SEMICONDUCTOR SERIES · 1 OF 6

Nvidia

worth $5.7 trillion, more than TSMC + Broadcom + AMD + ASML together

Revenue doubled again and the next quarter is guided above $100 billion, yet the shares have risen far less than the chip sector this year. The market is asking how long this can last, not whether demand is real.

Global Markets Research · Semiconductors Desk Prepared by ANDRA MARKETS

growth still huge, stock lagging the sector

Coverage summary. Nvidia reported results for its second fiscal quarter, to 26 July, on 26 August. Revenue rose 106 per cent to $96.2 billion and the data centre business, which sells AI chips and systems, reached $89.0 billion. The company guided third-quarter revenue to $108 billion, about 4 per cent above what analysts expected, and said its supply allows revenue growth of about 70 per cent next fiscal year. The shares rose 8.7 per cent the day after the results and reached a record in early October, helped by a new $150 billion share buyback, but at $237.47 they are up only about 27 per cent this year, against 84 per cent for the Philadelphia Semiconductor Index. This note opens our six-part series on the chip sector.

Share price, 7 Oct	Q2 FY27 revenue	Q3 FY27 guidance	P/E, forward
$237.47	**$96.2bn**	**$108bn**	**19.6x**
market value $5.73tn	*+106% year on year*	*about 4% above consensus*	*30.0x trailing*

Exhibit A. Key figures, second quarter of fiscal 2027 (to 26 July 2026)

Metric	Q2 FY27	Note
Revenue ($bn)	96.2	+106% y/y; +18% q/q
Data Center ($bn)	89.0	+117% y/y
Edge Computing ($bn)	7.2	+27%; now includes gaming
Gross margin	75.0%	guided 74.0% in Q3
Operating income, GAAP ($bn)	63.7	
Net income, GAAP ($bn)	59.7	incl. $7.8bn equity gains
EPS, non-GAAP ($)	2.22	now including stock pay
Free cash flow ($bn)	21.3	
Capital returned ($bn)	26.0	buybacks $19.7bn

gross margin 75%! a software-like margin

GAAP profit flattered by investment gains

Company results as reported on 26 August 2026. Non-GAAP figures now include stock-based compensation; prior periods restated. Colour convention (charts only): green marks growth, red marks decline or risk. Handwritten notes and highlights are Andra Markets commentary.

1.0 Executive Summary

Key takeaways

Demand is not the constraint. Management described its outlook as limited by supply rather than demand. Chief financial officer Colette Kress said supply will remain a bottleneck “at least through the end of fiscal year 2028”, and chief executive Jensen Huang said the 70 per cent growth outlook for next year reflects what supply allows; “the unconstrained would be a lot higher.”

supply, not demand, sets the limit

memory costs = margin squeeze

Margins are past their peak. The gross margin of 75 per cent is guided to fall to 74 per cent this quarter and to a low of 71 to 72 per cent in the fourth, mainly because memory chips have become much more expensive, before settling at 72 to 73 per cent next year. It remains one of the highest margins of any hardware company in the world.

The valuation has come down to earth. At about 20 times forward earnings, Nvidia trades below most of the large chip companies covered in this series, because analysts expect earnings per share to rise by around 70 per cent next year. The debate has shifted from growth to durability: how long can AI spending keep rising, and how much of the market will Nvidia keep as customers develop their own chips.

cheaper than AMD, AVGO, ASML on fwd P/E

2.0 Business Overview

The AI factory supplier

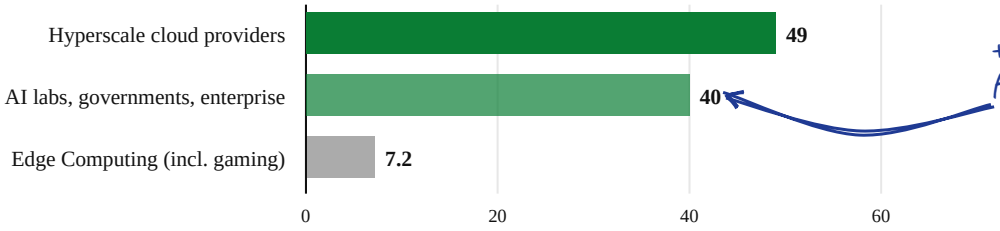
Nvidia designs graphics processors (GPUs) and the systems built around them, but does not manufacture them; production is outsourced mainly to TSMC. Its data centre business sells complete AI systems, from single chips to full racks of 72 GPUs connected by its own networking technology, together with the CUDA software platform that most AI developers use. From this quarter the company reports two segments: Data Center, now 93 per cent of revenue, and Edge Computing, which includes gaming chips, cars and robotics.

not just chips: full systems + networking + software

two types of client

Within data centres, sales are split between the large cloud providers (hyperscalers), which brought in $49 billion in the quarter, and a second group of AI labs, governments, enterprises and specialised clouds, which brought in $40 billion and grew faster, at 138 per cent. The second group is the key to diversification: today three direct customers account for 44 per cent of revenue.

Exhibit 1. Revenue by customer group and segment, Q2 FY27 ($bn)



+138% y/y, fastest growing

Source: Nvidia Q2 FY27 earnings call (26 August 2026); Data Center split as stated by management, rounded.

3.0 Second-Quarter Results

Another beat

Revenue of $96.2 billion beat expectations of about $92.2 billion, and non-GAAP earnings per share of $2.22 compared with forecasts of about $2.10. Data centre networking grew 18 per cent on the quarter, and the Spectrum-X Ethernet business grew 2.6 times in a year. Operating income was $63.7 billion and free cash flow $21.3 billion. GAAP net income of $59.7 billion included $7.8 billion of gains on equity stakes in other companies, which do not reflect the operating business.

beat consensus by ~4%

4.0 Product Cycle and Supply

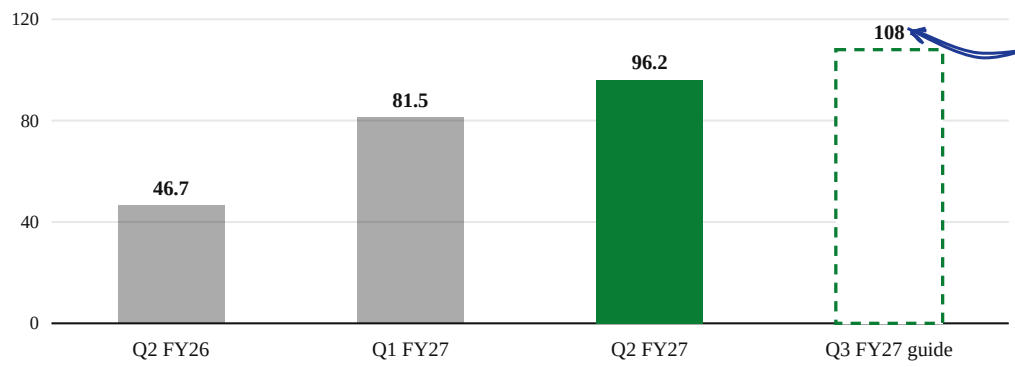
Rubin takes over

Rubin: ~20% of DC sales already in Q3

The next generation of chips, Vera Rubin, began shipping in August, and management expects it to be the fastest product ramp in the company's history, accounting for about 20 per cent of data centre revenue in the third quarter. To secure components, Nvidia has raised its supply commitments from about $119 billion to $279 billion, mostly for memory, and signed a multiyear memory partnership with SK hynix. Customer commitments are equally large: Amazon Web Services will deploy two million more Nvidia GPUs, and OpenAI's existing and planned commitments total about 12 gigawatts of Nvidia computing.

$279bn of supply commitments!

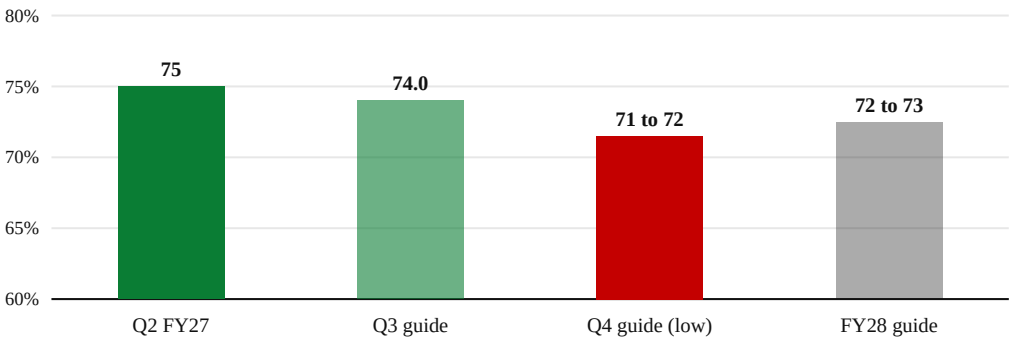
Exhibit 2. Quarterly revenue ($bn)



Source: Nvidia. Q2 FY26 and Q1 FY27 derived by Andra Markets from reported growth rates; Q3 FY27 is the midpoint of guidance (dashed).

China is no longer part of the story. Sales of the H20 chip designed for China were below 1 per cent of data centre revenue, guidance assumes no Chinese data centre revenue, and Huang said in May that Nvidia's share of China's AI accelerator market had fallen to zero after Beijing blocked purchases.

Exhibit 3. Gross margin, actual and guided (%)



Source: Nvidia Q2 FY27 results and earnings call. Ranges shown at their midpoint. Axis starts at 60 per cent.

5.0 Capital Allocation

Returning the cash

Nvidia returned $26 billion to shareholders in the quarter, including $19.7 billion of share buybacks, and on 28 September added $150 billion to its buyback authorisation, leaving $235 billion available, about 4 per cent of its market value on our calculation. It is also building a financing platform with Apollo, BlackRock, Blackstone, Brookfield, Goldman Sachs and KKR that aims to mobilise more than $500 billion of outside capital to fund data centres using its chips. Huang described this as "the first time that technology chips are an investable asset class".

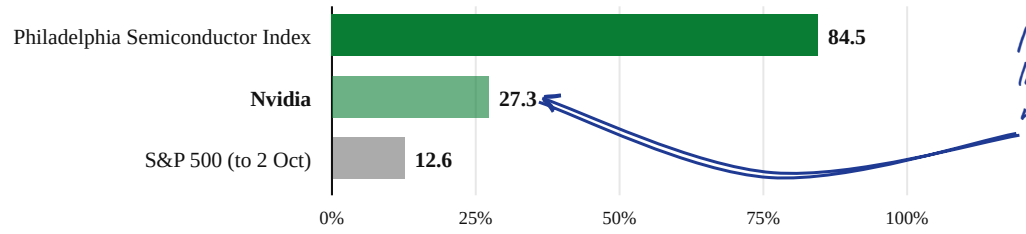
6.0 Valuation

Cheaper than it looks

At $237.47 Nvidia is worth $5.73 trillion, one of the most valuable listed companies in the world. It trades at 30 times trailing earnings but about 19.6 times forward earnings on StockAnalysis's measure, and analysts expect earnings per share to rise from about $9.31 this fiscal year to $15.91 next year. Of 61 analysts, 58 rate the shares a buy, with an average target of $328.72, about 38 per cent above the current price. The shares reached a record close of $239.24 on 6 October, after Morgan Stanley named Nvidia its top chip pick and the buyback was enlarged, but have lagged the sector this year as investors rotated into memory and

equipment makers.

Exhibit 4. Share price performance in 2026 to date (%)



Source: Andra Markets calculation from Yahoo Finance index closes (SOX to 7 October); StockAnalysis and Digrin (Nvidia, 2025 close to 7 October); Tapeboard (S&P 500, to 2 October).

7.0 Risk Considerations

Where the case could break

The main risk is concentration: three customers account for 44 per cent of revenue, and they are also developing alternatives. Google's TPU, Amazon's Trainium and Meta's chips, many designed with Broadcom, compete directly, and AMD has commitments for its MI450 chips from OpenAI, Meta and Anthropic. A second risk is financing: much AI investment is now funded by debt and by deals in which suppliers invest in their customers, and the cost of insuring Nvidia's debt against default reached a record in late July. If AI spending slows, the supply commitments that protect Nvidia today would become a burden. Higher memory costs, power shortages for data centres and export rules are further risks.

8.0 Outlook and Monitoring Points

What to watch

The next results are expected around 18 November. The key indicators are whether revenue reaches the $108 billion guidance, the speed of the Rubin ramp, the gross margin trend as memory costs rise, and the share of revenue from customers outside the large cloud providers. Results from TSMC on 15 October and AMD on 3 November will offer early evidence on AI demand. Nvidia remains the core of the AI build-out; the question for investors is no longer whether it grows, but for how long.

Methodology and Source Notes

Method. This note reviews Nvidia's second fiscal quarter of 2027, reported on 26 August 2026, the earnings call, subsequent announcements and market data at the close of 7 October 2026. Quarterly revenue for earlier periods in Exhibit 2, the buyback share of market value and the year-to-date comparison are Andra Markets calculations. Customer group figures are as stated by management. Handwritten notes and highlights are informal commentary by the desk. This note is analysis, not investment advice.

Principal sources. Nvidia, Q2 FY27 results (Form 8-K and 10-Q, 26 August 2026) and buyback announcement (28 September 2026); earnings call transcript (Singju Post); XTB and Jamaica Gleaner, on consensus (August 2026); Investing.com, on the record high (2 October 2026); The Next Web, on the financing platform (August 2026); AI Weekly, on China (May 2026); StockAnalysis, for market data.

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