

January 2, 2018

Nutanix, Inc. : (NTNX)

Ryan O'Connor

Sector: Technology

Industry: Information & Delivery Services

Current Price: \$44.13

Target Price: \$54.14

Company Description: Nutanix, Inc. provides an enterprise cloud operating system that converges traditional silos of server, virtualization, storage, and networking into one single integrated solution. This system unifies private and public cloud together into a single software fabric. Systems are offered in North America, Europe, the Asia-Pacific, the Middle East, Latin America, and Africa. The company's software products include: Acropolis and Prism. Nutanix's solutions address enterprise applications, databases, virtual desktop infrastructure, unified communications, and big data analytics- serving customers across a wide range of industries. Nutanix was founded in 2009 and is headquartered in San Jose, California.

BUY

Current Price:	\$44.31
Target Price:	\$54.14
Market Cap:	6.74B
Beta:	2.32
WACC:	8.2%
ROC GAAP:	210.2%
Revenue Growth:	11%
52wk High/Low:	\$42.45/\$14.38
Daily volume:	5.78M
Float:	94%
EBITDA Margin:	-35%
D/E:	8.5%



Thesis: Nutanix will continue to execute and beat earnings guidance with strong revenue growth and an accelerating pace of billings growth. Software and services should grow at a 40%+ clip, in their shift away from hardware. The growth in the Hyper-Converged Infrastructure industry remains favorable. Nutanix remains a unique asset that has the ability to sustain growth as a cloud operating system provider.

Catalysts:

- **Short Term(within the year):** Optimism around new software offerings, and the shift away from hardware
- **Mid Term(1-2 years):** Acquisition of Minjar- maker of Botmetric
- **Long Term(3+):** Increasing demand/shift for HCI, replacing traditional storage solutions

Earnings Performance:

Q2 2018 (Q4 2017--Nutanix's fiscal year is off by 1Q due to going public in November) marked a very strong quarter for Nutanix with billings, revenue, gross margin, and EPS performance. These were all better than expected on guidance and consensus estimates. Q2 also recorded a record number of new customers, totaling 8,870. Last quarter, the company remained optimistic regarding new software offerings, which would

serve as additional levers of growth. The software-centric strategy hoped to provide customers with the same simple purchasing process and high quality customer service, but with strong go-to-market instincts and a differentiated hybrid cloud. This software only form factor was expected to give Nutanix ubiquity in the market. Not only did they not disappoint, but they were the leader in Hyper-converged Infrastructure according to Gartner (an IT research and advisory firm). In Q2 revenues were up 44% y/y due to outperforming sales leadership- this is even with the elimination of \$14 million in pass-through hardware revenues. Nutanix now has a meaningful competitive advantage by being the most portable operating system built for the enterprise cloud. Nutanix’s software and support business is growing quickly, reaching \$1 billion in annualized run rate for billings. The software-defined business has helped to accelerate large deal momentums. In Q2 alone, Nutanix secured 57 deals worth more than \$1 million, up 104% y/y. Nutanix now has 57 customers with more than \$5 million in lifetime bookings, 18 customers with over \$10 million, and 10 customers with over \$15 million.

Figure 1:

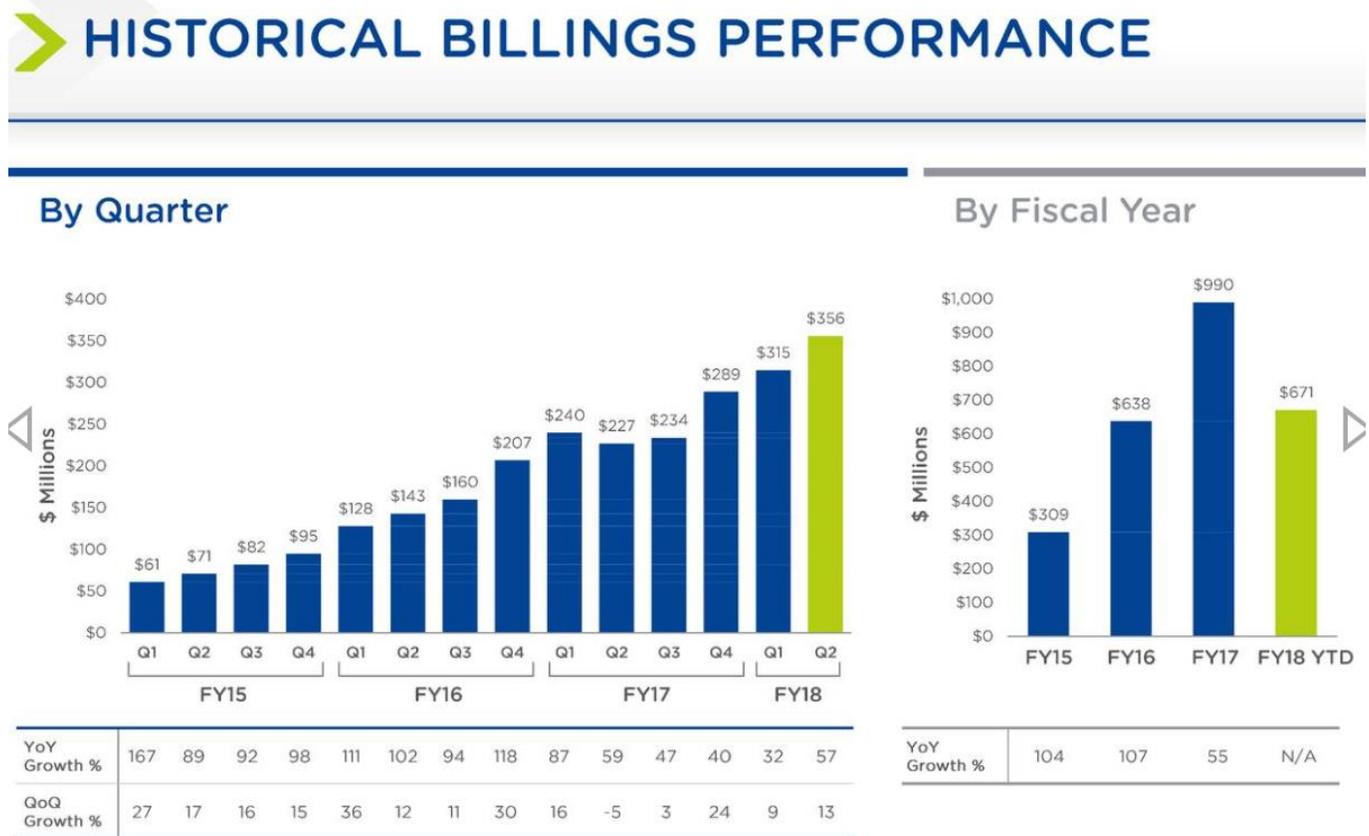


Figure 1: Nutanix billed \$356 million in the quarter, which is a 57% increase y/y and 13% increase from last quarter. The product mix of billing was 77% software & support and 23% pass-through hardware. This is even with higher revenue deferrals (as seen in **Figure 2** below).

Figure 2:

DEFERRED REVENUE

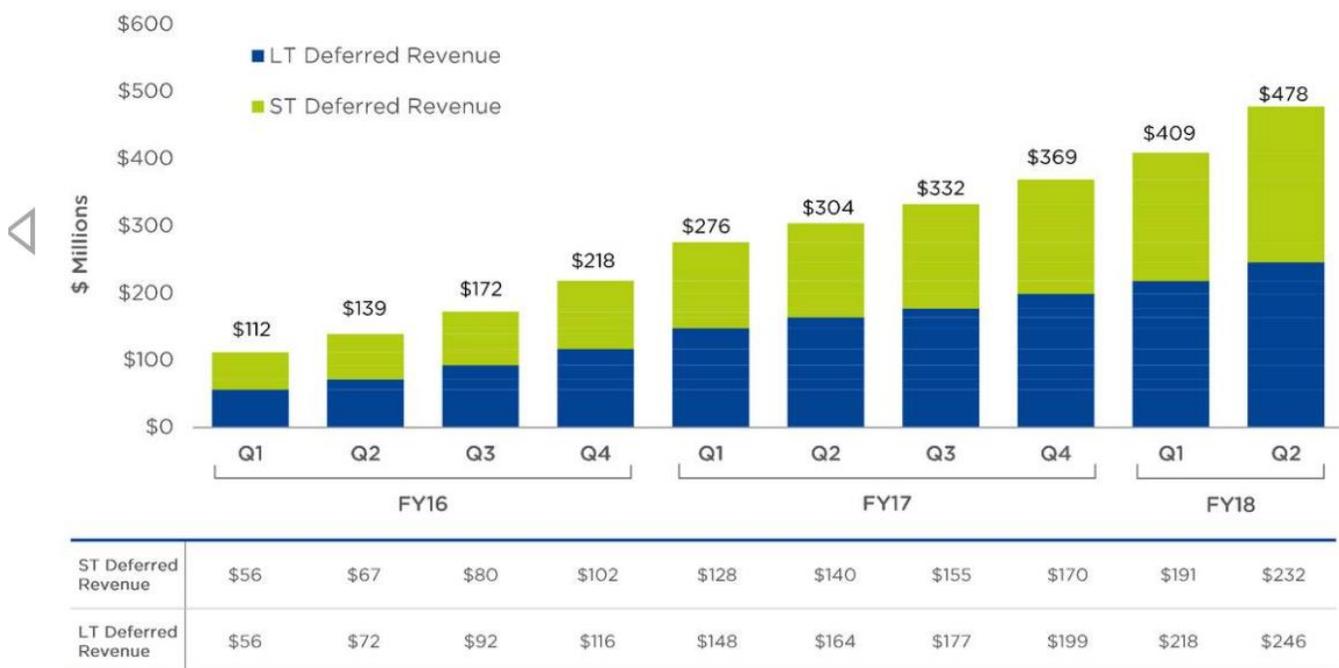


Figure 2: The increase in deferred revenue, lowers the current quarter's revenue. However, this adds some predictability to future revenues. Deferred revenue in Q2 increased by \$69 million, growing 57% y/y and 17% from last quarter.

Gross profit in Q2 was \$182 million, up 45% y/y and 7% from the previous quarter. Gross margins were 63.5%, even with eliminating \$14 million of pass-through hardware, which is \$2 million more than the target. Operating expenses were \$202 million, below guidance by \$8 million, and non-GAAP net losses were \$23 million.

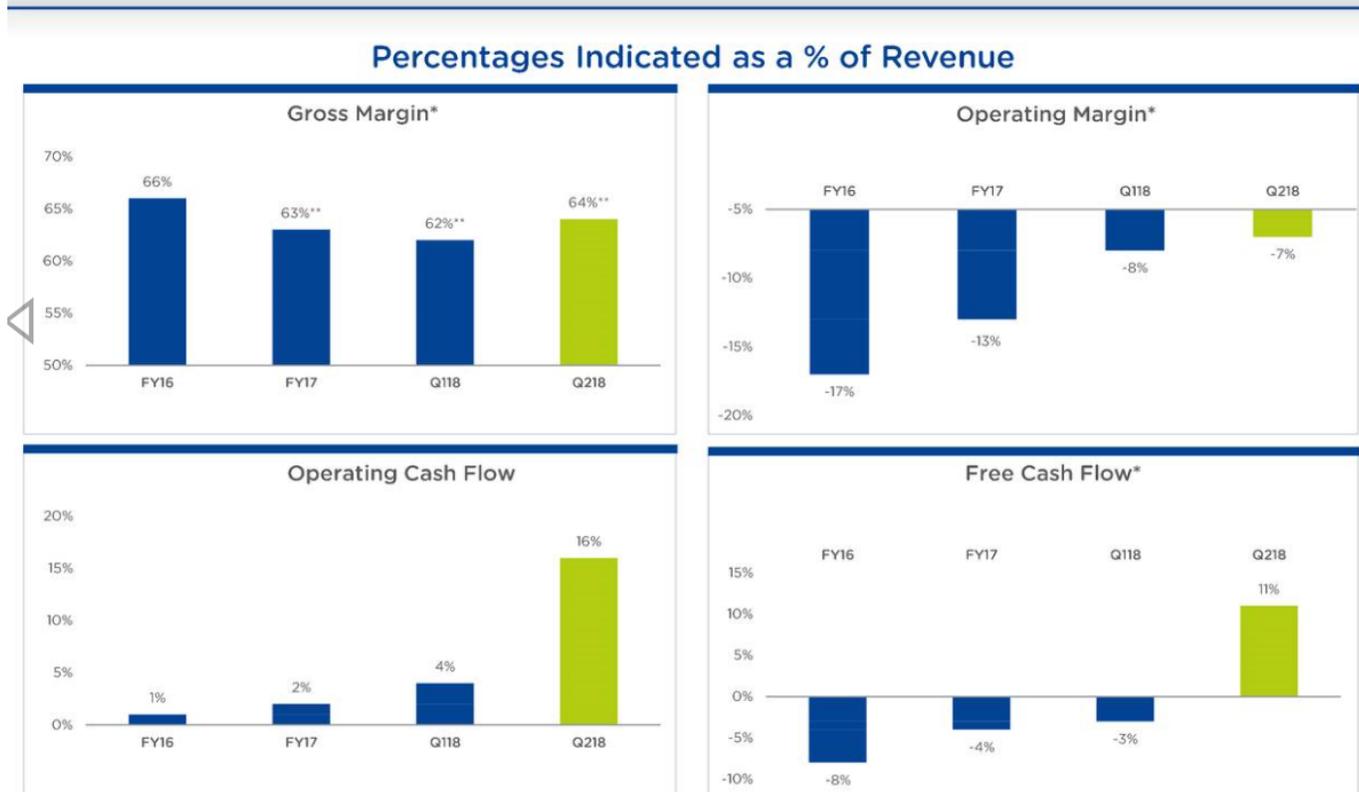
Below are the earnings overview. The last 3Q Nutanix has not beat their estimates. However, they are trending in the right direction. All metrics are up significantly over the last 4 weeks, and YoY growth is strong against Comps.

4) Consensus Overview EEO »		2) Current Period Overview (Q3/18)			2) Prior Period Analysis (Q2/18)	
Measure	Q3/18 Est	4Wk Chg	YoY Gr	Growth vs Comps	Past Surprise	
11) EPS, Adj+	-0.195	14.24%	53.6%	Stronger	Beat 3 of 6	
12) EPS, GAAP	-0.444	0.53%	43.0%	Stronger	Beat 4 of 6	
13) Revenue	278.368M	3.44%	45.2%	Stronger	Beat 6 of 6	
14) Net Income, Adj+	-34.806M	2.95%	42.8%	Stronger	Beat 3 of 6	
15) Operating Profit	-30.857M	12.78%	--	--	--	
16) EBITDA	-16.175M	-9.11%	67.2%	Stronger	Beat 6 of 6	

Outlined below in **Figure 3** is the operating leverage as a % of revenue. The most important thing to note here is that free cash flow grew >4x despite GAAP losses this past quarter. Gross margins are staying relatively even, while operating margins have been reduced to -7%.

Figure 3:

OPERATING LEVERAGE



Customers are now purchasing anywhere from \$1 million to \$10 million services. Two quarters ago, the top 3 deals were all in the federal arena and amounted to more than \$15 million in billings. One of these customers is the largest revenue generating civilian agency in the federal government and chose Nutanix due to their security and rapid time-to-value platform. The second customer was within the United States Armed Forces and will use the platform to support civilian facilities for soldier’s families. Healthcare was broken into with 7 different deals. One deal was with Global 2000 customers who operates the largest clinical laboratory network in the world, using Nutanix’s platform to run host service in workloads. Global 2000 continues to expand their use of Nutanix’s platform. The largest deal in the quarter was over \$10 million with G2K, which is a major integrated beverages company. All of this bodes well for Nutanix- as the brand is growing, so is the confidence for first time customers to do large deals with them.

Citations:

<https://seekingalpha.com/article/4128869-nutanixs-ntnx-ceo-dheeraj-pandey-q1-2018-results-earnings-call-transcript?part=single>

<https://seekingalpha.com/article/4152652-nutanixs-ntnx-ceo-dheeraj-pandey-q2-2018-results-earnings-call-transcript?part=single>

Evolving Industry:

The biggest developments for Nutanix are their development into a strong enterprise cloud operating systems company. Investors were wary of the direction of the company in either software or storage and appliance. Over the next few years, Nutanix will migrate away from pass-through hardware related revenue. This began two quarters ago and will continue for the next year. Hardware amounts to 23% of today's business- but this business will be maintained through allowing appliance manufacturers to sell Nutanix hardware to distributors directly, and also focusing more on software transactions. Going along with the last paragraph in the earnings performance, there is very strong customer growth metrics. These are outlined below in **Figure 4**. This customer growth is coupled with repurchasing. This expansion strategy is shown in **Figure 5**, and details the number of repeat purchases over the lifetime of the existing customer base.

Figure 4:

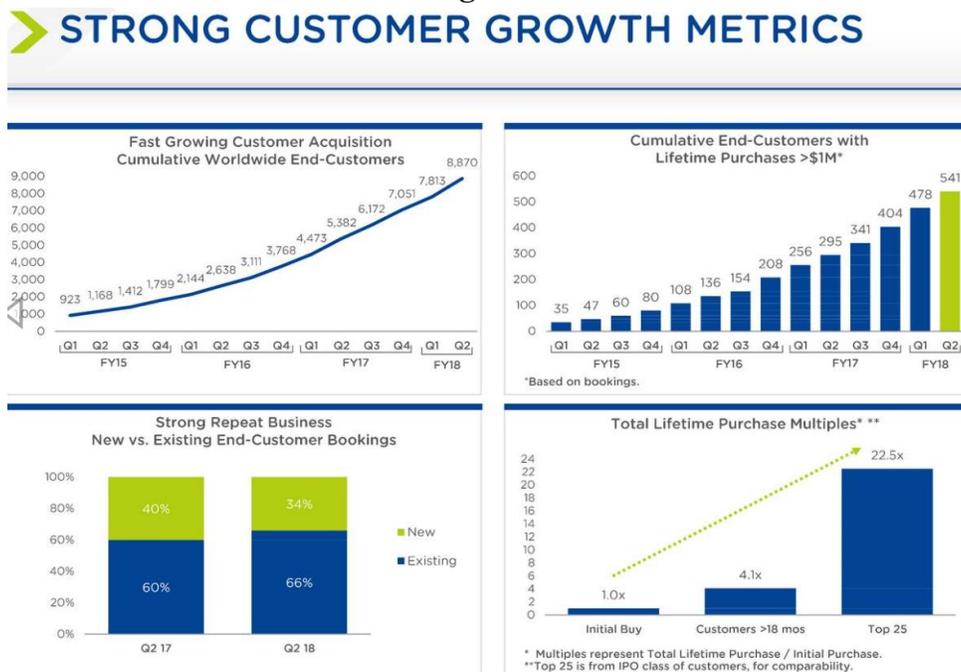
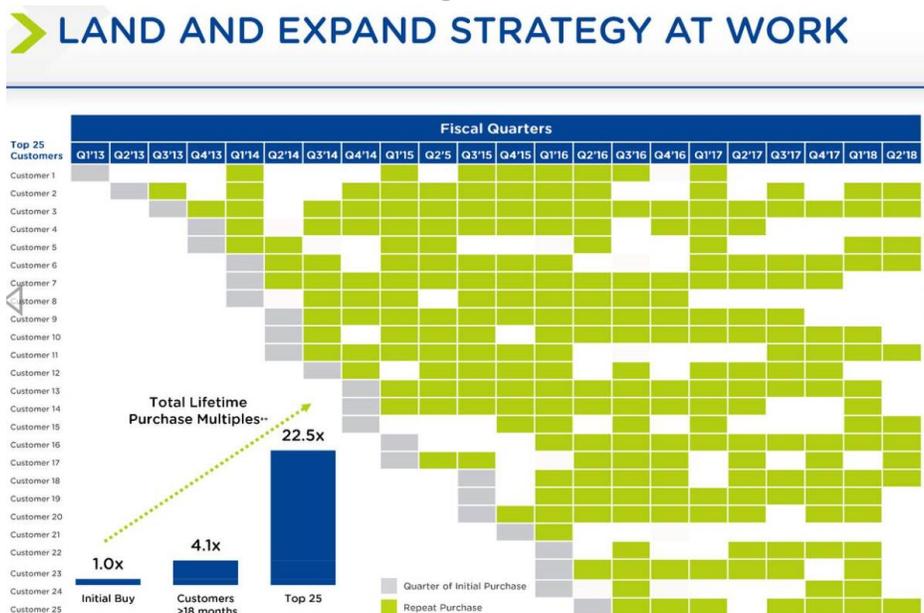


Figure 5:



The guidance for next quarters is non-GAAP with revenues between \$275 million and \$280 million. Gross margins will remain between 67-68%, and operating expenses will be about \$220 million. Most importantly as the business continues to evolve, the gross profit guidance yields a 50% growth rate from a year ago and will continue to increase. Management believes the best way to value the business in their transition to a software centric model is through gross profit dollars and growth in gross profit, not revenue or gross margins. Nutanix has adjusted Gross Profits of 178.22M last quarter, and Gross Profit Growth of 60.33% over the last year. The last goal for next quarter is to eliminate up to \$45 million of pass-through hardware, but the company is forecasting that its adjusted revenue growth this current quarter will be near 70%.

Citation:

<https://seekingalpha.com/article/4152652-nutanixs-ntnx-ceo-dheeraj-pandey-q2-2018-results-earnings-call-transcript?part=single>

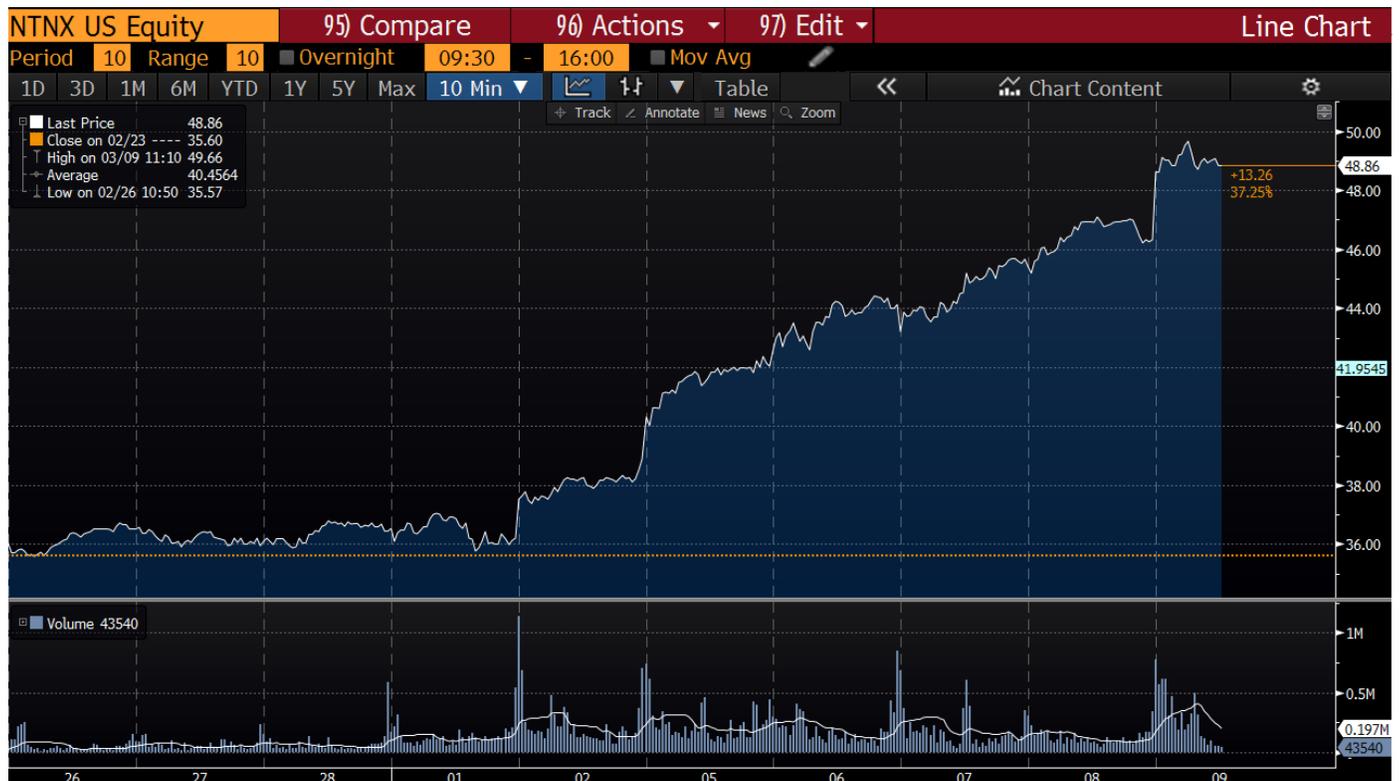
Acquisition of Minjar:

Nutanix has made some strategic acquisitions in their short life as a public company. The notable two were Calm and PernixData. Calm.io is a platform for automating software delivery and infrastructure changes, comprised of containers, clouds, and micro-service applications. Calm.io helped customers choose the correct Nutanix cloud product for their specific application. PernixData is a software that utilizes easy to use flash resources, PernixData is not effected by power loss situations- and will never lose your data. PernixData and Nutanix share a design philosophy for next generation technology for fast, seamless and effective infrastructure scaling. Their most recent acquisition was of Minjar. Minjar has a Botmetric service for optimizing performance of multi-cloud environments. Botmetric is an intelligent cloud management platform completely driven by machine intelligence. It utilizes 3 intelligent products for optimal speed and security.

From top down approach, this most recent acquisition of Minjar enhances the company's main theme of a hybrid cloud- and the two other acquisitions before only add to this. These acquisitions seem purely strategic, not designed for financial accretion, but this helps to drive home that Nutanix is the very best service/product on the market in the cloud management software segment. "Data from 451 Research shows that the future of IT is multi-cloud and hybrid, with 69 percent of respondents planning to have some type of multi-cloud environment by 2019. Yet the growth in multi- and hybrid cloud will make optimizing and analyzing cloud expenditure increasingly difficult. As companies continue to leverage multiple cloud platforms within their broader infrastructure deployments, managing these deployments to avoid waste is critical, and spend management and cost containment are top priorities. Unused public cloud instances or workloads running in the public cloud that are better suited for the private cloud could cause large, unnecessary costs for organizations spending millions of dollars on the cloud. This could be better spent on business-driving activities," said a Blog from StreetInsider. Through the Minjar acquisition, the Nutanix Enterprise Cloud OS will offer customers new capabilities to better manage their multi-cloud deployments, and continue to lead the developing market.

Below is a line chart showing the stock price over the last 10 days. March 1, 2018 is when the acquisition of Minjar was announced and the market has reacted very favorably. The large amount of cash generated in the last few quarters had led to this excess of cash that led to the acquisition. Last quarter they

generated over \$46M in Net Operating Cash Flow- with strong cash flow they could be leaning toward another acquisition. Duston Williams outlined this in the last earnings call. He said that they didn't expect any large deals in the near future, but definitely expectations for more smaller deals. He explained they wanted to be able to take advantage of situations with cash on hand.



<https://www.streetinsider.com/Corporate+News/Nutanix+%28NTNX%29+to+Acquire+Minjar/13890553.html>

Competitor Analysis:

Nutanix raised about \$238 million in their initial public offering in December of 2016, priced at \$16 a share- they were above estimates of \$13-\$15. That day the stock reached \$30.60, up approximately 91%. Nutanix had Silicon Valley on edge- their rapid growth model of raising money, burning cash quickly, and repeating has been the typical life cycle of emerging software start-ups. Nutanix was founded in 2009, and has since been growing against some of the biggest names in the data center such as VMware, EMC, Cisco, and Hewlett Packard.

Nutanix has a strong competitive advantage against these competitors. Customers typically want computing speed and efficiency offered by big cloud vendors like Amazon Web Services and Microsoft Azure. These large enterprises aren't practical to be used to push all the data and computing from companies onto a public cloud. Nutanix enables them to run private clouds and outsource public clouds in order to keep most of their data in-house. This also satisfies many company's fears as well as customers, in terms of privacy and hacking. Hacking has become an influential factor in terms of privacy of client's information, and to keep

data in-house on private clouds provides a higher sense of security. Twilio is about the only real competitor in the software industry, but unlike Nutanix they are purely software and operate at breakeven.

Nutanix is the market leader in the HCI (Hyper-converged infrastructure) appliances and software defined storage solutions. The products they offer bundle all data management into a single solution. Nutanix believes that by bundling all these offerings together, they will gradually make the data center infrastructure “invisible”. This is cost effective for both young, and mature companies that want to be flexible regarding storage with “hybrid” clouds.

Name (BICS Best Fit)	Mkt Cap (USD)	Ticker	↑	Rev Gr Adj YoY:Y	EPS - 1 Yr Gr:Q	Total Return:Y-1	Total Return:M-1	EBITDA Mrgn Adj:Y	FCF/Sh Gr:Q
Median	6.21B			27.36%	65.02%	30.58	19.16	10.87%	39.30%
100) NUTANIX INC - A	7.87B	NTNX		72.36%	41.33%	118.49	48.27	-50.33%	51.93%
101) CRAY INC	898.56M	CRAY		-37.68%	--	10.46	-0.92	-11.29%	--
102) HEWLETT PACKARD ENTE...	29.98B	HPE		-4.65%	520.00%	46.61	26.00	17.08%	76.84%
103) MERCURY SYSTEMS INC	2.39B	MRCY		51.24%	53.85%	30.85	16.93	19.04%	-38.30%
104) PURE STORAGE INC - CL...	4.54B	PSTG		40.53%	76.19%	100.78	8.46	-12.06%	39.30%
105) SUPER MICRO COMPUTER...	953.17M	SMCI		14.19%	150.00%	-21.50	4.03	4.66%	-928.90%
106) SEAGATE TECHNOLOGY	17.04B	STX		-3.49%	-45.00%	30.31	24.11	19.12%	42.49%
107) WESTERN DIGITAL CORP	29.64B	WDC		46.94%	--	30.18	21.39	24.03%	-1.58%

Above are some relative valuation metrics of Nutanix to some competitors mentioned before, and some other competitors in the industry. Nutanix is showing strong revenue growth, well over the average comps. The number that really sticks out is their Total return over the last year at 118.49%, this has been driven by their efficiencies in R&D and overhead spending while revenues and billings were increasing rapidly. Given the company’s strong booking performance and strong growth, Nutanix generated significant levels of operating and free cash flow. They recently sold \$575 million zero coupon convertible notes and increased their cash balance to \$920 million. This cash was used to acquire Minjar. The next section gives some color to who else is noticing this positive trend.

Citations:

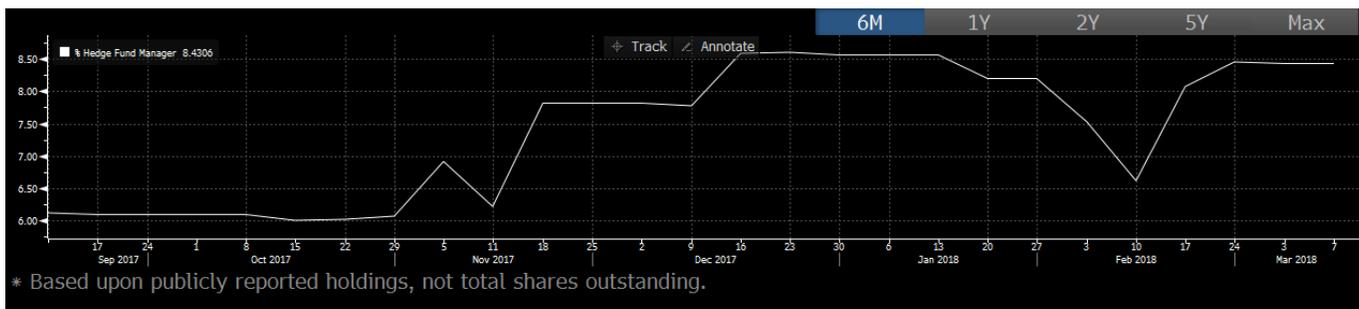
<https://www.cnbc.com/2016/09/30/nutanix-aims-to-crack-open-the-tech-ipo-window.html>

<https://www.fool.com/investing/2017/05/09/better-buy-twilio-inc-vs-nutanix-inc.aspx>

Ownership:

To the right is the most recent ownership summary for Nutanix. Investment Advisors make up the majority of ownership at 67.58%, Vanguard and Blackrock have the largest positions and make up 12% of the shares outstanding. The second are Hedge Fund Managers holding 8.20%. Hedge Fund Manager Ownership has increased by 0.23% in the last few weeks as their stock price continues to drive up. Investment Advisors have also taken notice and have a change of 9.66%. Nutanix is holding an analyst day on March 12th, which is expected to be a positive and timely event, which should serve to reduce the dispersion of Wall Street estimates. Below is Hedge Fund Manager Ownership over the last 6M. Ownership has drastically increased since February 12 when the stock was trading a little over \$30.

Compare Current Stats Against		01/28/18		
Top Ownership Type (%)				
51) Ownership Type	01/28/18	Curr	Change	
11) Investment Advisor	67.58	77.24	+9.66	↕
12) Hedge Fund Manager	8.20	8.43	+0.23	↕
13) Pension Fund	6.18	5.30	-0.88	↕
14) Individual	4.50	3.34	-1.16	↕
15) Venture Capital	10.36	3.03	-7.33	↕
16) Bank	1.03	1.04	+0.01	↕
17) Other	0.68	0.50	-0.18	↕
18) Brokerage	0.79	0.45	-0.34	↕
19) Insurance Company	0.31	0.24	-0.07	↕



Conclusion:

Nutanix's software business will continue to grow at a rapid rate. Their software is increasingly becoming ubiquitous in the market of hardware platforms and software. Their strategy is to expand the enterprise hybrid cloud framework, with new customers as well as new geographic and channel expansions. Their goal is to provide exceptional customer experience through software-defined infrastructure as true software running on commodity servers. This has what has driven Nutanix from their beginnings and will continue to grow the company into a void in the current/ developing market of HCI.

Duston Williams outlined at the end of the most recent earnings call that anyone that casts a negative opinion on a company that is slowly growing revenues during a period of transition, is not noticing their

strong gross profits. Nutanix has positioned themselves well within an accelerating market. I believe that they will surpass analyst expectations that have only continued to rise after each earnings call / announcement.

Nutanix, Inc. (NTNX)

CENTER FOR GLOBAL FINANCIAL STUDIES

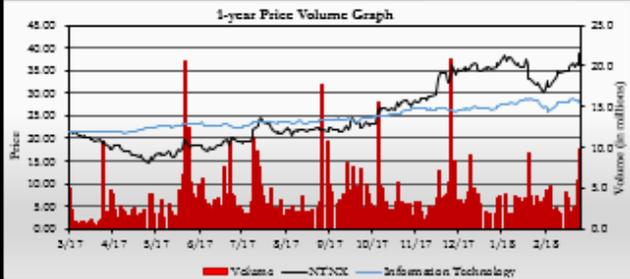
BULLISH

Analysis by Al Capone
3/9/2018

Current Price: \$44.31
Dividend Yield: 0.0%

Intrinsic Value
Target Price \$51.02
\$54.16

Target 1 year Return: 22.22%
Probability of Price Increase: 100%



Description	
Nutanix, Inc., together with its subsidiaries, provides an enterprise cloud operating system in North America, Europe, the Asia-Pacific, the Middle East, Latin America, and Africa.	
General Information	
Sector	Information Technology
Industry	Internet Software and Services
Last Guidance	February 12, 2018
Next earnings date	May 25, 2018
Market Assumptions	
Estimated Equity Risk Premium	6.12%
Effective Tax rate	23%

Market Data	
Market Capitalization	\$6,742.67
Daily volume (mil)	5.78
Shares outstanding (mil)	160.43
Diluted shares outstanding (mil)	152.83
% shares held by institutions	109%
% shares held by investment Managers	39%
% shares held by hedge funds	4%
% shares held by insiders	16.87%
Short interest	4.91%
Days to cover short interest	2.16
52 week high	\$42.45
52-week low	\$14.38
Volatility	0.00%

Quarter ending	Revenue	EBITDA
1/31/2017	2.18%	-292.64%
4/30/2017	3.04%	1044.72%
7/31/2017	3.95%	294.84%
10/31/2017	3.40%	-237.54%
1/31/2018	1.28%	-150.27%
Mean	2.79%	131.82%
Standard error	1.0%	8.3%

Part Earning Surprise		Market and Credit Scores	
Recommendation (STARS) Value	-3	Recommendation (STARS) Description	Hold
Quality Ranking Value	NR	Quality Ranking Description	Not Ranked
Short Score	-1	Market Signal Probability of Default % (Non-Rating)	-0.135%
Market Signal Probability of Default % (Non-Rating)	-0.135%	Credit Model Score (Non-Rating)	ccct

Industry and Segment Information	
LTM Revenue by Geographic Segment	U.S.--60%
LTM Revenue by Business Segment	Internet Software & Services--100%
Europe, The Middle East and Africa	--
Asia-Pacific	--
Other Americas	--

Peer	
LogMeIn, Inc.	Tableau Software, Inc.
Pure Storage, Inc.	Shopify Inc.
Super Micro Computer, Inc.	MuleSoft, Inc.
Bax, Inc.	Seagate Technology plc
New Relic, Inc.	Cray Inc.

Management	
Pandey, Dhooj	Co-Founder, Chairman of the Board & CEO
Williams, Duran	Chief Financial Officer
Sangster, David	Executive Vice President of Operations
Vadakketh, Sudheesh	President
Singh, Ajit	Co-Founder & Advisor
Lang, Kenneth	Chief Accounting Officer, VP & Corporate Cont'

Parities		Total Compensation Growth		Stock Price Growth During Years	
Return on Capital (GAAP)	210.2%	NTNX Historical	55.93%	Peers' Median (LTM)	12.85%
Operating Margin	-12%		-37.67%		11.38%
Revenue/Capital (GAAP)	-16.97		-1.48		1.13
ROE (GAAP)					29.4%
Net margin					9.6%
Revenue/Book Value (GAAP)	VALUE!	VALUE!			3.06

Inverted Funds		Peers' Median (LTM)	
Cash/Capital	88.5%	171.7%	41.7%
NIWC/Capital	-31.8%	121.7%	-11.6%
Operating Assets/Capital	41.3%	-194.2%	32.4%
Goodwill/Capital	2.1%	0.8%	37.5%



Profitability		NTNX (LTM)		NTNX Historical		Peers' Median (LTM)	
Return on Capital (GAAP)	210.2%	55.93%		12.85%			
Operating Margin	-12%	-37.67%		11.38%			
Revenue/Capital (GAAP)	-16.97	-1.48		1.13			
ROE (GAAP)				29.4%			
Net margin				9.6%			
Revenue/Book Value (GAAP)	VALUE!	VALUE!		3.06			

Capital Structure		NTNX (LTM)		NTNX Historical		Peers' Median (LTM)	
Total Debt/Market Capitalization	0.58	0.12		0.19			
Cost of Debt	4.9%	4.9%		4.2%			
CGFS Rating (F-rare, Z-rare, and default Probability: B)				10.2%			
WACC	8.2%	11.0%		10.2%			

Forecast Assumptions		Explicit Period (15 years)		Continuing Period	
Revenue Growth CAGR	11%	2%		2%	
Average Operating Margin	29%	15%		15%	
Average Net Margin	31%	23%		23%	
Growth in Capital CAGR	15%	2%		2%	
Growth in Claims CAGR	4%	2%		2%	
Average Return on Capital	18%	10%		10%	
Average Return on Equity	20%	11%		11%	
Average Cost of Capital	8%	8%		8%	
Average Cost of Equity Ke	9%	9%		9%	



Sensitivity Attribution Analysis	
Revenue	62.0%
Operating costs	45.0%
Capital expenditures	18.0%
Discount Rate	8.0%

Valuations	
Revenue Growth CAGR	11%
Average Operating Margin	29%
Average Net Margin	31%
Growth in Capital CAGR	15%
Growth in Claims CAGR	4%
Average Return on Capital	18%
Average Return on Equity	20%
Average Cost of Capital	8%
Average Cost of Equity Ke	9%

Sensitivity Attribution Analysis	
Revenue	62.0%
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