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Why Markets Were Cold To Nvidia’s Solid FY25 Results

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While American chipmaker Nvidia’s (NASDAQ: NVDA) earnings release for Fiscal Year 2025 (FY 2025), that ended on the last day of January 2025, was positive as expected, the market’s reaction was rather cool. On the day of the earnings release – the 25th of February – the stock had dipped 2.8% from the previous day’s close. On the 26th, however, it rose 3.7% - essentially marking a mere 1% premium. On the 27th, it fell 8.5%.

Line item trends, while extremely encouraging at first blush, are heavy with nuance that seemingly explains why the majority of major market participants are “politely positive” as opposed to “uproariously bullish” on the stock’s forward outlook.

Trend Analysis

In overall terms, revenue trends are positive but expenses do drag down pass-through efficiency into net income:

	FY 2025 vs 2024	FY 2024 vs 2023	FY 2023 vs 2022	FY 2022 vs 2021	FY 2021 vs 2020	FY 2020 vs 2019
		Year-on-Year (YoY) Growth				
Revenue	114%	126%	0%	61%	53%	-7%
Cost of Revenue	96%	43%	23%	50%	51%	-9%
Gross Profit	121%	188%	-12%	68%	54%	-6%
Operating Expenses	45%	2%	50%	27%	50%	16%
Research & Development	49%	18%	39%	34%	39%	19%
Stock-Based Compensation	33%	31%	35%	43%	66%	52%
Net Income Per Share	146%	586%	-55%	123%	53%	-83%

Source: Company Financials; Themes ETFs analysis, as of February 28, 2025

While the company maintains the triple-digit growth trend seen in the previous FY, growth in cost of revenue has nearly doubled over the past year's, thus somewhat affecting gross profit. Operating expenses, led by Research & Development (R&D) expenses have also witnessed a massive explosion in growth.

On the positive, though, Stock-Based Compensation (SBC) remains within the growth trends seen over the past two FYs. With the stock remaining firmly high in conviction relative to the rest of the market and given that vested employees are well within their right to avail this compensation, it could be argued that this is money well-spent given the demand that the company's output enjoys.

It's very unlikely that the company will see the massive 586% growth in Net Income Per Share it posted in FY 2024 for some time but the recently concluded FY's trend in growth (after restating to nullify the 10:1 stock split made earlier in FY 2025) is quite similar to that in FY 2022 when the company's client mix started to shift towards the corporate segment via data centers. The company's success in corporate outreach is writ large even in FY 2025's press release accompanying1 the earnings: it announced becoming a key technology partner for the $500 billion Stargate Project brought to bear by the Trump administration, the likes of Cisco and Amazon Web Services (AWS) continue to integrate their industry-leading products into their offerings. The company also released an interesting statistic: more than 75% of the systems on the Top 500 list of the world's most powerful supercomputers are powered by the company's products.

Founder and CEO Jensen Huang also stated that demand for the high-value Blackwell AI supercomputer systems have achieved billions of dollars in sales in its very first quarter (i.e. Q4 of FY 2025) and that the company's ramping up production of the same. This quite handily explains the massive growth in inventory for a company that enjoyed fairly low inventory level growth over the two FYs prior to FY 2025.

	FY 2025	FY 2024	FY 2023	FY 2022	FY 2021	FY 2020
	Share of Total Inventory					
Raw Materials	34%	34%	33%	47%	30%	35%
Work In-Process	34%	28%	28%	9%	27%	25%
Finished Goods	32%	38%	39%	44%	43%	40%
Period-over-Period Growth in Total Inventory	91%	11%	2%	98%	43%	87%

Source: Company Financials; Themes ETFs analysis, as of February 28, 2025

Overall mix of raw materials, Work In-Process and Finished Goods remain roughly similar to that of the prior two FYs; the relative growth in inventory might be a springboard for strong sales in the next couple of quarters.

The transition to Blackwell leading sales figures is the first of a number of concerns around the company's forward outlook.

Looming Concerns

CFO Collette Kress stated during the earnings call that the company expects gross margin for the current ongoing quarter to dip to 71% from 73.5%[2] as it ramps up Blackwell sales. This is largely due to the fact new products tend to start off at lower margins and ramp up over time, as adoption trends improve and demand increases. This comes in the wake of the magnitude of the company's revenue beats progressively lowering since FY 2024 proves to be a rather high bar to beat, leading to some muted reaction from analysts.

The second concern comes from the company's evolving client mix: once a popular venue for graphics cards for gamers, the company now relies almost completely on the sale of computing hardware:

	FY 2025	FY 2024	FY 2023	FY 2022	FY 2021	FY 2020
Revenue Share by Reportable Segment						
Compute & Networking	89%	78%	56%	41%	41%	30%
Graphics	11%	22%	44%	59%	59%	70%
Period-over-Period Growth in Total Revenue	114%	126%	0%	61%	53%	-7%
Operating Income Share by Reportable Segment						
Compute & Networking	94%	85%	53%	35%	36%	19%
Graphics	6%	15%	47%	65%	64%	81%
Period-over-Period Growth in Consolidated Operating Income	147%	681%	-58%	122%	59%	-25%

Source: Company Financials; Themes ETFs analysis, as of February 28, 2025

Two years ago, i.e. around FY 2023, was when the company's client mix shifted from the individual – be they gamer, crypto miner or PC user – to the corporate data center. The latter tends to be a recurrent deep-pocketed buyer with highly specific requirements while the former delivered it substantial renown among the larger public. Switching over to the "corporate" certainly did it a world of good, as evidenced by the massive burst in revenue and shifting trends in operating income.

However, as the client mix became more predictable, the froth in forward outlook began to subside. When the company began tearing through its newfound client roster two years ago, the share traded at 80 times the company's forward earnings. Now, with the client mix largely settled, the share trades at about 29 times while rival Advanced Micro Devices (AMD) trades at about 22 times its forward earnings.

The loss of diversification of revenue is a matter of concern to potentially a number of major market players: the company's gaming division reported that Q4 revenues was down 22% from Q3 of FY 2025 and down 11% from a year ago. Now, the company did announce that the RTX 50-series graphics cards, powered by Blackwell architecture, commenced sales in Q4 with the promise of "delivering breakthroughs in AI-driven rendering to gamers, creators and developers”. However, the company acknowledged reports of frequent and recurrent crashes3 and instability plaguing the usage of these cards by the likes of gamers, et al, who have been filing up Nvidia forums all over the internet with complaints and reports. A driver fix (i.e. a software fix) provided little by way of reported amelioration - driving up the criticisms even further: one prominent publication – Gizmodo – simply summarized by opining that there are “too many damn problems”[4] with the $2,000-dollar graphics cards.

Given that the company has been hard at work without meeting expectations, the ball is now on the data centers’ court to determine independently if the higher cost of the Blackwell-enabled products results in better performance over the long run or more outages/slowdowns. If there are no significant improvements, the cost matrix might not be justifiable enough to switch over from non-Blackwell products just yet.

The final concern is less to do with technical issues and more to do with geopolitics. In its reporting of geographic regions driving revenue, a new entry was quietly introduced in the FY 2025 report: Singapore.

	FY 2025	FY 2024	FY 2023	FY 2022	FY 2021	FY 2020
	Geographical Share of Revenue					
United States	47%	44%	31%	16%	19%	8%
China (+ Hong Kong)	13%	17%	21%	26%	23%	25%
Taiwan	16%	22%	26%	32%	27%	28%
Other Countries	6%	6%	13%	26%	30%	39%
Singapore*	18%	11%	8%			

** Introduced in FY 2025 Report; used to be in "Other Countries"*

Source: Company Financials; Themes ETFs analysis, as of February 28, 2025

While nearly every other region outside of the U.S. dipped as data centers spent more and more on build-outs centered on Nvidia products, Singapore is now reported to have emerged from within the blanket entry “Other Countries” as a progressively rising consumer of Nvidia’s products. The company explains this phenomenon thus:

“Customers use Singapore to centralize invoicing while our products are almost always shipped elsewhere. Shipments to Singapore were less than 2% of fiscal year 2025 total revenue.”

This stands as an example of “couched messaging”: the company essentially seems to be stating that it is unable to determine where the end buyers are located. The timeline of avowedly global business-friendly Singapore’s rise in revenue relevance falls squarely during a period where a number of nations were proscribed from receiving U.S. high-tech products, which includes the People’s Republic of China, the Russian Federation, the Democratic People’s Republic of Korea and the Islamic Republic of Iran.

If China alone were to be the recipient of technology sold in Singapore in FY 2025 that wasn’t utilized in Singapore’s own data center and retail demand, then China’s share of revenue of 29% makes it the second-best source of Nvidia's revenue. On the 21st of February, the White House unveiled the "America First Investment Policy"[5], wherein it highlighted the need to contain the risk of certain adversaries from obtaining "cutting-edge technologies, intellectual property, and leverage in strategic industries" while demanding a definitive time-bound mitigation protocol over "perpetual and expensive compliance obligations".

Nvidia's work in producing China-specific products could very well count as a "compliance obligation" that doesn't necessarily meet the end goal of restricting specific countries' access to high-tech American products. While the prior administration might have been content with enforcing compliance obligations, a specific protocol-driven response might be demanded from the likes of Nvidia over the question of exports.

In Conclusion

At a moment when retail investors are increasingly bearish6 on the market's forward outlook, the company has two glaring issues facing it. First, if the Blackwell architecture doesn't prove to be substantively better in terms of performance in data centers (as it proved not to be among gamers), then data centers will redouble on prior-generation products rather than switch to Blackwell, thereby spending less on Nvidia products. Second, as the U.S. government ratchets up the pressure on restricting sales to proscribed nations both directly and indirectly, the company faces a squeeze on overall sales.

The first issue is very much in a state of play; the second is more likely a looming inevitability, given how swiftly the current administration has moved on key issues. The stock might expect periods of volatility but a period of flatling or modest gains when compared to its recent history might not be out of question.

In this scenario, the 2x Long NVDA Daily ETF (NVDG) provides magnified exposure to the upside of Nvidia's stock trajectory. However, it bears noting that both losses and gains in the stock's trajectory are magnified, thereby making this instrument more suitable for tactical trading strategies. For a more diversified exposure to the Generative AI space as opposed to a singular focus, the **Themes Generative AI ETF (WISE)** – which counts Nvidia as one of its constituents – is an alternative to consider.

Footnotes:

[1]"NVIDIA Announces Financial Results for Fourth Quarter and Fiscal 2025", Nvidia Newsroom, as of February 26, 2025

[2]"Nvidia's optimistic forecast fails to convince Wall Street", Reuters, as of February 27, 2025

[3]"Nvidia confirms it is investigating RTX 50-series BSOD and black screen troubles, no timeline for a fix", Tom's Hardware, as of February 22, 2025

[4]"There Are Too Many Damn Problems With Nvidia's $2,000 RTX 5090", Gizmodo, as of February 24, 2025

[5]"America First Investment Policy", U.S. White House, as of February 21, 2025

[6]"AAII Sentiment Survey: Pessimism Launches", American Association of Individual Investors, as of February 27, 2025

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