

NUTANIX FQ3 2024 EARNINGS

STEVE MCDOWELL, CHIEF ANALYST
MAY 30, 2024

CONTEXT

Nutanix reported impressive [financial results](#) for its fiscal Q3 2024 quarter, demonstrating significant growth and operational efficiency. The company surpassed its revenue expectations, achieving \$525 million, a clear indicator of its robust execution and strategic advancements in the IT sector.

Additionally, Nutanix announced a remarkable 24% year-over-year growth in its Annual Recurring Revenue (ARR), reaching \$1.82 billion. Its strong performance, coupled with notable customer wins and expansions, underscores the company's effectiveness in leveraging emerging technologies and securing its position in a competitive market.

FINANCIAL PERFORMANCE

Nutanix delivered a solid quarter that exceeded its own guidance.

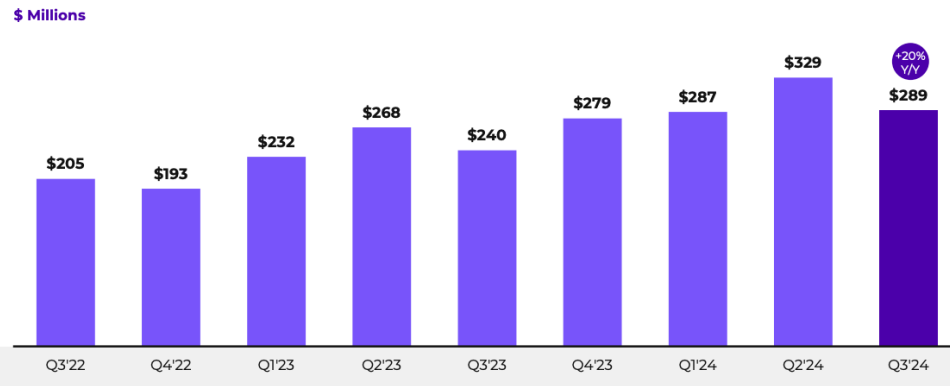
Q3 FY2024 Financial Summary

	Q3'24 Results	Y/Y Change	Q3'24 Guidance
ACV Billings	\$288.9M	20%	\$265 – \$275M
Annual Recurring Revenue	\$1.82B	24%	N/A
Average Contract Duration	3.0 Years	0.0 Years	N/A
Revenue	\$524.6M	17%	\$510 – \$520M
Non-GAAP Gross Margin	86.5%	250 bps	~85%
Non-GAAP Operating Expenses	\$380.4M	6%	N/A
Non-GAAP Operating Income	\$73.3M	\$56.1M	N/A
Non-GAAP Operating Margin	14.0%	10.2% pts	7.5 – 8.5%
Non-GAAP Net Income per Share (Diluted)	\$0.28	\$0.20	N/A
Free Cash Flow	\$78.3M	\$25.6M	N/A

Here are the critical aspects of their financial results:

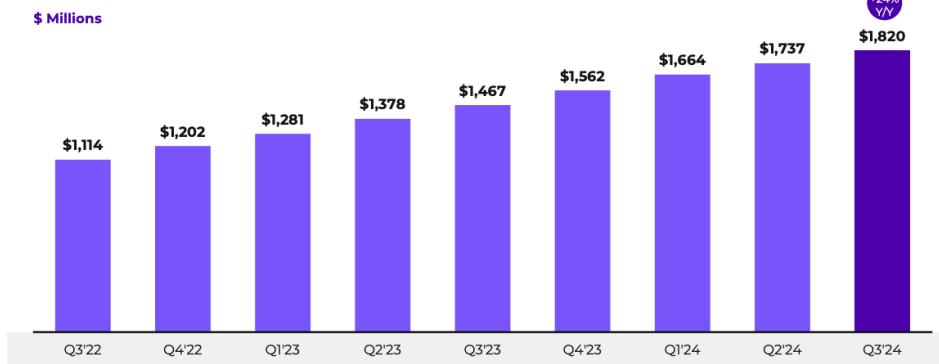
1. **Revenue:** Nutanix reported quarterly revenue of \$525 million, higher than the guided range of \$510 million to \$520 million, up 17% year-over-year.
2. **Annual Contract Value (ACV) Billings:** ACV billings for the quarter were \$289 million, surpassing the guided range of \$265 million to \$275 million and showing 20% year-over-year growth.

ACV Billings



3. **Annual Recurring Revenue (ARR):** ARR at the end of the quarter reached \$1.82 billion, up 24% year-over-year.

Annual Recurring Revenue



4. **Gross Margin and Operating Margin:** Nutanix reported a non-GAAP gross margin of 86.5%, higher than their expected range of around 85%. The non-GAAP operating margin was reported at 14%, significantly above the guided range of 7.5% to 8.5%.
5. **Net Income and Earnings Per Share:** The company's non-GAAP net income for the quarter was \$85 million, resulting in a fully diluted EPD of \$0.28 based on fully diluted weighted average outstanding of approximately 302 million shares.

- Cash Flow and Liquidity:** Free cash flow for the quarter was robust at \$78 million, representing a free cash flow margin of 15%. The company ended the quarter with cash, cash equivalents, and short-term investments totaling \$1.651 billion.
- Share Repurchase:** Nutanix continued repurchasing shares under the authorized share repurchase program, buying back about \$106 million of shares year-to-date through the third quarter.

Overall, Nutanix's financial performance reflects strong execution and disciplined financial management, with revenue, ACV billings, ARR, and profitability metrics all demonstrating significant growth and efficiency.

NON-FISCAL HIGHLIGHTS

During its earnings call, Nutanix highlighted several non-fiscal achievements for the quarter.

Q3 FY2024 Company Highlights

Delivers Outperformance Across All Q3'24 Guided Metrics	ACV Billings of \$288.9 million were up 20% year-over-year and revenue of \$524.6 million was up 17% year-over-year.
Raises Most FY'24 Guided Metrics	FY'24 outlook raised for ACV Billings, Non-GAAP Operating Margin, Non-GAAP Gross Margin and Free Cash Flow.
Nutanix Announces Expanded AI Partner Program and GPT-in-a-Box 2.0	Announced the Nutanix AI Partner Program, aimed at bringing together leading AI solutions and services, and GPT-in-a-Box 2.0, with new functionalities including integrations with NVIDIA Inference Microservices (NIM) and Hugging Face Large Language Models (LLMs).
Nutanix Announces Collaboration with Dell on New Joint Solutions for Hybrid Multicloud	Announced a collaboration with Dell Technologies aimed at accelerating customers' digital transformation journeys fueled by infrastructure modernization and modern application development.
Nutanix Announces Nutanix Kubernetes® Platform (NKP)	Announced Nutanix Kubernetes® Platform (NKP) to simplify management of container-based modern applications using Kubernetes.

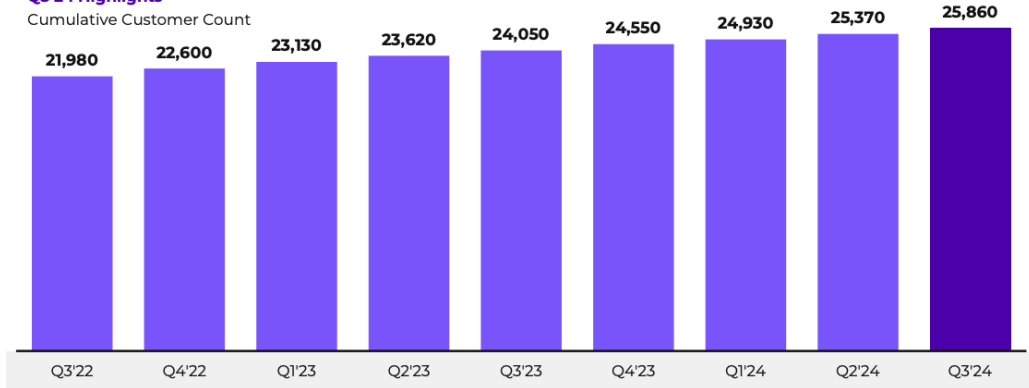
Here are the main points:

- Market Position and Customer Wins:** Nutanix highlighted several significant customer wins, showcasing their solutions' appeal across diverse sectors. Notable among these was an eight-figure ACV deal with a Fortune 50 financial services company in North America to streamline and automate their substantial database management operations using the Nutanix Cloud platform.

Customer Growth

Q3'24 Highlights

Cumulative Customer Count



- Product Development and Innovation:** Nutanix continues to invest in enhancing the capabilities of its products and solutions. During the quarter, it focused on integrating and optimizing its offerings to support enterprise applications and AI-driven demands better. This ongoing innovation is a cornerstone of Nutanix's strategy to maintain technological leadership and address evolving market needs.
- Focus on AI and Data Management:** The company emphasized leveraging AI to enhance its offerings, particularly in the realm of automating management and optimizing data access. Nutanix is positioning itself to take advantage of the growing demand for AI-enabled infrastructure solutions, which are increasingly critical in data-intensive industries.

OUTLOOK & GUIDANCE

For the upcoming quarter and the full fiscal year, Nutanix provided the following guidance:

	Q4'24 Guidance
ACV Billings	\$295 – \$305M
Revenue	\$530 – \$540M
Non-GAAP Gross Margin	85% to 86%
Non-GAAP Operating Margin	9% to 10%
Weighted Average Shares Outstanding (Diluted) ⁽¹⁾	~302M

Q4 Fiscal '24 Guidance:

- **ACV Billings:** Expected to be between \$295 million and \$305 million.
- **Revenue:** Projected to range from \$530 million to \$540 million.
- **Non-GAAP Gross Margin:** Anticipated to be between 85% and 86%.
- **Non-GAAP Operating Margin:** Estimated to be between 9% and 10%.
- **Fully Diluted Shares Outstanding:** Approximately 302 million shares.

Full Year Fiscal '24 Guidance:

- **ACV Billings:** Forecasted to be between \$1.12 billion and \$1.13 billion, representing a year-over-year growth of 18% at the midpoint.
- **Revenue:** Expected to be between \$2.13 billion and \$2.14 billion, indicating a year-over-year growth of 15% at the midpoint.
- **Non-GAAP Gross Margin:** Approximately 86%.
- **Non-GAAP Operating Margin:** Approximately 15%.
- **Free Cash Flow:** Expected to range from \$520 million to \$540 million, representing a free cash flow margin of 25% at the midpoint.

This guidance reflects Nutanix's expectations for continued growth and operational efficiency, highlighting their confidence in maintaining strong financial performance and managing operational expenses effectively.

Nutanix explained several factors contributing to the variability and the more conservative outlook in their guidance, particularly relating to the new and expansion Annual Contract Value (ACV) and Annual Recurring Revenue (ARR) performance, which were below their initial expectations at the start of the fiscal year:

1. **Larger Deals with Longer Sales Cycles:** Nutanix noted an increased presence of more significant, strategic deals in their pipeline. These larger deals typically involve more complex decision-making processes, higher-level approvals, and longer sales cycles, which introduce greater variability in timing and outcomes.
2. **Strategic Decisions and C-Suite Approvals:** The larger deals often involve strategic decisions at the highest levels of the customer's organization (C-suite), leading to prolonged negotiation and deliberation periods.
3. **Competitive Dynamics:** Aggressive competitive responses in the market, especially in the context of larger opportunities, also contribute to the unpredictability and extended duration of sales cycles.
4. **Impact of Industry Mergers and Acquisitions (M&A):** Disruptions from recent industry M&A activities have also influenced the business environment, affecting customer decisions and potentially delaying commitments.

5. **Increased Mix of Larger Deals:** The shift towards a higher mix of larger deals in the pipeline, while potentially beneficial for long-term growth, has increased the unpredictability and affected the short-term performance metrics like ACV and ARR.

These factors collectively contribute to the caution in Nutanix's guidance, reflecting the challenges of closing larger deals within predictable timeframes and the overall impact of market dynamics on their sales processes.

ANALYSIS

Nutanix's performance in the latest quarter paints a picture of a company effectively navigating the complexities of the enterprise IT landscape while capitalizing on strategic growth opportunities. Its \$525 million revenue, which surpassed the higher end of its guidance, and a 24% year-over-year increase in ARR to \$1.82 billion, underscore Nutanix's robust execution and the sticky nature of its customer engagements.

Nutanix continues to leverage artificial intelligence (AI) to enhance its offerings, which is timely given the ongoing corporate shift towards AI and machine learning technologies. By integrating AI into its core offerings, Nutanix is not only improving operational efficiencies but is also better positioned to address the increasingly complex needs of its customers.

Looking ahead, Nutanix appears well-positioned to capitalize on several growth opportunities. The ongoing digital transformation across industries, accelerated by pandemic-induced shifts to remote work, creates a sustained demand for cloud solutions that offer scalability, reliability, and efficiency—qualities that Nutanix's solutions provide. Furthermore, increasing AI and data analytics integration into enterprise operations presents a substantial opportunity for Nutanix to expand its offerings in data management and automated solutions.

Nutanix's performance this quarter reflects strong and strategic execution and an ability to leverage key growth opportunities. The company's focus on customer-centric innovation, expansion within existing accounts, and strategic use of AI and machine learning positions it favorably in the competitive cloud infrastructure market. Nutanix's challenge will be maintaining this momentum while managing the longer and potentially more complex sales cycles associated with larger enterprise deals.



© Copyright 2024 NAND Research.

NAND Research is a registered trademark of NAND Research LLC, All Rights Reserved.

This document may not be reproduced, distributed, or modified, in physical or electronic form, without the express written consent of NAND Research. Questions about licensing or use of this document should be directed to info@nand-research.com.

The information contained within this document was believed by NAND Research to be reliable and is provided for informational purposes only. The content may contain technical inaccuracies, omissions, or typographical errors. This document reflects the opinions of NAND Research, which is subject to change. NAND Research does not warranty or otherwise guarantee the accuracy of the information contained within.

NAND Research is a technology-focused industry analyst firm providing research, customer content, market and competitive intelligence, and custom deliverables to technology vendors, investors, and end-customer IT organizations.

Contact NAND Research via email at info@nand-research.com or visit our website at nand-research.com.