been placed on the outlook for the company's high-end Blackwell chips. Posting \$11 billion in sales in the fourth quarter alone, CEO Jensen Huang stated that "demand for Blackwell is amazing" describing its sales for the quarter as "the fastest product ramp" in the company's history. Blackwell chips provide the enhanced computing power

needed by increasingly more sophisticated data centers. In fact, data center sales for the quarter totaled close to \$36 billion, beating Wall Street's estimates of \$35 billion. Data center sales represent the vast majority of the company's revenues, and Blackwell chip sales are over 30% of that revenue stream. Some on the Street believe that the large ramp up in Blackwell chip sales came at a cost, as the company may have been selling its high-end chips to its large hyperscaler customers at a discount, sacrificing profit margins. If this did occur, it brings back into focus the doubt engendered by the DeepSeek phenomenon: Does the industry really need so many high-end chips? **Nvidia is manufacturing the Ferrari's of the chip industry, the best of the best. But does everyone need a Ferrari, or would a Toyota be just fine? It's all relative.**

In a piece titled [Sequels are Rarely as Good as the Original Movie](#) published late last year, we argued that although Nvidia is likely to remain one of the undisputed leaders in the Artificial Intelligence revolution, it may be losing some of its shine, giving way to companies that can produce chips that are "good enough", at a lower price.

Companies like Broadcom, AMD, or Intel, producing the "Toyotas" of the industry. Nvidia's profit margins will likely rebound in the back-half of this year, or even 2026. However, they may not do so to the same exorbitant levels seen a year ago.

Something that was curious was that the same day that Nvidia, a hardware company, was down close to 9% after it reported earnings, Snowflake, one of our favorite software companies, rose close to 5% after its own earnings report, despite a weak technology backdrop that saw the Nasdaq 100 drop close to 3% for the day. We continue to believe that the change in leadership from hardware to software is a dynamic that is here to stay. That is not to say that investors should eliminate all their holdings in hardware, but

rather, reduce relatively overweight positions in hardware and increase their positions in software. The big bright runway lights referenced by Mr. Ariely and once provided by the Nvidia's of the world, may be dimming, and although they are unlikely to turn off, new bright lights are appearing elsewhere. ■



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