Names in the News: MSI & NVDA

Motorola Solutions, Inc. (MSI) & NVIDIA Corporation (NVDA)

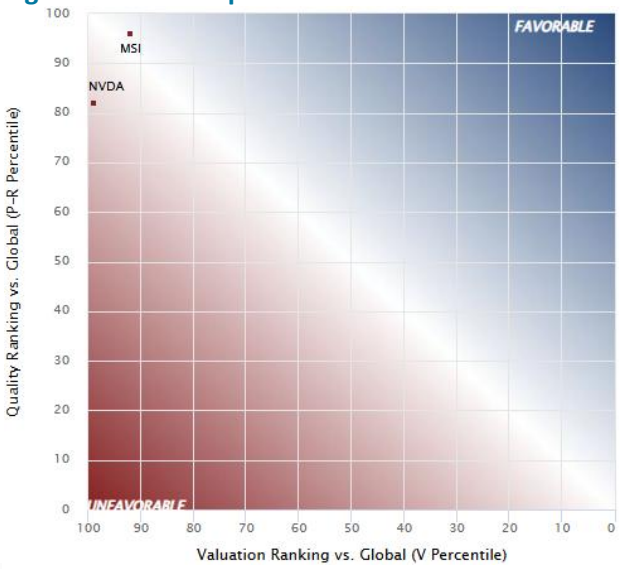
We cover two large cap U.S. Tech names this week, **MSI** and **NVDA**. **MSI** is an 'Expensive but Worth It' stock that moved higher earlier this week as the company announced VISTA Hybrid, a new AI-integrated SaaS solution designed to modernize 911 call handling across the United States. **NVDA** has seen an 8+% jump in its stock price through the first 3 trading days of this week, becoming the world's most valuable company again, reflecting the U.S. stock market's return to the "AI trade" on renewed optimism on the outlook for sustained growth in AI adoption. **Motorola Solutions, Inc.** (**MSI**, rated '**Overweight**') is becoming an EVA wealth compounder with a consistent expansion in economic profitability since EVA Margin turned positive in 2016. The firm has seen a sustained period of strong incremental value creation since 2014, driven by periods of strong top-line growth, expanding EBITDAR Margin, and a continued improvement in asset efficiency. Future Growth Reliance (FGR) is currently trading around 63%, somewhat lower than the highs of 69% seen in December last year, but near the upper end of the 8-year range. We like the firm, having demonstrated very strong and consistent EVA growth through the last several years, but remain cognizant of elevated expectations for continued incremental value creation going forward.

Next, we look at **NVIDIA Corporation** (**NVDA**, rated '**Hold**'). EVA Margin is at historically high levels of 45.3% but has seen a 350bps reduction from the previous quarter, impacted by a contraction in EBITDAR Margin. EVA Momentum (growth) has decelerated through the last four quarters as the pace of incremental value creation has slowed but remains at a strong level of 38%, led by a resilient top-line growth backdrop, comparatively strong EBITDAR Margin, and improving asset efficiency. Almost 4/5th of the current market value is currently dependent on future EVA growth, with an FGR of 79%. After the pull-back in growth, investors have once again turned more bullish for value creation.

Figure 1: EVA Summary

Name	Ticker	Country	Mkt Cap ($mm)	EVA Margin (%)	EVA Momentum (%)	PRVit Score	Quality (P-R)	Valuation Score (V)	Return YTD (%)	ESG Perf Score
MOTOROLA SOLUTIONS INC	MSI	U.S.	70,206	12.7%	3.2%	73	96	92	-9.0%	54.27
NVIDIA CORP	NVDA	U.S.	3,608,760	45.3%	38.0%	58	82	99	10.2%	54.15

Figure 2: HEAT Map



PRVit and Sub-Factors

PRVit compares a company's operational Quality, based on EVA metrics, to the company's market-based Valuation. When Quality exceeds Valuation, the overall PRVit ranking will be higher.

Scoring
All factors scored from 0 to 100.
PRVit: 100 is most favorable.
Quality (P-R): 100 is highest Quality.
Profitability (P): 100 is most Profitable.
Risk (R): 0 is lowest Risk.
Valuation: 0 is cheapest.

Heat Map: The Heat Map shows the visual trade-off between Quality and Valuation: Companies in the favorable (blue) area offer higher quality and/or cheaper valuation than those in the unfavorable (red) area.

ISS ESG Performance: Page 4 includes the ISS ESG Performance ratings of both firms, coupled with their industry-specific rankings.

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Global Director of Fundamental Research

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About ISS EVA

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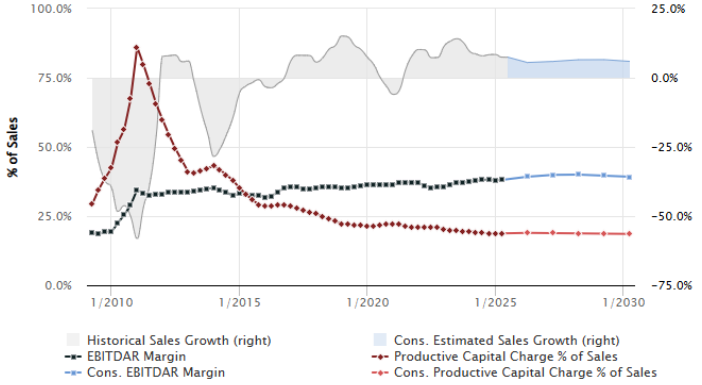
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Motorola Solutions, Inc. (MSI)

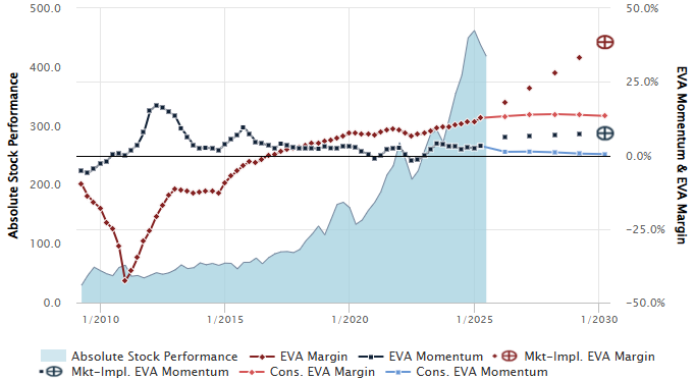
PRVit Recommendation: 'Overweight' – Expensive but Worth It

- Sales Growth (TFQ) remains strong at 7.5% as of the latest quarter, led by strong performance in the Software and Services segment.
- The firm has shown strong EBITDAR Margin resiliency, with the metric currently trending near record highs at 38.1%. Moderation in adjusted COGS has been offset by an increase in adjusted SG&A expenses, relative to Sales.
- The Productive Capital Charge (lower is more favorable) has contracted to historically low levels, trending at 18.8% of Sales as of the latest reported quarter.
- EVA Margin moved to a record high of 12.7% as of the quarter ending March on an expansion in EBITDAR Margin.
- EVA Momentum (growth) has continued to move higher in the latest print on strong top-line growth and a favorable EBITDAR Margin expansion. The firm has maintained strong incremental value creation since EVA Momentum turned positive in Q1 2023.
- Embedded expectations for growth (Future Value Added, FVA) have come down in the latest quarter but remain at very elevated levels at a time when Current Value Added (CVA) has continued to expand since mid-2022.
- Future Growth Reliance (FGR) is currently trading around 63%, somewhat lower than the highs of 69% seen in December last year, but near the upper end of the 8-year range. We like the firm, having demonstrated very strong and consistent EVA growth through the last several years, but remain cognizant of elevated expectations for continued incremental value creation going forward.

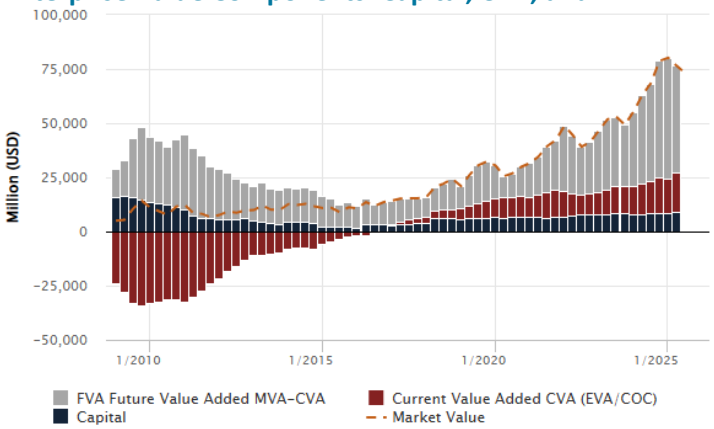
EVA Drivers: Sales, Margins, and Turns



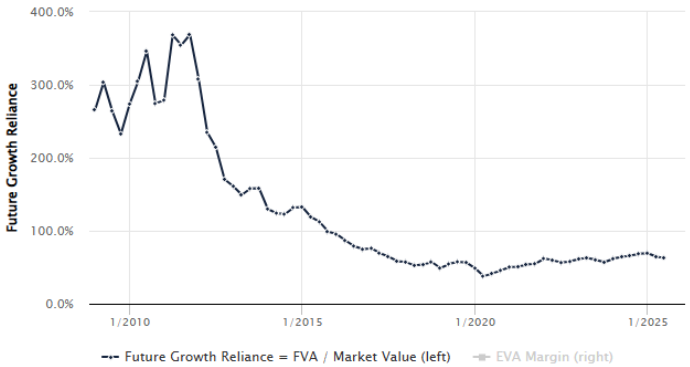
EVA Fundamentals: Profitability Level and Growth



Enterprise Value Components: Capital, CVA, and FVA



Future Growth Reliance (FGR): Market Expectations

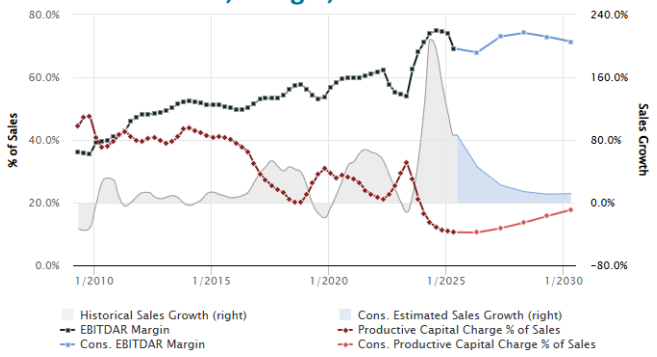


NVIDIA Corporation (NVDA)

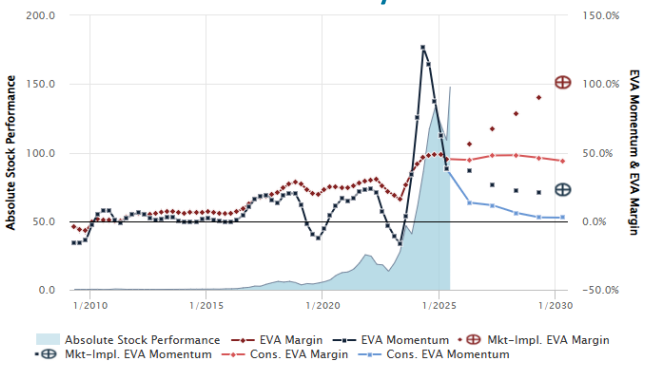
PRVit Recommendation: 'Hold' – Very Strong Quality Amidst Very High Valuations

- Sales Growth (TFQ) remains at a very strong level of 86.2% as of the quarter ending March, led by strong growth in Data Center and Gaming divisions.
- EBITDAR Margin is at relatively strong levels of 69.2% but has seen a 480bps contraction in the latest quarter on significantly higher adjusted COGS expenses.
- The Productive Capital Charge (lower is more favorable) has continued to trend lower, relative to sales, through the last 8 quarters amidst a very high top-line growth backdrop.
- EVA Margin is at historically high levels of 45.3% but has seen a 350bps contraction from the previous quarter. The contraction was led by the EBITDAR Margin rolling over due to higher input cost pressures.
- EVA Momentum (growth) has decelerated within the last four quarters as the pace of incremental value creation has slowed but remains at a strong level of 38%, led by a resilient top-line growth backdrop, strong EBITDAR Margin, and improving asset efficiency.
- Embedded expectations for growth have moved lower within the last two quarters but remain elevated at a time when Current Value Added (CVA) has continued to expand.
- Almost 4/5th of the current market value is currently dependent on future EVA growth, with FGR at 79%. Investors are pricing in strong expectations of continued incremental value creation at a time when EVA Momentum (growth) has already seen a period of, and continues to trend at, very high levels. NVDA has been a significant beneficiary of the AI data center development cycle, supported by strong EVA value creation through the last few years. However, we remain cognizant of very high expectations for sustained value creation going forward.

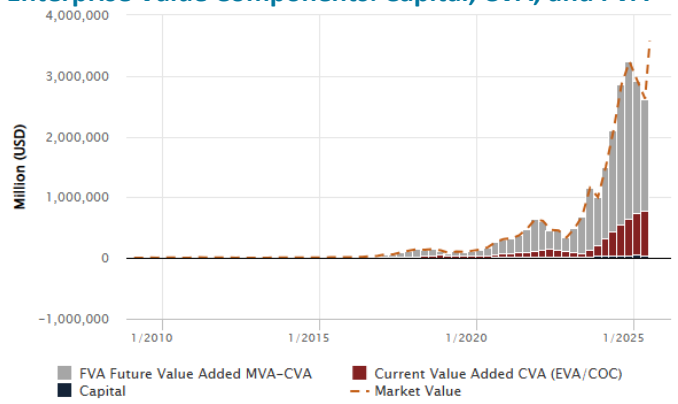
EVA Drivers: Sales, Margin, and Turns



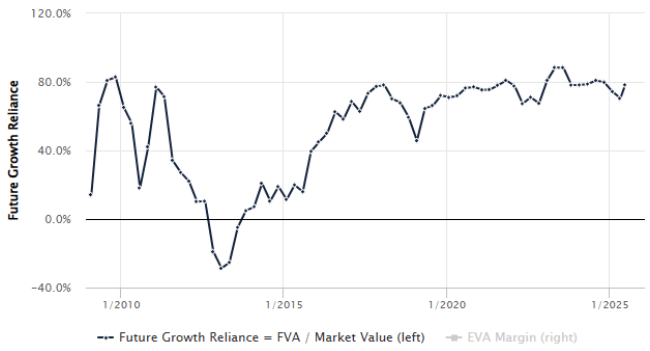
EVA Fundamentals: Profitability Level and Growth



Enterprise Value Components: Capital, CVA, and FVA



Future Growth Reliance (FGR): Market Expectations



ISS ESG Performance analysis of both names can be found below.

ISS ESG Performance for Motorola Solutions, Inc. (MSI)

ESG RATING

C+

PERFORMANCE SCORE

54.3

PRIME STATUS

Prime

PRIME THRESHOLD

C+

DISTRIBUTION OF RATINGS

200 companies in the industry



ISS ESG Performance for NVIDIA Corporation (NVDA)

ESG RATING

C+

PERFORMANCE SCORE

54.2

PRIME STATUS

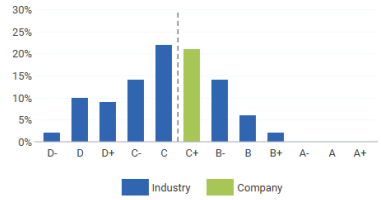
Prime

PRIME THRESHOLD

C+

DISTRIBUTION OF RATINGS

121 companies in the industry



ISS ESG Definitions

ESG Performance Score: This factor provides a numerical score from 0 to 100. Prime Status is based on the ESG rating and a sector-specific Prime threshold. The ESG Rating and Performance Scores, however, are comparable over all rated entities. All rated entities with values greater than or equal to 50 are Prime, companies with values less than 50 are not Prime.

ESG Rating Decile Rank: This factor indicates decile rank relative to industry group (companies) and covered entities (countries) based on assessment of Environmental (E), Social (S), and Governance (G) performance. A decile rank of 1 indicates a high relative performance, while a 10 indicates a lower relative ESG performance.

About ISS EVA

We are an independent equity research provider offering investing insights through the use of our proprietary Economic Value Added (EVA) framework.
EVA converts accounting profits into economic profits and charges businesses for the use of Invested Capital. EVA is superior to traditional measures of profit because it is comparable across companies, industries, and countries, links to a consistent, transparent valuation framework, and provides a unique, unbiased view of Quality, Value, and Growth.

Our experienced team of analysts offers both fundamental and quantitative company analysis through written research, bespoke research, a stock selection model, an online analytical tool offering +29,000 companies as viewed through the EVA framework, custom screening, and portfolio analysis.

Key EVA Concepts

The value of a firm = Capital + PV of EVA

If EVA is increasing then the intrinsic value of the firm is too, suggesting that market value should follow (and vice versa).

EVA = NOPAT - Capital Charge

EVA is profit after all costs, including the cost of giving shareholders a decent return.

EVA Margin = EVA / Sales

A true economic profit margin covering income and asset efficiency. Our EVA Income Statement examines EVA's line item drivers and offers key insights into business profitability.

EVA Momentum = Δ EVA / Sales

An incremental EVA growth rate indicator and key valuation signal and screening measure. The more positive the Momentum, the greater the growth in EVA, and upward pressure on shareholder returns. Inflections in EVA Momentum are an early and more reliable indicator of stock price inflections.

EVA Shock = Δ EVA Momentum

Changes in EVA Momentum is a powerful signal within our framework, with significant relationship with stock price performance.

Market Implied Momentum (MIM)

The annual EVA improvement required for 10 years to justify the prevailing market enterprise value, expressed as a percent of sales; represents a market implied, long-range EVA margin improvement target.

Future Growth Reliance (FGR) = (Market implied value of future EVA growth) / EV

Measures the % of a company's total enterprise value represented by expectations for future growth in EVA. FGR is key to understanding embedded expectations today and versus history. A low FGR versus history coupled with improving EVA trends indicates that the market is not pricing in the improving business model.

Additional Resources

evaExpress.com (link): Our online offering provides a comprehensive suite of fundamental and quantitative tools utilizing the EVA framework
EVA for Investors (link): A full introduction to the key EVA concepts and metrics

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