

Nutanix Inc. (NTNX)

\$34.15 (As of 01/09/20)

Price Target (6-12 Months): **\$36.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/11/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: F

Growth: D

Momentum: C

Summary

Nutanix is benefiting from customer base expansion. 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 on a year-to-date basis.

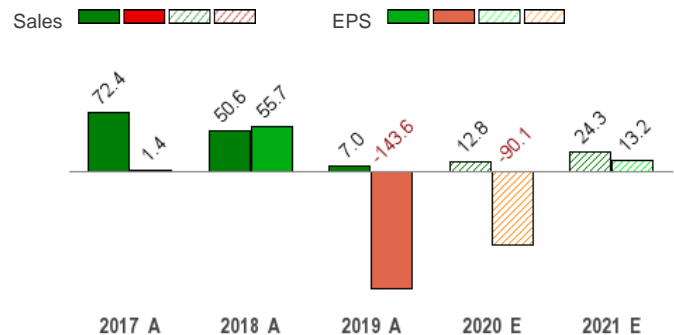
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$54.68 - \$17.74
20 Day Average Volume (sh)	2,292,046
Market Cap	\$6.6 B
YTD Price Change	9.2%
Beta	1.37
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Computers - IT Services
Zacks Industry Rank	Bottom 21% (201 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	5.3%
Last Sales Surprise	3.1%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/27/2020
Earnings ESP	0.0%
P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	5.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	398 E	428 E	444 E	478 E	1,733 E
2020	315 A	342 E	353 E	383 E	1,394 E
2019	313 A	335 A	288 A	300 A	1,236 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$0.66 E	-\$0.61 E	-\$0.64 E	-\$0.58 E	-\$2.49 E
2020	-\$0.71 A	-\$0.69 E	-\$0.74 E	-\$0.72 E	-\$2.87 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.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/09/2020. The reports text is as of 01/10/2020.

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.

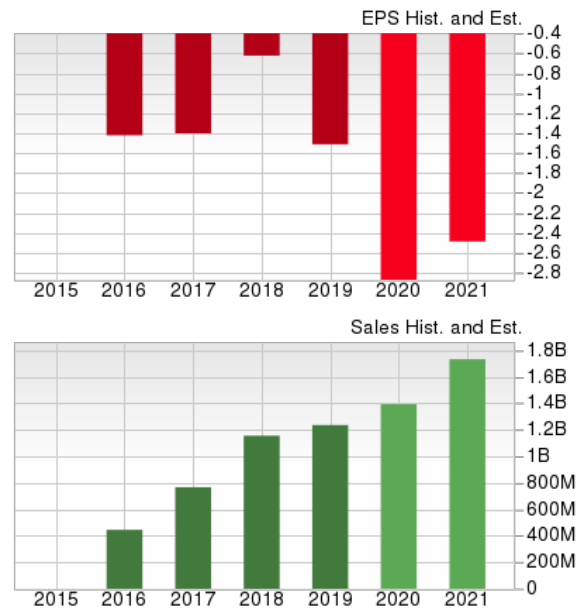
Nutanix's solution can be delivered either as an appliance that is configured to order or as software only. The company currently offers two software product families — Acropolis and Prism.

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'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 Jul 31, 2019, accumulated deficit was \$1.65 billion. Moreover, the company's increased level of investments is expected to hurt profitability, at least in the near term. In fiscal 2019, non-GAAP operating loss widened to \$274.3 million compared with a loss of \$96.7 million in fiscal 2018. 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 Q1 Earnings and Revenues Beat Estimates

Nutanix incurred first-quarter fiscal 2020 loss of 71 cents per share, narrower than the Zacks Consensus Estimate of a loss of 75 cents. However, the figure was wider than the year-ago quarter's loss of 13 cents.

Revenues increased 0.5% year over year to \$314.8 million and beat the consensus mark of \$305 million. However, the company's ongoing transition to a subscription-based model and decline in hardware revenues were an overhang on the top line.

Product revenues (61.1% of total revenues) fell 14.2% year over year to \$192.4 million, primarily due to 63.7% decline in hardware revenues and 8.2% in software revenues.

Support, entitlements & other services revenues (38.9%) soared 37.6% to \$122.3 million.

Quarterly Details

Subscription revenues (69%) jumped 72% from the year-ago quarter to \$217.9 million. Professional Services revenues (3%) grew 33.3% to \$9.6 million.

Non-Portable Software revenues (24.7%) plunged 47.1% year over year to \$77.6 million. Moreover, hardware revenues (3.1%) were down 70.2% to \$9.7 million.

Software and support revenues, also referred to as TCV (total contract value) revenues jumped 9% year over year to \$305 million. Of the bookings, 65% was from America, 19% from EMEA and 16% from Asia Pacific and Japan.

Billings were down 0.9% year over year to \$380 million. Software and Support billings were up 5% to \$370.3 million.

Subscription billings accounted for 73% of total billings, up from 71% in the previous quarter.

During the quarter, Nutanix secured deals worth more than \$500,000.

At the end of the quarter, Nutanix had 14,960 customers (including 840 Global 2000). The company added 780 customers in the reported quarter.

Nutanix now has almost 1000 customers, with a lifetime spend of more than \$1 million.

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

Notably, 97% of customers were retained during the quarter.

Margin

In the fiscal first quarter, the company delivered a non-GAAP gross profit of \$252.1 million, up 2.4% year over year. Non-GAAP gross margin expanded 150 basis points (bps) to 80.1%.

Operating expenses on a non-GAAP basis jumped 42% year over year to \$386.3 million.

Operating loss on a non-GAAP basis widened to \$134.2 million from a loss of \$25.9 million.

Balance Sheet & Cash Flow

As of Oct 31, 2019, cash and cash equivalents plus short-term investments were \$889 million compared with \$934.3 million in the previous quarter.

Cash outflow from operations was \$26.2 million compared with an outflow of \$9.7 million in the previous quarter.

Free cash outflow was \$44.4 million compared with an outflow of \$33.3 million in the prior quarter.

Deferred revenues surged 39% year over year to \$975.3 million at the end of the reported quarter.

Guidance

For the second quarter of fiscal 2020, TCV revenues are projected between \$330 million and \$335 million. Nutanix anticipates TCV billings of \$410-\$420 million.

Non-GAAP gross margin is anticipated to be around 80%. Moreover, management forecasts operating expenses of \$400-\$410 million.

Nutanix estimates non-GAAP loss per share to be 70 cents, in line with the Zacks Consensus Estimate.

For the full year of fiscal 2020, Nutanix expects TCV billings between \$1.65 billion and \$1.75 billion. Moreover, TCV revenues are anticipated to lie between \$1.30 billion and \$1.40 billion.

Quarter Ending **10/2019**

Report Date	Nov 25, 2019
Sales Surprise	3.08%
EPS Surprise	5.33%
Quarterly EPS	-0.71
Annual EPS (TTM)	-2.07

Non-GAAP gross margin of approximately 80%, and non-GAAP operating expenses between \$1.65 billion and \$1.70 billion are expected for the full fiscal year.

Recent News

On Nov 13, Nutanix announced the findings of its second global Enterprise Cloud Index survey and research. The report found that enterprises plan to aggressively shift investment to hybrid cloud architectures, with survey respondents reporting steady and substantial hybrid deployment plans for the next five years. The majority of the 2019 survey respondents (85%) selected hybrid cloud as their ideal IT operating model.

On Oct 15, Nutanix Software was adopted by Science Museum Group to aid its efforts in the digital transformation of sites in London, Bradford, Manchester, York and North-East England.

On Oct 9, Nutanix announced that its hyperconverged infrastructure platform has been integrated with the ServiceNow IT Operations Management solution to automate critical private cloud workflows.

On the same day, Nutanix and Hewlett Packard Enterprise announced that the latter's HPE GreenLaken hybrid cloud as a service offering for Nutanix; and the HPE ProLiant DX solution are generally available in the market. This partnership will allow customers and partners greater freedom of choice to build their hybrid cloud strategy.

On Sep 16, Nutanix announced that its Nutanix Xi Beam has been chosen by the University of California to enable faculty and researchers to leverage the agility and flexibility of cloud while reducing costs, minimizing risk and streamlining administrative tasks.

Valuation

Nutanix's shares have gained 20.3% in the past six months and lost 23.6% over the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector have risen 1% and 14.3% in the past six months, respectively. Over the past year, while the Zacks sub-industry has gained 24.4%, the sector inched up 33%.

The S&P 500 Index has gained 9.8% in the past six months and 25.2% in the past year.

The stock is currently trading at 4.25X forward 12-month sales, which compares to 5.14X for the Zacks sub-industry, 3.66X for the Zacks sector and 3.51X for the S&P 500 index.

Over the past three years, the stock has traded as high as 8.16X and as low as 2.34X, with a 3-year median of 4.54X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$36 price target reflects 4.5X 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	4.25	5.14	3.66	3.51
	3-Year High	8.16	10.29	3.66	3.51
	3-Year Low	2.34	4.34	2.62	2.76
	3-Year Median	4.54	8.41	3.16	3.15
P/B TTM	Current	96.01	15.7	5.32	4.42
	3-Year High	113	31.78	5.33	4.42
	3-Year Low	14.27	7.05	3.54	3.36
	3-Year Median	24.19	12.09	4.5	3.88
EV/Sales TTM	Current	4.31	5.15	4.3	3.28
	3-Year High	9.37	8.12	4.3	3.3
	3-Year Low	2.04	4.16	2.56	2.16
	3-Year Median	4.93	5.94	3.44	2.8

As of 01/09/2020

Industry Analysis Zacks Industry Rank: Bottom 21% (201 out of 254)



Top Peers

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

Industry Comparison Industry: Computers - It Services				Industry Peers		
	NTNX Neutral	X Industry	S&P 500	CDW Neutral	HPE Neutral	VMW Neutral
VGM Score	F	-	-	A	A	D
Market Cap	6.57 B	3.35 B	23.94 B	20.40 B	20.26 B	62.22 B
# of Analysts	11	5	13	7	7	11
Dividend Yield	0.00%	0.00%	1.78%	1.07%	3.06%	0.00%
Value Score	F	-	-	B	A	C
Cash/Price	0.14	0.06	0.04	0.01	0.18	0.03
EV/EBITDA	-12.37	11.99	13.97	18.79	6.07	17.51
PEG Ratio	NA	1.90	2.03	1.65	1.26	1.75
Price/Book (P/B)	103.30	5.17	3.33	21.81	1.19	10.70
Price/Cash Flow (P/CF)	NA	15.72	13.73	20.31	4.13	23.36
P/E (F1)	NA	20.48	18.79	21.67	8.39	23.07
Price/Sales (P/S)	5.30	1.71	2.64	1.16	0.70	6.38
Earnings Yield	-8.40%	3.03%	5.32%	4.61%	11.93%	4.33%
Debt/Equity	9.21	0.25	0.72	3.57	0.55	0.63
Cash Flow (\$/share)	-2.48	1.39	6.94	6.99	3.79	6.50
Growth Score	D	-	-	A	A	F
Hist. EPS Growth (3-5 yrs)	NA%	16.94%	10.56%	21.73%	-4.78%	15.51%
Proj. EPS Growth (F1/F0)	-90.07%	9.60%	7.49%	9.11%	5.49%	3.95%
Curr. Cash Flow Growth	121.11%	14.90%	14.83%	19.83%	-2.58%	23.44%
Hist. Cash Flow Growth (3-5 yrs)	NA%	16.56%	9.00%	14.79%	-3.09%	12.60%
Current Ratio	1.86	1.32	1.23	1.33	0.79	0.58
Debt/Capital	90.20%	37.45%	42.99%	78.13%	35.39%	38.53%
Net Margin	-61.10%	1.78%	11.08%	4.04%	3.60%	67.21%
Return on Equity	-293.83%	12.44%	17.16%	91.07%	13.55%	61.67%
Sales/Assets	0.68	0.81	0.55	2.31	0.57	0.54
Proj. Sales Growth (F1/F0)	12.76%	8.61%	4.20%	5.78%	0.32%	12.66%
Momentum Score	C	-	-	A	B	A
Daily Price Chg	3.02%	1.16%	0.53%	0.90%	-0.57%	0.16%
1 Week Price Chg	2.24%	0.35%	-0.30%	-1.26%	-0.82%	-0.09%
4 Week Price Chg	4.72%	4.93%	1.92%	3.78%	-4.45%	-2.78%
12 Week Price Chg	27.62%	14.52%	6.54%	14.52%	3.02%	-0.18%
52 Week Price Chg	-24.33%	14.10%	22.58%	73.26%	10.90%	1.96%
20 Day Average Volume	2,292,046	253,081	1,580,816	1,023,553	7,826,466	938,433
(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%	0.00%	0.00%	0.00%	-0.06%	0.00%
(F1) EPS Est 12 week change	-1.24%	-0.70%	-0.50%	3.18%	5.69%	-0.87%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.69%	0.00%

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	C
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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