

Nutanix Inc. (NTNX)

\$20.49 (As of 04/30/20)

Price Target (6-12 Months): **\$22.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/11/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:F

Value: F

Growth: D

Momentum: D

Summary

Nutanix's second-quarter fiscal 2020 results gained traction from a steady expansion in the customer base. Moreover, adoption rate of the company's AHV hypervisor was strong as customers continued to opt for it as a low-cost alternative to other vendor offerings. Further, a healthy pipeline of big deals is a tailwind. Additionally, the company is expected to benefit from the growth prospects of the hyper converged infrastructure (HCI) market, owing to its portfolio strength, over the long term. However, lower hardware revenues are expected to drag down the top line in the near term. Moreover, the ongoing transition to a subscription-based business model is expected to hurt the top line, at least in the near term. Notably, shares of the company have underperformed the industry in the past year.

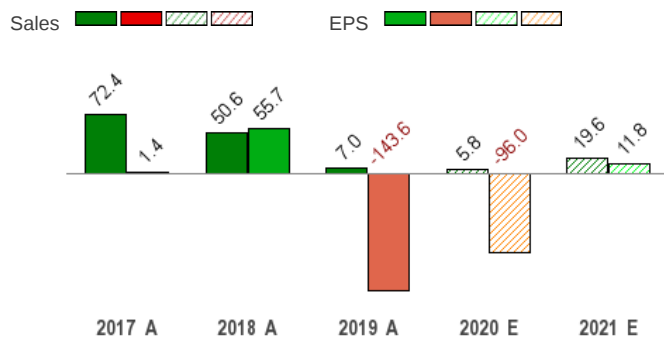
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$43.71 - \$11.31
20 Day Average Volume (sh)	3,085,923
Market Cap	\$4.0 B
YTD Price Change	-34.5%
Beta	1.96
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Computers - IT Services
Zacks Industry Rank	Top 30% (76 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	13.0%
Last Sales Surprise	1.4%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	06/04/2020
Earnings ESP	-1.2%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	371 E	409 E	397 E	444 E	1,564 E
2020	315 A	347 A	309 E	349 E	1,308 E
2019	313 A	335 A	288 A	300 A	1,236 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$0.70 E	-\$0.60 E	-\$0.71 E	-\$0.60 E	-\$2.61 E
2020	-\$0.71 A	-\$0.60 A	-\$0.88 E	-\$0.75 E	-\$2.96 E
2019	-\$0.13 A	-\$0.23 A	-\$0.56 A	-\$0.57 A	-\$1.51 A

*Quarterly figures may not add up to annual.

P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	3.2

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/30/2020. The reports text is as of 05/01/2020.

Overview

San Jose, CA-based Nutanix Inc. provides enterprise cloud operating system that combines server, storage, virtualization and networking software into one integrated solution.

In October 2016, Nutanix completed its initial public offering (IPO), garnering net proceeds of \$254.5 million.

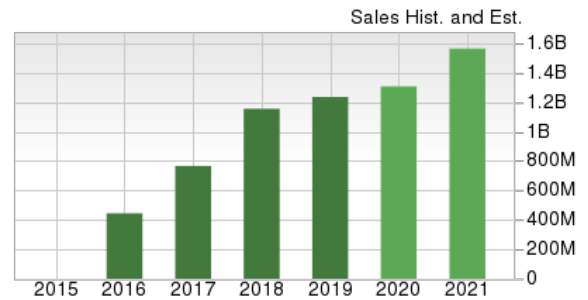
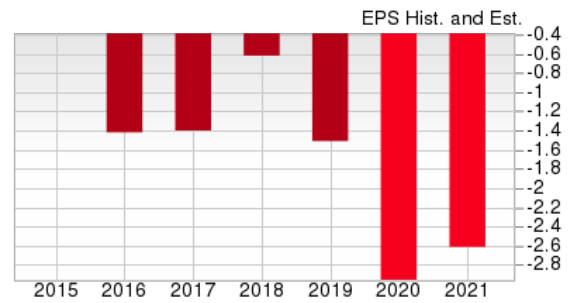
Nutanix's solution can be delivered either as an appliance that is configured to order or as software only. The company currently offers two software product families — Acropolis and Prism.

Acropolis includes Distributed Storage Fabric (DSF) that supports a wide variety of enterprise applications and has the capability to operate both virtualized and non-virtualized applications. The solution also includes Application Mobility Fabric (AMF), leading to increasing levels of application placement, conversion and migration across different hypervisors and public clouds. It also has a built-in Acropolis hypervisor (AHV), based on Linux KVM.

Prism helps in automating IT management. The solution enables efficient regulation of enterprise-wide deployments by serving as a central administration point to manage multiple clusters and hypervisors (including VMware ESXi environments) within a datacenter or across multiple sites. Prism is built with HTML5 and can be accessed from any connected device that is HTML5-enabled including smartphones and tablets.

Nutanix generated revenues of \$1.24 billion in fiscal 2019. Subscriptions, Non-Portable Software, Hardware and Professional Services accounted for 52.5%, 36.3%, 8.5% and 2.7% of revenues, respectively.

The company faces stiff competition from software providers, such as VMware; traditional IT systems vendors, namely Cisco Systems, Dell, Hewlett Packard Enterprise, Hitachi Data Systems, IBM and Lenovo; traditional storage array vendors like NetApp and providers of public cloud infrastructure and services, such as Amazon, Google and Microsoft.



Reasons To Buy:

- ▲ Nutanix is considered a pioneer of hyper converged infrastructure (HCI) market, which is projected to grow rapidly in the long term. Market research firm, Gartner, has placed Nutanix as a leader in its “Magic Quadrant for Hyperconverged Infrastructure.” Strong adoption of its products and high customer satisfaction rate are expanding the customer base (up 34% year over year in fiscal 2019). This along with recurring revenue stream is expected to drive the momentum in top-line growth.
- ▲ Nutanix's software-defined HCI solutions support multi-hypervisor and multi-cloud with unified management. Nutanix's solutions are primarily deployed in large and centralized data centers. The company's built-in hypervisor has been gaining significant traction as customers continue to select it as a low-cost alternative to other vendor offerings. Nutanix's cloud-based deployment strategy is a differentiator. The company's Xi Cloud Services is expected to challenge AWS, Microsoft Azure and Google Cloud in the IaaS market.
- ▲ Moreover, products like Nutanix Beam, Era, and Flow — are expected to help customers better manage their hybrid cloud environment. Flow will help customers to secure network traffic and monitor whether applications are running optimally. Era will help the company strengthen its enterprise PaaS offering by including database. Nutanix will initially support Oracle and post SQL databases with future support for MySQL and Microsoft SQL Server. Nutanix Beam or multi-cloud cost governance and security compliance application is the company's first SaaS offering. Management expects Beam to become the policy engine that will drive mobility of applications between on-premise and off-premise, in the long haul.
- ▲ The company's growing recurring revenue stream reflects customer loyalty to Nutanix's solution, which improves visibility of revenue growth trajectory. Moreover, expanding customer base will continue to drive top-line growth. Besides, its transition to software-only sales is expected to significantly boost gross margin.
- ▲ Nutanix's ongoing transition to a subscription-based business model is expected to expand its gross margin significantly in the long haul. Notably, gross margin improved from 68.1% in fiscal 2018 to 78.1% in fiscal 2019. The company expects subscriptions to contribute 75% to its bookings by the end of calendar 2021.
- ▲ Nutanix is a cash rich company. As of Jan 31, 2020, the company had cash and cash equivalents of nearly \$819 million, which is higher than its debt (long-term including current maturities) of approximately \$636 million. Since it has net cash available on its balance sheet, the existing cash can be used for pursuing strategic acquisitions and investment in growth initiatives.

Nutanix's dominance in HCI market, new cloud-based products, expanding customer base and improving gross margin due to transition to software-only sales are key catalysts.

Reasons To Sell:

- ▼ Nutanix faces significant competition in most of the markets it operates. In the hypervisor market it faces intense competition from VMware. Moreover, in the hyperconverged infrastructure market it faces competition from VMware, Cisco, Hewlett Packard Enterprise, Dell and others. While NetApp has already launched its first hyper converged solution, Hewlett Packard Enterprise and Cisco has acquired SimpliVity and Springpath to enter the hyper converged market. Moreover, these well-established companies enjoy significant pricing power that doesn't bode well for Nutanix.
- ▼ The company's Xi Cloud Service is expected to face intense competition in the public cloud infrastructure market, particularly from Amazon, which is the dominant player. Moreover, Microsoft and Google are also gaining ground in this fast-growing market.
- ▼ Nutanix continues to acquire a large number of companies. While this improves revenue opportunities, it significantly increases integration risks.
- ▼ Nutanix has reported losses since its inception. As of Jan 31, 2020, accumulated deficit was \$2.1 billion. Moreover, the company's increased level of investments is expected to hurt profitability, at least in the near term. In the first half of fiscal 2020, non-GAAP operating loss widened to \$248 million compared with a loss of \$65 million in the first half of fiscal 2019. This doesn't bode well for investors.

Intense competition, delay in the Xi Cloud Service and integration risks related to frequent acquisitions are key concerns.

Last Earnings Report

Nutanix's Q2 Earnings and Revenues Beat Estimates

Nutanix incurred second-quarter fiscal 2020 loss of 60 cents per share, beating the Zacks Consensus Estimate by 13%. However, the figure was wider than the year-ago loss of 23 cents.

Revenues increased 3.4% year over year to \$346.8 million and also beat the consensus mark by 1.4%.

Product revenues (61.6% of revenues) fell 9.9% year over year to \$213.5 million, primarily due to 77.5% decline in hardware revenues, partially offset by 3% growth in software revenues.

Support, entitlements & other services revenues (38.4% of revenues) surged 35.3% to \$133.2 million.

Total Contract Value (TCV) revenues increased 13.7% year over year to \$338.2 million.

Top-Line Details

Subscription revenues (76.9% of revenues) jumped 69.4% from the year-ago quarter to \$266.5 million. Professional services revenues (3.6% of revenues) grew 48.3% to \$12.6 million.

Non-Portable Software revenues (17.1% of revenues) plunged 55.1% year over year to \$59.1 million. Moreover, hardware revenues (2.5% of revenues) were \$8.5 million.

Billings were up 3.5% year over year to \$428.1 million. Software and Support billings were \$419.5 million, up 11.7% year over year.

TCV billings increased 11.7% year over year to \$419.5 million. Subscription billings accounted for 79% of total billings, up from 73% in the previous quarter.

At the end of the quarter, Nutanix had 15,880 customers. The company added 920 customers in the reported quarter.

The company's hypervisor, AHV, experienced a 47% increase in adoption on a rolling four-quarter basis.

Operating Details

In the fiscal second quarter, the company's non-GAAP gross profit of \$257.5 million was down 8.8% year over year. Non-GAAP gross margin was 74.3%, down from 84.2% reported in the year-ago quarter.

Operating expenses on a non-GAAP basis jumped 25.2% year over year to \$296.5 million. Sales & marketing, research & development and general & administrative expenses increased 30.6%, 11.8% and 19.5% on a year-over-year basis, respectively.

Operating loss on a non-GAAP basis narrowed to \$39 million from \$113.9 million loss in the year-ago quarter.

Balance Sheet & Cash Flow

As of Jan 31, 2020, cash and cash equivalents plus short-term investments were \$819 million compared with \$889 million as of Oct 31, 2019.

Cash outflow from operations was \$52.5 million compared with an outflow of \$26.2 million in the previous quarter.

Free cash outflow was \$73.7 million compared with \$44.4 million in the prior quarter.

Deferred revenues surged 35% year over year to \$1.06 billion at the end of the reported quarter.

Guidance

For the third quarter of fiscal 2020, software and support (TCV) revenues are projected between \$300 million and \$320 million. Nutanix anticipates software and support (TCV) billings of \$365-\$385 million.

Non-GAAP gross margin is anticipated to be around 80%. Moreover, management forecasts operating expenses within \$420-\$430 million.

Nutanix estimates non-GAAP loss of 89 cents per share. The Zacks Consensus Estimate for loss is pegged at 74 cents per share.

For the current fiscal year, Nutanix now expects software and support (TCV) billings between \$1.60 billion and \$1.67 billion. Moreover, software and support (TCV) revenues are anticipated between \$1.29 billion and \$1.36 billion.

Non-GAAP gross margin of approximately 80% and non-GAAP operating expenses between \$1.63 billion and \$1.65 billion are expected for the full fiscal.

Quarter Ending 01/2020

Report Date	Feb 26, 2020
Sales Surprise	1.38%
EPS Surprise	13.04%
Quarterly EPS	-0.60
Annual EPS (TTM)	-2.44

Recent News

On Mar 18, Nutanix expanded itscloud platform by incorporating new features for Big Data and analytics applications as well as unstructured data storage. These features include the management of object data across multiple Nutanix clusters, higher object storage capacity per node and formal Splunk SmartStore certification. The integration of object storage services with Nutanix's HCI solution will enable the cloud platform to improve performance, achieve scale, and reduce costs by maximizing unused resources.

On Feb 19, Nutanix announced that it had partnered with Caesars Entertainment and UNLV to power 'Black Fire Innovation', a hub which will accelerate technology advancement in the gaming and entertainment industry.

On Feb 12, Nutanix announced that it been selected by Hastings Prince Edward Public Health to help improve the experience of its 150,000 patients.

On Jan 30, Nutanix announced that it had been certified by Aspen Technology to enable its customers to access its latest aspenONE Engineering software anytime and anywhere, which will aid customers in deploying new software versions faster and at scale, minimizing IT overhead and improving user collaboration.

Valuation

Nutanix's shares have lost 34.4% so far this year and 49.5% over the trailing 12 months. Stocks in the Zacks sub-industry and Zacks Computer & Technology sector have declined 8.3% and 2.3% in the year-to-date period (YTD), respectively. Over the past year, while the Zacks sub-industry has lost 10.3%, the sector gained 6.9%.

The S&P 500 Index has lost 8.8% YTD while has gained 0.5% in the past year.

The stock is currently trading at 2.66X forward 12-month sales, which compares to 4.66X for the Zacks sub-industry, 3.51X for the Zacks sector and 3.30X for the S&P 500 index.

Over the past three years, the stock has traded as high as 8.16X and as low as 1.57X, with a 3-year median of 4.39X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$22 price target reflects 2.79X forward 12-month sales.

The table below shows summary valuation data for NTNX

Valuation Multiples - NTNX					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	2.66	4.66	3.51	3.30
	3-Year High	8.16	10.11	3.59	3.44
	3-Year Low	1.57	3.89	2.62	2.76
	3-Year Median	4.39	7.98	3.21	3.16
EV/Sales TTM	Current	2.64	4.49	3.91	2.69
	3-Year High	9.37	6.23	4.44	3.45
	3-Year Low	1.39	3.61	3.05	2.23
	3-Year Median	4.89	5.55	3.79	3.00

As of 04/30/2020

Industry Analysis Zacks Industry Rank: Top 30% (76 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Amazon.com, Inc. (AMZN)	Neutral	3
Cisco Systems, Inc. (CSCO)	Neutral	3
Alphabet Inc. (GOOGL)	Neutral	3
International Business Machines Corporation (IBM)	Neutral	3
NetApp, Inc. (NTAP)	Neutral	4
VMware, Inc. (VMW)	Neutral	4
CDW Corporation (CDW)	Underperform	4
Hewlett Packard Enterprise Company (HPE)	Underperform	4

Industry Comparison Industry: Computers - It Services				Industry Peers		
	NTNX	X Industry	S&P 500	CDW	HPE	VMW
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Underperform	Neutral
Zacks Rank (Short Term)	2	-	-	4	4	4
VGM Score	F	-	-	A	D	D
Market Cap	3.99 B	2.46 B	20.61 B	15.76 B	12.96 B	54.98 B
# of Analysts	11	4.5	14	7	6	11
Dividend Yield	0.00%	0.00%	2.11%	1.37%	4.77%	0.00%
Value Score	F	-	-	B	B	D
Cash/Price	0.24	0.06	0.06	0.01	0.26	0.05
EV/EBITDA	-7.45	10.41	11.87	13.82	4.49	22.69
PEG Ratio	NA	2.25	2.47	1.49	1.75	1.33
Price/Book (P/B)	NA	4.22	2.67	16.58	0.75	7.84
Price/Cash Flow (P/CF)	NA	11.35	10.66	13.76	2.65	19.69
P/E (F1)	NA	23.99	19.01	19.52	6.79	21.80
Price/Sales (P/S)	3.19	0.88	2.10	0.87	0.45	5.37
Earnings Yield	-14.45%	3.11%	5.05%	5.13%	14.71%	4.58%
Debt/Equity	-9.13	0.23	0.72	3.56	0.54	0.53
Cash Flow (\$/share)	-2.48	1.13	7.01	8.05	3.79	6.68
Growth Score	D	-	-	A	F	C
Hist. EPS Growth (3-5 yrs)	NA%	17.85%	10.88%	22.23%	-3.49%	14.59%
Proj. EPS Growth (F1/F0)	-95.73%	0.00%	-7.32%	-6.96%	-16.29%	-3.29%
Curr. Cash Flow Growth	121.11%	15.51%	5.92%	10.39%	-2.58%	0.87%
Hist. Cash Flow Growth (3-5 yrs)	NA%	16.83%	8.55%	13.51%	-3.09%	13.69%
Current Ratio	1.64	1.35	1.23	1.24	0.79	0.65
Debt/Capital	90.20%	33.63%	43.84%	78.05%	35.19%	34.84%
Net Margin	-68.13%	3.54%	11.08%	4.09%	4.22%	62.27%
Return on Equity	-650.18%	11.09%	16.44%	94.72%	13.68%	40.10%
Sales/Assets	0.68	0.80	0.54	2.30	0.55	0.49
Proj. Sales Growth (F1/F0)	5.79%	4.16%	-1.42%	-2.21%	-9.51%	12.37%
Momentum Score	D	-	-	C	B	B
Daily Price Chg	-0.44%	-1.08%	-2.39%	-0.44%	-2.42%	-2.56%
1 Week Price Chg	5.58%	-0.23%	-1.74%	-3.72%	-1.85%	-6.09%
4 Week Price Chg	41.02%	20.40%	17.07%	25.95%	7.25%	11.27%
12 Week Price Chg	-42.28%	-15.09%	-18.53%	-17.71%	-32.57%	-16.50%
52 Week Price Chg	-49.53%	-24.06%	-9.82%	2.86%	-36.09%	-34.24%
20 Day Average Volume	3,085,923	383,559	2,641,413	984,386	8,827,095	1,317,672
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	-1.95%	-6.62%	-5.88%	-11.19%	-5.38%
(F1) EPS Est 12 week change	-4.43%	-12.68%	-13.28%	-12.86%	-20.16%	-28.23%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-11.97%	-12.25%	-10.60%	-2.57%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	F
Growth Score	D
Momentum Score	D
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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