

Nutanix Inc. (NTNX)

\$22.32 (As of 08/12/20)

Price Target (6-12 Months): **\$23.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/06/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:F

Value: F

Growth: D

Momentum: F

Summary

Nutanix is gaining 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. The company's transition to software-only sales will boost its margins over the long-run. Additionally, Nutanix is expected to benefit from the growth prospects of the hyper converged infrastructure 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. Also, 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 Nutanix have underperformed the industry in the past year.

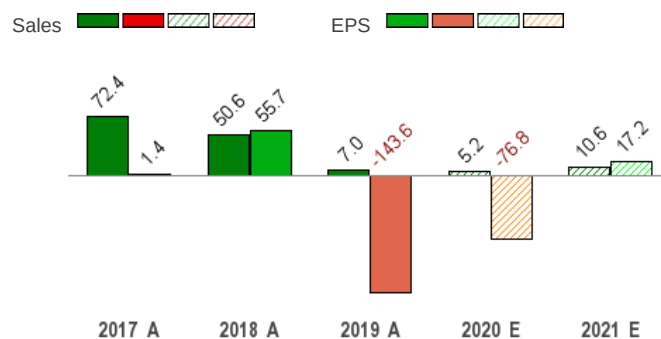
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$37.86 - \$11.31
20 Day Average Volume (sh)	2,861,383
Market Cap	\$4.3 B
YTD Price Change	-28.6%
Beta	1.91
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Computers - IT Services
Zacks Industry Rank	Bottom 27% (184 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	18.8%
Last Sales Surprise	1.1%
EPS F1 Est- 4 week change	-0.3%
Expected Report Date	09/01/2020
Earnings ESP	2.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	330 E	361 E	355 E	385 E	1,438 E
2020	315 A	347 A	318 A	321 E	1,300 E
2019	313 A	335 A	288 A	300 A	1,236 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$0.61 E	-\$0.52 E	-\$0.58 E	-\$0.53 E	-\$2.21 E
2020	-\$0.71 A	-\$0.60 A	-\$0.69 A	-\$0.67 E	-\$2.67 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	3.4

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/12/2020. The reports text is as of 08/13/2020.

Overview

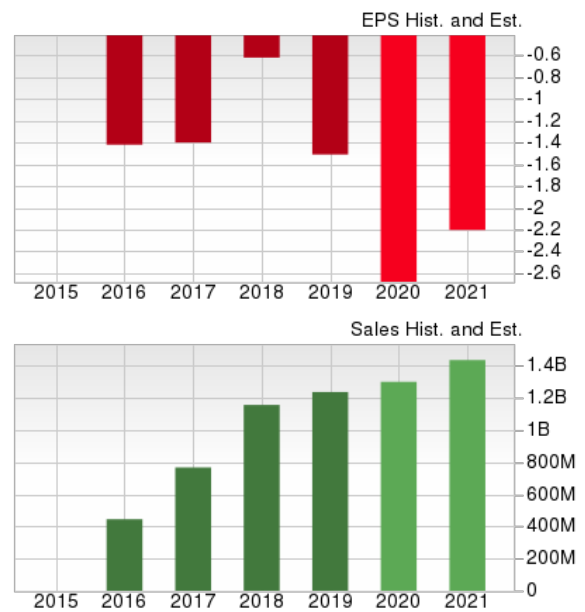
San Jose, CA-based Nutanix Inc. provides enterprise cloud operating system that combines server, storage, virtualization and networking software into one integrated solution. Nutanix's solution can be delivered either as an appliance that is configured to order or as software only. The company currently 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.
- ▲ Nutanix's products like Beam, Era, and Flow are gaining traction in the hybrid cloud market. Flow helps customers in securing network traffic and monitor whether applications are running optimally. Era helps companies strengthen their enterprise PaaS offering by including database. 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. During third-quarter fiscal 2020, the company added 700 new customers, bringing the total client numbers to 16,580. 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. Moreover, during third-quarter fiscal 2020, non-GAAP gross margin improved 360 basis points to 80.7%.
- ▲ Nutanix is a cash rich company. As of Apr 30, 2020, the company had cash and cash equivalents of nearly \$732 million, which is higher than its debt (long-term including current maturities) of approximately \$640 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.
- ▼ Nutanix'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 Apr 30, 2020, accumulated deficit was \$2.3 billion. Moreover, the company's increased level of investments is expected to hurt profitability, at least in the near term. In the first three quarters of fiscal 2020, non-GAAP operating loss widened to \$381 million compared with a loss of \$170 million in the first three quarters 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 Earnings and Revenues Beat Estimates in Q3

Nutanix incurred third-quarter fiscal 2020 loss of 69 cents per share, beating the Zacks Consensus Estimate by 18.8%. However, the figure was wider than the year-ago loss of 56 cents.

Revenues increased 11% year over year to \$318.3 million and also beat the consensus mark by 1.1%.

Product revenues (57% of revenues) fell 2.2% year over year to \$180.8 million, primarily due to an 82.7% slump in hardware revenues, partially offset by 8.6% growth in software revenues.

Support, entitlements & other services revenues (43% of revenues) surged 33.7% to \$137.5 million.

Total Contract Value (TCV) revenues increased 18.3% year over year to \$314.5 million.

Top Line Details

Subscription revenues (82% of revenues) jumped 54.9% from the year-ago quarter to \$261 million. Professional services revenues (3.6% of revenues) grew 34.9% to \$11.6 million.

Non-Portable Software revenues (13.2% of revenues) plunged 52.8% year over year to \$41.9 million. Moreover, hardware revenues (1.2% of revenues) plummeted 82.7% to \$3.8 million.

Billings were up 10.8% year over year to \$383.5 million. Software and Support billings were \$379.7 million, up 17.1% year over year.

During the fiscal third quarter, the company added 700 new customers, bringing the total client numbers to 16,580.

Operating Details

In the fiscal third quarter, the company's non-GAAP gross profit of \$257 million was up 15.9% year over year. Non-GAAP gross margin was 80.7%, up from the 77.1% reported in the year-ago quarter.

Operating expenses on a non-GAAP basis flared up 19.5% year over year to \$390.3 million.

Operating loss on a non-GAAP basis widened to \$133.3 million from the year-ago quarter's \$104.8-million loss.

Balance Sheet & Cash Flow

As of Apr 30, 2020, cash and cash equivalents plus short-term investments were \$732 million compared with \$819 million as of Jan 31, 2020.

Cash outflow from operations was \$163.5 million compared with the outflow of \$52.5 million witnessed in the previous quarter.

Free cash outflow was \$117.5 million compared with the prior quarter's \$73.7 million.

Deferred revenues surged 34% year over year to \$1.12 billion at the end of the reported quarter.

Quarter Ending 04/2020

Report Date	May 27, 2020
Sales Surprise	1.11%
EPS Surprise	18.82%
Quarterly EPS	-0.69
Annual EPS (TTM)	-2.57

Recent News

On Aug 5, Nutanix revealed that one of China's largest robotics manufacturers, has implemented Nutanix HCI software to modernize its IT infrastructure.

On Jul 15, Nutanix announced that its Nutanix Files product has been implemented by the University of Reading which will enable the university to simplify IT management and increase ease of scalability.

On Jul 8, Nutanix revealed that that Birmingham City Council's Information, Technology and Digital Service (IT&D) has teamed up with Nutanix to migrate its legacy hardware to a hybrid cloud infrastructure.

On May 21, Nutanix announces new automation capabilities to its Nutanix Calm product to help customers simplify IT operations and costs during the coronavirus crisis.

On May 20, Nutanix revealed that Delaware Valley Community Health selected its private cloud infrastructure that will enable approximately 75% of the latter's workforce to work remotely and provide telehealth to the patients.

On May 13, Nutanix announced promoting Christian Alvarez to Senior Vice President of Worldwide Channels.

On May 13, Nutanix revealed that SMART Technology selected Nutanix to help consolidate and replace its legacy IT systems to optimize performance, cost and resources.

On May 5, Nutanix updated its fiscal third quarter guidance and withdrew its full year fiscal 2020 guidance to reflect the impacts of the coronavirus pandemic.

On Apr 29, Nutanix announced partnering with Wipro and launching Wipro's Digital Database Services powered by Nutanix Era and Nutanix HCI software.

On Apr 23, Nutanix revealed partnering with Avid Technology to deliver industry-first hyperconverged platform for media and entertainment industry. The company announced that its software is now certified solution for Avid Technology's MediaCentral and Media Composer products.

On Apr 20, Nutanix revealed appointing Thomas Cornely as Senior Vice President of Product Portfolio Management.

Valuation

Nutanix's shares have lost 28.6% so far this year while have gained 22.6% over the trailing 12 months. Stocks in the Zacks sub-industry and Zacks Computer & Technology sector have increased 17.7% and 18% in the year-to-date period (YTD), respectively. Over the past year, the Zacks sub-industry and the sector have gained 25.2% and 36%, respectively.

The S&P 500 Index has increased 3.4% YTD and 17.5% in the past year.

The stock is currently trading at 3.01X forward 12-month sales, which compares to 5.72X for the Zacks sub-industry, 3.96X for the Zacks sector and 3.543X 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 \$23 price target reflects 3.16X 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	3.01	5.72	3.96	3.54
	3-Year High	8.16	10.11	3.96	3.54
	3-Year Low	1.57	3.91	2.62	2.76
	3-Year Median	4.39	5.72	3.22	3.17
EV/Sales TTM	Current	3.30	5.85	4.62	3.19
	3-Year High	9.37	6.19	4.62	3.45
	3-Year Low	1.39	3.60	3.05	2.23
	3-Year Median	4.79	5.43	3.82	3.01

As of 08/12/2020

Industry Analysis Zacks Industry Rank: Bottom 27% (184 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Amazon.com, Inc. (AMZN)	Neutral	3
CDW Corporation (CDW)	Neutral	3
Cisco Systems, Inc. (CSCO)	Neutral	2
Alphabet Inc. (GOOGL)	Neutral	3
International Business Machines Corporation (IBM)	Neutral	4
NetApp, Inc. (NTAP)	Neutral	4
VMware, Inc. (VMW)	Neutral	3
Hewlett Packard Enterprise Company (HPE)	Underperform	5

Industry Comparison Industry: Computers - It Services				Industry Peers		
	NTNX	X Industry	S&P 500	CDW	HPE	VMW
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	2	-	-	3	5	3
VGM Score	F	-	-	A	A	C
Market Cap	4.34 B	2.70 B	23.75 B	16.64 B	13.03 B	58.97 B
# of Analysts	11	3	14	7	6	11
Dividend Yield	0.00%	0.00%	1.68%	1.30%	4.73%	0.00%
Value Score	F	-	-	A	A	C
Cash/Price	0.17	0.06	0.07	0.06	0.40	0.10
EV/EBITDA	-8.33	10.01	13.35	14.30	4.56	23.90
PEG Ratio	NA	2.37	2.98	1.54	2.09	1.76
Price/Book (P/B)	NA	5.78	3.20	15.72	0.80	7.94
Price/Cash Flow (P/CF)	NA	13.25	12.97	14.48	2.67	21.07
P/E (F1)	NA	31.02	22.17	20.20	8.09	23.41
Price/Sales (P/S)	3.40	2.86	2.54	0.91	0.48	5.51
Earnings Yield	-9.90%	2.35%	4.31%	4.95%	12.33%	4.27%
Debt/Equity	-3.29	0.24	0.77	3.79	0.71	0.78
Cash Flow (\$/share)	-2.48	1.07	6.94	8.05	3.79	6.68
Growth Score	D	-	-	A	C	B
Hist. EPS Growth (3-5 yrs)	NA%	17.84%	10.41%	22.51%	-3.21%	13.76%
Proj. EPS Growth (F1/F0)	17.30%	-3.34%	-6.32%	-5.36%	-29.19%	-3.67%
Curr. Cash Flow Growth	121.11%	15.98%	5.22%	10.39%	-2.58%	0.87%
Hist. Cash Flow Growth (3-5 yrs)	NA%	15.72%	8.55%	13.51%	-3.09%	13.69%
Current Ratio	1.54	1.47	1.33	1.47	0.89	0.87
Debt/Capital	NA%	32.71%	44.59%	79.12%	41.54%	43.71%
Net Margin	-68.91%	3.17%	10.13%	4.09%	-0.13%	58.44%
Return on Equity	-1,175,319.00%	9.11%	14.59%	94.36%	12.35%	30.45%
Sales/Assets	0.70	0.75	0.51	2.23	0.52	0.44
Proj. Sales Growth (F1/F0)	10.58%	0.68%	-1.40%	-2.27%	-12.78%	11.83%
Momentum Score	F	-	-	B	A	B
Daily Price Chg	-1.20%	0.03%	0.67%	-0.51%	-0.20%	-0.11%
1 Week Price Chg	0.11%	2.73%	2.30%	-1.27%	2.23%	1.50%
4 Week Price Chg	7.46%	7.21%	4.87%	-0.93%	5.19%	0.73%
12 Week Price Chg	-4.82%	14.92%	13.54%	6.76%	-1.36%	0.46%
52 Week Price Chg	22.64%	17.09%	6.06%	6.00%	-21.15%	-8.08%
20 Day Average Volume	2,861,383	476,900	2,006,991	721,103	9,863,938	1,040,898
(F1) EPS Est 1 week change	-0.26%	0.00%	0.00%	1.55%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.26%	0.47%	1.95%	7.68%	0.00%	0.00%
(F1) EPS Est 12 week change	-6.04%	3.61%	2.72%	5.79%	-15.41%	3.23%
(Q1) EPS Est Mthly Chg	-1.48%	0.00%	0.84%	5.14%	-0.62%	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	F
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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