



November 28, 2018

Nutanix Inc

A disruptive force in hybrid compute

Our view: Results were strong, with in-line to better metrics while guidance moves higher. Ultimately we remain confident in the transition to a fast-growing subscription business with high FCF margins. Maintaining Outperform rating and \$60 price target, as we remain bullish on the long-term opportunity to disrupt legacy on-premise infrastructure with hybrid compute solutions.

Key points:

- **All you need to know:** Nutanix reported a strong quarter, as metrics were in-line to above expectations while macros were cited as positive. As such, guidance was raised as the push to recurring software accelerates. As a highlight and a new disclosure, 51% of billings were subscription (41% in FY/18 and 31% in FY/17), which is expected to reach 70–75% in 4–6 quarters. As a result, subscription billings grew 97% while subscription revenue grew 104%. Additionally, software and support billings grew 50% while software and support revenue grew 44%. Much of this success was driven by strong upsells, as 76% of bookings came from repeat customers, with 99 customers reporting lifetime bookings +\$5M (+111% y/y), 106 at \$3–5M (+83% y/y), and 509 at \$1–3M (+36% y/y). Finally, management continues to believe it will hit or exceed \$3B of software and support billings by FY/21. Maintaining OP and \$60 PT.
- **Core, Essentials, and Enterprise...oh my:** Management spent a considerable amount of time discussing the crawl/walk/run customer migration between Core, Essentials, and Enterprise. While not necessarily a bundling strategy, as a customer moves from Core to Enterprise, additional higher-tier hybrid and multi-cloud features are consumed such as Era, Leap, Frame, Beam, etc. As of Q1, 19% of deals involved more than one product in Essentials/Enterprise vs. 17% in FY/18 and 7% in FY/17.
- **Other nuggets:** 1) Revenue of \$313M (+14%) topped consensus of \$305M with \$104M less hardware revenue (expectations were ~ \$109M); 2) billings of \$384M (+22%) outpaced revenue growth and were in line with consensus; 3) record GM of 78.6% vs. 61.9% y/y; 4) EPS of (\$0.13) topped consensus of (\$0.27) and was aided by \$14M less of OPEX than guidance; hiring was lower than expected but should accelerate; 5) Xi Cloud Leap (DR) went live with several large customers in the first few weeks following introduction; 6) AHV was in 38% of customers vs. 35% in FY/18 and 16% in FY/17; 7) added 880 net-customers vs. 762 y/y including 20 new G2K customers to total 720; customers with lifetime purchases +\$1M were 714, +69 q/q; and 8) 110 customers transitioned to a term subscription model, ~2x expectations, with a more focused push in Q2/19.
- **Thinking through the outlook:** Midpoint Q2/18 revenue/EPS are \$330M/(\$0.25) vs. consensus of \$327M/(\$0.26). The billings-to-revenue ratio is expected to be 1.26 vs. consensus of 1.24 or midpoint billings of \$415M vs. consensus of \$407M. Gross margins are expected to be 78–79% vs. consensus of 78.9%, or a 1,150 bps improvement y/y.

RBC Capital Markets, LLC

Matthew Hedberg (Analyst)
(612) 313-1293
matthew.hedberg@rbccm.com

Ross MacMillan (Analyst)
(212) 428-7917
ross.macmillan@rbccm.com

Amit Daryanani, CFA (Analyst)
(415) 633-8659
amit.daryanani@rbccm.com

Dan Bergstrom (Analyst)
(612) 313-1254
dan.bergstrom@rbccm.com

Sector: Software

Outperform

NASDAQ: ONU; USD 40.97

Price Target USD 60.00

WHAT'S INSIDE

<input type="checkbox"/> Rating/Risk Change	<input type="checkbox"/> Price Target Change
<input type="checkbox"/> In-Depth Report	<input checked="" type="checkbox"/> Est. Change
<input type="checkbox"/> Preview	<input checked="" type="checkbox"/> News Analysis

Scenario Analysis*

Downside Scenario	Current Price	Price Target	Upside Scenario
34.00 ↓ 17%	40.97	60.00 ↑ 46%	82.00 ↑ 100%

*Implied Total Returns

Key Statistics

Shares O/S (MM):	192.0	Market Cap (MM):	7,866
Dividend:	0.00	Yield:	0.0%
		Avg. Daily Volume:	2,459,523

RBC Estimates

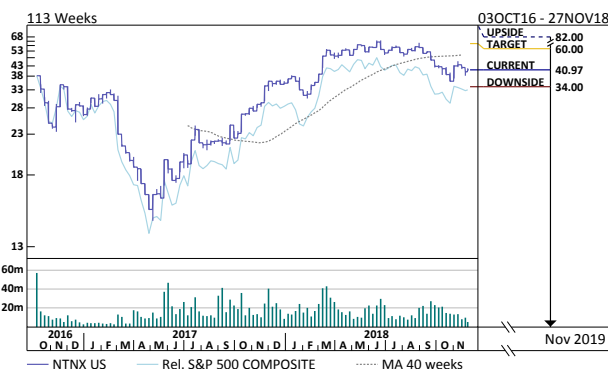
	2018A	2019E	2020E	2021E
FY Jul				
Revenue	1,155.5	1,372.3	1,773.0	2,182.0
Prev.		1,365.0	1,759.0	2,162.0
EPS, Adj Diluted	(0.62)	(1.18)	(1.76)	(1.65)
Prev.		(1.42)	(1.84)	(1.70)
P/AEPS	NM	NM	NM	NM
Revenue	Q1	Q2	Q3	Q4
2018	275.6A	286.7A	289.4A	303.7A
2019	313.3A	330.0E	347.0E	382.0E
Prev.	306.0E			
2020	405.0E	425.0E	453.0E	490.0E
Prev.	402.0E	422.0E	450.0E	485.0E
EPS, Adj Diluted				
2018	(0.16)A	(0.14)A	(0.21)A	(0.11)A
2019	(0.13)A	(0.25)E	(0.39)E	(0.39)E
Prev.	(0.27)E	(0.32)E	(0.41)E	(0.42)E
2020	(0.44)E	(0.47)E	(0.45)E	(0.40)E
Prev.	(0.46)E	(0.49)E	(0.47)E	(0.42)E

All values in USD unless otherwise noted.



Target/Upside/Downside Scenarios

Exhibit 1: Nutanix, Inc.



Source: Bloomberg and RBC Capital Markets estimates for Upside/Downside/Target

Target price/base case

We calculate our base-case price target of \$60 using a 7.0x EV/S multiple on our CY/19 revenue estimate. Our target multiple is essentially in line with fast-growing software peers at 6.8x and a premium to networking and storage peers at 3.5x, which we believe is reasonable given an above-average growth rate and transition to a software only model. Our price target supports an Outperform rating.

Upside scenario

Our upside case of \$82 is based on revenue growth of 26% in CY/18 and 31% in CY/19, or 500 bps above our base-case estimates. To reach this level of growth, we believe there would need to be some combination of higher cross-selling, better new customer additions, and an overall better macro environment. We believe upside to revenue and margins could point to 9.0x CY/19 EV/S multiple, or a premium to fast-growing subscription software peers.

Downside scenario

Our downside case of \$34 is based on revenue growth of 16% in CY/18 and 21% in CY/19, or 500 bps below our base-case estimates. To reach this level of growth, we believe there would need to be a falloff in tech spending, less success expanding into new customers, and lower renewal rates. Additionally, with a less-attractive growth and margin profile, we believe the stock could receive a lower multiple. We believe downside to revenue and margins could point to a 3.5x CY/19 EV/S multiple, which is a discount to peers fast-growing software peers and in line with network and storage peers.

Investment summary

High-level investment thesis

Nutanix is a market leader in the expanding hyper-converged infrastructure market. The Nutanix platform leverages web-scale engineering and consumer-grade design to converge compute, virtualization, and storage natively into a software-defined solution built on commodity hardware. The result is a lower cost of ownership, cloud-like infrastructure consumption, and the ability to migrate applications from a private cloud to a public cloud or from public cloud to public cloud for a broad range of enterprise applications.

Potential catalysts

(1) Acquiring new customers beyond its base of total and G2K customers. (2) Cross and upsell its base. (3) New product introduction, as it recently introduced its own hypervisor as well as additional networking virtualization features, and we expect a high level of innovation from here including security features. (4) Expanded channel distribution, as the company primarily utilizes an indirect sales model with channel and OEM partners including Dell and Lenovo, with Cisco as a meet-in-the-channel partner. Other partnerships could emerge including HP Enterprise among others.

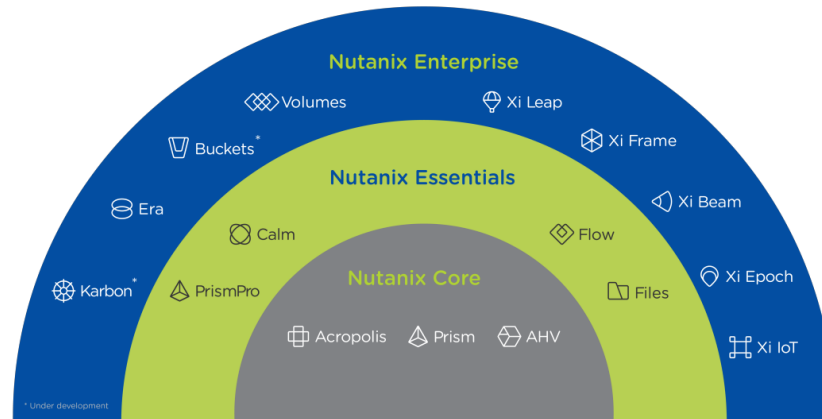
Where we could be wrong

(1) The company has a history of operating losses and may fail to become profitable in the future. (2) Changes in the OEM relationship with Dell. That said, we believe the relationship remains strong, as they recently signed a five-year extension, the purchasing decisions are largely customer driven, and we feel Nutanix has leading-edge technology. (3) Increased competition from both large legacy infrastructure vendors as well as emerging pure-play hyper-converged vendors. (4) The pivot to a software-focused model.



Management spent a considerable amount of time discussing the crawl/walk/run customer migration between Core, Essentials, and Enterprise. While not necessarily a bundling strategy, as a customer moves from Core to Enterprise, additional higher-tier hybrid and multi-cloud features are consumed such as Era, Leap, Frame, Beam, etc. As of Q1, 19% of deals involved more than one product in Essentials/Enterprise vs. 17% in FY/18 and 7% in FY/17. Below are the products that make up Core, Essentials, and Enterprise.

Exhibit 2: Nutanix Core, Essentials, and Enterprise



Source: Company reports

The following table shows our estimates vs. actual results for Q1.

Exhibit 3: Results vs. RBC estimates

	Oct-18A				
Revenue, EPS and Margins	Actual	Est.	Delta	Y/Y	Q/Q
Software license fees	224.3	226.0	-1.7	2.4%	-0.1%
Consulting services and other revenues	88.9	80.0	8.9	57.4%	12.4%
Total revenue	313.3	306.0	7.3	13.7%	3.1%
Gross margin	78.6%	78.5%	8 bps	1672 bps	86 bps
Sales and marketing	173.3	191.0	-17.7	31.9%	4.7%
as % of revenue	55.3%	62.4%	-709 bps	763 bps	81 bps
Research and development	79.5	75.0	4.5	62.4%	10.9%
as % of revenue	25.4%	24.5%	87 bps	761 bps	178 bps
General and administrative	19.2	19.0	0.2	57.3%	3.5%
as % of revenue	6.1%	6.2%	-8 bps	170 bps	2 bps
Operating income	-25.9	-44.8	18.9	NA	NA
Operating margin	-8.3%	-14.6%	637 bps	-22 bps	-175 bps
Other income	-1.4	0.0	-1.4	NA	NA
Taxes	-3.6	2.0	-5.6	NA	NA
Tax rate	NA	-4.5%	NA	NA	NA
EPS	(\$0.13)	(\$0.27)	\$0.13	\$0.02	(\$0.02)
Shares	175.4	176.0	-0.6	11.9%	2.5%
Balance Sheet and Cash Flow					
Deferred revenue	701.8	709.5	-7.7	71.7%	11.2%
Billings	383.9	384.3	-0.4	21.7%	-2.8%
CFO	49.8	23.2	26.6	393.0%	119.1%
CFO per share	\$0.28	\$0.13	\$0.15	\$0.22	\$0.15
CAPEX	-29.8	-25.0	-4.8	66.1%	83.2%
Free cash flow	20.0	-1.8	21.8	-354.4%	209.4%
Free cash flow per share	\$0.11	(\$0.01)	\$0.12	\$0.16	\$0.08
\$ in million except per share data					

Source: Company reports and RBC Capital Markets estimates



Q2/19 guidance

- Revenue is expected to be \$325 million to \$335 million, or \$330 million at the midpoint. This compares to RBC at \$330 million and consensus of \$327 million.
- Billings is expected to be between \$410 million and \$420 million or \$415 million at the midpoint. This compares to RBC at \$415.1 million and consensus of \$406.6 million.
- Non-GAAP gross margin is expected to be between 78% to 79% or 78.5% at the midpoint. This compares to RBC at 78.6% and consensus of 78.9%.
- Non-GAAP operating expense is expected to be \$300 million to \$310 million or \$305 million at the midpoint. This compares to RBC at \$315 million and consensus of \$308 million.
- Non-GAAP EPS is expected to be (\$0.25). This compares to RBC at (\$0.32) and consensus of (\$0.26).

Exhibit 4: Revised vs. prior estimates

					Oct-18A		Jan-19E		FY19E		FY20E	
Revenue, EPS and Margins	Oct-17A	Jan-18A	Apr-18A	Jul-18A	Actual	Est.	New	Prior	New	Prior	New	Prior
Product revenue	219.1	223.2	221.1	224.7	224.3	226.0	235.0	245.0	977.3	1,011.0	1,275.0	1,315.0
Services revenue	56.5	63.6	68.3	79.1	88.9	80.0	95.0	85.0	394.9	354.0	498.0	444.0
Total revenue	275.6	286.7	289.4	303.7	313.3	306.0	330.0	330.0	1,372.3	1,365.0	1,773.0	1,759.0
Gross margin	61.9%	63.5%	68.4%	77.7%	78.6%	78.5%	78.4%	78.6%	78.4%	78.5%	78.7%	78.6%
Sales and marketing	131.4	135.1	151.6	165.6	173.3	191.0	202.0	212.3	863.8	898.9	1,217.8	1,225.0
as % of revenue	47.7%	47.1%	52.4%	54.5%	55.3%	62.4%	61.2%	64.3%	62.9%	65.9%	68.7%	69.6%
Research and development	49.0	53.9	64.8	71.7	79.5	75.0	82.0	82.0	338.2	333.7	402.9	399.7
as % of revenue	17.8%	18.8%	22.4%	23.6%	25.4%	24.5%	24.8%	24.8%	24.6%	24.4%	22.7%	22.7%
General and administrative	12.2	13.4	16.0	18.5	19.2	19.0	20.7	20.7	87.6	87.4	111.1	110.2
as % of revenue	4.4%	4.7%	5.5%	6.1%	6.1%	6.2%	6.3%	6.3%	6.4%	6.4%	6.3%	6.3%
Operating income	-30.3	-39.7	-43.3	-44.4	-25.9	-44.8	-46.0	-55.7	-215.1	-249.7	-336.7	-352.7
Operating margin	-8.0%	-7.0%	-11.9%	-6.5%	-8.3%	-14.6%	-13.9%	-16.9%	-15.7%	-18.3%	-19.0%	-20.1%
Other income	-0.5	-0.1	2.7	3.0	-1.4	0.0	3.0	0.0	1.6	0.0	0.0	0.0
Taxes	2.1	2.9	2.7	2.3	-3.6	2.0	2.0	2.0	2.4	8.0	8.0	8.0
Tax rate	-9.4%	-14.0%	-8.6%	-13.6%	NA	-4.5%	-4.6%	-3.6%	-1.1%	-3.2%	-2.4%	-2.3%
EPS	(\$0.16)	(\$0.14)	(\$0.21)	(\$0.11)	(\$0.13)	(\$0.27)	(\$0.25)	(\$0.32)	(\$1.18)	(\$1.42)	(\$1.76)	(\$1.84)
Shares	156.8	161.7	166.8	171.2	175.4	176.0	180.0	179.5	181.5	181.3	195.8	195.3
Balance Sheet and Cash Flow												
Deferred revenue	408.8	478.0	539.9	631.2	701.8	709.5	786.0	794.6	986.0	996.8	1,537.6	1,554.5
Billings	315.3	355.9	351.3	395.1	383.9	384.3	414.2	415.1	1,727.1	1,730.6	2,324.7	2,316.7
CFO	10.1	46.4	13.3	22.7	49.8	23.2	16.9	31.9	103.9	102.9	178.4	175.8
CFO per share	\$0.06	\$0.29	\$0.08	\$0.13	\$0.28	\$0.13	\$0.09	\$0.18	\$0.57	\$0.57	\$0.91	\$0.90
CAPEX	-18.0	-14.0	-14.1	-16.3	-29.8	-25.0	-25.0	-25.0	-104.8	-100.0	-100.0	-100.0
Free cash flow	-7.9	32.4	-0.8	6.5	20.0	-1.8	-8.1	6.9	-1.0	2.9	78.4	75.8
Free cash flow per share	(\$0.05)	\$0.20	(\$0.00)	\$0.04	\$0.11	(\$0.01)	(\$0.05)	\$0.04	(\$0.01)	\$0.02	\$0.40	\$0.39

Source: Company reports and RBC Capital Markets estimates



Valuation

We calculate our base-case price target of \$60 using a 7.0x EV/S multiple on CY/19 revenue estimate. Our target multiple is essentially in line with fast-growing software peers and a premium to networking and storage peers, which we believe is reasonable given an above-average growth rate and transition to a software-only model. Our price target supports an Outperform rating.

Risks to rating and price target

Risks to our price target and rating could include changes in the macro environment, moderating IT spending, a slowdown in revenue growth, changes in OEM and channel relationships, or should acceptance of the company's products change relative to new entrants and established competitors.

Company description

Nutanix is the market leader in the expanding hyper-converged infrastructure market. The Nutanix platform leverages web-scale engineering and consumer-grade design to converge compute, virtualization, and storage natively into a software-defined solution built on commodity hardware.



Ticker: NTNX (\$M) unless noted	Jul-18A				Jul-19E				Jul-20E				Jul-21E				FY18A	FY19E	FY20E	FY21E	CY17A	CY18E	CY19E	CY20E
	Oct-17A	Jan-18A	Apr-18A	Jul-18A	Oct-18A	Jan-19E	Apr-19E	Jul-19E	Oct-19E	Jan-20E	Apr-20E	Jul-20E	Oct-20E	Jan-21E	Apr-21E	Jul-21E								
INCOME STATEMENT																								
Product	219.1	223.2	221.1	224.7	224.3	235.0	246.0	272.0	290.0	305.0	325.0	355.0	365.0	380.0	400.0	440.0	888.0	977.3	1,275.0	1,585.0	803.8	905.1	1,113.0	1,425.0
Support and Services	56.5	63.6	68.3	79.1	88.9	95.0	101.0	110.0	115.0	120.0	128.0	135.0	140.0	145.0	152.0	160.0	267.5	394.9	498.0	597.0	216.7	331.3	446.0	548.0
Total revenue	275.6	286.7	289.4	303.7	313.3	330.0	347.0	382.0	405.0	425.0	453.0	490.0	505.0	525.0	552.0	600.0	1,155.5	1,372.3	1,773.0	2,182.0	1,020.4	1,236.4	1,559.0	1,973.0
Total Cost of Revenue	105.1	104.5	91.6	67.6	67.1	71.3	75.2	83.1	86.3	90.5	96.5	103.6	107.0	111.1	114.7	123.6	368.9	296.7	376.9	456.4	383.7	297.6	335.2	418.2
Gross income	170.5	182.2	197.8	236.1	246.2	258.7	271.8	298.9	318.7	334.5	356.5	386.4	398.0	413.9	437.3	476.4	786.6	1,075.5	1,396.1	1,725.6	636.8	938.8	1,223.8	1,554.8
Sales and marketing	131.4	135.1	151.6	165.6	173.3	202.0	232.5	255.9	279.5	297.5	312.6	328.3	343.4	357.0	369.8	384.0	583.7	863.8	1,217.8	1,454.2	498.2	692.5	1,065.4	1,341.3
Research and development	49.0	53.9	64.8	71.7	79.5	82.0	86.7	90.0	94.0	99.1	103.1	106.8	113.4	118.3	121.5	126.7	239.4	338.2	402.9	479.9	199.1	298.0	369.8	441.5
General and administrative	12.2	13.4	16.0	18.5	19.2	20.7	22.9	24.8	26.3	27.0	28.2	29.6	31.1	31.7	32.7	34.4	60.2	87.6	111.1	130.0	49.4	74.5	101.1	120.5
Operating expenses	192.6	202.4	232.4	255.8	272.1	304.7	342.1	370.7	399.8	423.6	443.8	464.6	487.9	507.0	524.1	545.1	883.2	1,289.6	1,731.8	2,064.1	746.7	1,065.0	1,536.2	1,903.3
Operating income	(22.1)	(20.2)	(34.6)	(19.7)	(25.9)	(46.0)	(70.3)	(71.9)	(81.2)	(89.1)	(87.2)	(78.3)	(89.9)	(93.1)	(86.8)	(68.7)	(97.7)	(215.1)	(336.7)	(339.5)	(109.9)	(126.2)	(312.4)	(348.5)
Other income	(0.5)	(0.1)	2.7	3.0	(1.4)	3.0	-	-	(8.1)	(8.9)	(8.7)	(7.3)	(8.9)	(9.3)	(8.6)	(6.8)	5.1	1.6	-	-	(0.6)	7.3	-	-
Pretax income	(22.6)	(20.3)	(31.9)	(16.7)	(27.3)	(43.0)	(70.3)	(71.9)	(81.2)	(89.1)	(87.2)	(78.3)	(89.9)	(93.1)	(86.8)	(68.7)	(91.5)	(212.5)	(335.7)	(338.5)	(110.5)	(118.9)	(312.4)	(348.5)
Taxes	2.1	2.9	2.7	2.3	(3.6)	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	10.0	2.4	8.0	8.0	9.1	3.4	8.0	8.0
Net income	(24.7)	(23.2)	(34.6)	(19.0)	(23.7)	(45.0)	(72.3)	(73.9)	(83.2)	(91.1)	(89.2)	(80.3)	(91.9)	(95.1)	(88.8)	(70.7)	(101.5)	(214.9)	(343.7)	(346.5)	(119.6)	(122.3)	(320.4)	(356.5)
Earnings per share	(\$0.16)	(\$0.14)	(\$0.21)	(\$0.11)	(\$0.13)	(\$0.25)	(\$0.39)	(\$0.39)	(\$0.44)	(\$0.47)	(\$0.45)	(\$0.40)	(\$0.45)	(\$0.46)	(\$0.42)	(\$0.38)	(\$0.62)	(\$1.18)	(\$1.76)	(\$1.65)	(\$0.78)	(\$0.71)	(\$1.70)	(\$1.76)
Diluted shares outstanding	156.8	161.7	166.8	171.2	175.4	180.0	183.5	187.0	190.5	194.0	197.5	201.0	204.5	208.0	211.5	215.0	164.1	181.5	195.8	209.8	153.8	173.4	188.8	202.8
KEY METRICS																								
DSO	56	56	60	77	68	60	60	60	60	60	60	60	60	60	60	60	934.3	944.0	1,022.4	1,183.5	610.4	391.7	387.5	472.0
Cash	365.9	918.3	923.5	934.3	965.0	956.9	944.3	944.0	947.9	952.7	973.5	1,022.4	1,027.0	1,037.2	1,088.4	1,183.5	55.69	55.20	55.22	55.64	53.97	52.26	52.05	52.33
Cash per share	\$2.33	\$5.68	\$5.53	\$5.46	\$5.50	\$5.32	\$5.15	\$5.05	\$4.98	\$4.91	\$4.93	\$5.09	\$5.02	\$4.99	\$5.15	\$5.50	\$5.07	\$5.07	\$5.07	\$5.07	\$5.07	\$5.07	\$5.07	\$5.07
Net cash	365.9	502.6	500.9	504.7	528.2	520.1	507.6	507.3	511.2	515.9	536.8	585.7	590.2	600.5	651.6	746.8	530.7	507.3	585.7	746.8	502.6	520.1	515.9	600.5
Net cash per share	\$2.33	\$3.11	\$3.00	\$2.95	\$3.01	\$2.89	\$2.77	\$2.71	\$2.68	\$2.66	\$2.72	\$2.91	\$2.89	\$2.89	\$3.08	\$3.47	\$3.07	\$2.80	\$2.99	\$3.56	\$3.27	\$3.00	\$2.73	\$2.96
Deferred revenue	408.8	478.0	539.9	631.2	701.8	786.0	880.3	986.0	1,104.3	1,231.3	1,372.9	1,537.6	1,710.6	1,903.6	2,122.5	2,366.6	631.2	986.0	1,537.6	2,366.6	478.0	1,231.3	1,903.6	2,366.6
Billings	315.3	355.9	351.3	395.1	383.9	414.2	441.3	487.6	523.3	552.0	594.6	654.7	678.0	718.0	770.9	844.1	1,417.6	1,727.1	2,324.7	3,010.9	1,194.6	1,544.0	2,004.3	2,645.3
Cash flow from operations	10.1	46.4	13.3	22.7	49.8	16.9	12.5	24.7	28.9	29.8	45.8	73.9	29.6	35.3	76.2	120.2	92.6	103.9	178.4	261.1	46.4	102.8	95.8	184.5
Cash flow per share	\$0.06	\$0.29	\$0.08	\$0.13	\$0.28	\$0.09	\$0.07	\$0.13	\$0.15	\$0.15	\$0.23	\$0.37	\$0.14	\$0.17	\$0.36	\$0.56	\$0.56	\$0.57	\$0.91	\$1.24	\$0.30	\$0.59	\$0.51	\$0.91
Capital expenditures	(18.0)	(14.0)	(14.1)	(16.3)	(29.8)	(25.0)	(25.0)	(25.0)	(25.0)	(25.0)	(25.0)	(25.0)	(25.0)	(25.0)	(25.0)	(25.0)	(62.4)	(104.8)	(100.0)	(100.0)	(57.6)	(85.2)	(100.0)	(100.0)
Free cash flow	(7.9)	32.4	(0.8)	6.5	20.0	(8.1)	(12.5)	(0.3)	3.9	4.8	20.8	48.9	4.6	10.3	51.2	95.2	30.2	(1.0)	78.4	161.1	(11.1)	17.5	(4.2)	84.5
Free cash flow per share	(\$0.05)	\$0.20	(\$0.00)	\$0.04	\$0.11	(\$0.05)	(\$0.07)	(\$0.00)	\$0.02	\$0.02	\$0.11	\$0.24	\$0.02	\$0.05	\$0.24	\$0.44	\$0.18	(\$0.01)	\$0.40	\$0.77	(\$0.07)	\$0.10	(\$0.02)	\$0.42
PERCENT OF REVENUE																								
Product	79.5%	77.8%	76.4%	74.0%	71.6%	71.2%	70.9%	71.2%	71.6%	71.8%	71.7%	72.4%	72.3%	72.4%	72.5%	73.3%	76.9%	71.2%	71.9%	72.6%	78.8%	73.2%	71.4%	72.2%
Support and Services	20.5%	22.2%	23.6%	26.0%	28.4%	28.8%	29.1%	28.8%	28.4%	28.2%	28.3%	27.6%	27.7%	27.6%	27.5%	26.7%	23.1%	28.8%	28.1%	27.4%	21.2%	26.8%	28.6%	27.8%
Gross income	61.9%	63.5%	68.4%	77.7%	78.6%	78.4%	78.3%	78.2%	78.7%	78.7%	78.7%	78.9%	78.8%	78.8%	79.2%	79.4%	68.1%	78.4%	78.7%	79.1%	62.4%	75.9%	78.5%	78.8%
Research and development	17.8%	18.8%	22.4%	23.6%	25.4%	24.8%	25.0%	23.6%	23.2%	23.3%	22.8%	21.8%	22.5%	22.5%	22.0%	21.1%	20.7%	24.6%	22.7%	22.0%	19.5%	24.1%	23.7%	22.4%
Sales and marketing	47.7%	47.1%	52.4%	54.5%	55.3%	61.2%	67.0%	67.0%	69.0%	70.0%	69.0%	67.0%	68.0%	68.0%	67.0%	64.0%	50.5%	62.9%	68.7%	66.6%	48.8%	56.0%	68.3%	68.0%
General and administrative	4.4%	4.7%	5.5%	6.1%	6.1%	6.3%	6.6%	6.5%	6.5%	6.4%	6.2%	6.0%	6.2%	6.0%	5.9%	5.7%	5.2%	6.4%	6.3%	6.0%	4.8%	6.0%	6.5%	6.1%
Operating income	-8.0%	-7.0%	-11.9%	-6.5%	-8.3%	-13.9%	-20.3%	-18.8%	-20.0%	-21.0%	-19.3%	-16.0%	-17.8%	-17.7%	-15.7%	-11.5%	-8.5%	-15.7%	-19.0%	-15.6%	-10.8%	-10.2%	-20.0%	-17.7%
Taxes	-9.4%	-14.0%	-8.6%	-13.6%	13.3%	-4.6%	-2.8%	-2.8%	-2.5%	-2.2%	-2.3%	-2.6%	-2.2%	-2.1%	-2.3%	-2.9%	-10.9%	-1.1%	-2.4%	-2.4%	-8.2%	-2.9%	-2.6%	-2.3%
Net income	-9.0%	-8.1%	-12.0%	-6.3%	-7.5%	-13.6%	-20.8%	-19.3%	-20.5%	-21.4%	-19.7%	-16.4%	-18.2%	-18.1%	-16.1%	-11.8%	-8.8%	-15.7%	-19.4%	-15.9%	-11.7%	-9.9%	-20.6%	-18.1%
GROWTH Y/Y																								
Product	42.7%	41.1%	38.1%	11.5%	2.4%	5.3%	11.3%	21.1%	29.3%	29.8%	32.1%	30.5%	25.9%	24.6%	23.1%	23.9%	150.1%	10.1%	30.5%	24.3%	NA	12.6%	23.0%	28.0%
Support and Services	61.3%	55.1%	49.8%	55.1%	57.4%	49.4%	47.9%	39.1%	29.3%	26.3%	26.7%	22.7%	21.7%	20.8%	18.8%	18.5%	98.1%	47.7%	26.1%	19.9%	NA	52.9%	34.6%	22.9%
Total revenue	46.1%	43.9%	40.7%	20.3%	13.7%	15.1%	19.9%	25.8%	29.3%	28.8%	30.5%	28.3%	24.7%	23.5%	21.9%	22.4%	135.8%	18.8%	29.2%	23.1%	NA	21.2%	26.1%	26.6%
Gross income	38.3%	44.6%	57.0%	49.3%	44.4%	42.0%	37.4%	26.6%	29.4%	29.3%	31.2%	29.3%	24.9%	23.7%	22.6%	23.3%	103.6%	36.7%	29.8%	23.6%	NA	47.4%	30.4%	27.0%
Operating income	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Net income	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
EPS	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Deferred revenue	48.3%	57.3%	62.5%	71.0%	71.7%	64.4%	63.1%	56.2%	57.4%	56.6%	56.0%	56.0%	54.9%	54.6%	54.6%	53.9%	-58.9%	56.2%	56.0%	53.9%	NA	64.4%	56.6%	54.6%
Billings	94.9%	56.5%	50.1%	36.6%	21.7%	16.4%	25.6%	23.4%	36.3%	33.3%	34.7%	34.3%	29.6%	30.1%	29.7%	28.9%	116.5%	21.8%	34.6%	29.5%	NA	29.3%	29.8%	32.0%
Cash flow from operations	143.0%	134.9%	NA	284.3%	NM	-63.6%	-6.1%	8.5%	-42.0%	76.4%	266.9%	199.5%	2.2%	18.4%	66.2%	62.7%	25.3%	12.2%	71.8%					



Required disclosures

Conflicts disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

Please note that current conflicts disclosures may differ from those as of the publication date on, and as set forth in, this report. To access current conflicts disclosures, clients should refer to <https://www.rbccm.com/GLDisclosure/PublicWeb/DisclosureLookup.aspx?entityId=1> or send a request to RBC CM Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.

A member company of RBC Capital Markets or one of its affiliates managed or co-managed a public offering of securities for Nutanix, Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Nutanix, Inc. in the past 12 months.

RBC Capital Markets, LLC makes a market in the securities of Nutanix, Inc..

RBC Capital Markets has provided Nutanix, Inc. with investment banking services in the past 12 months.

Explanation of RBC Capital Markets Equity rating system

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

Ratings

Top Pick (TP): Represents analyst's best idea in the sector; expected to provide significant absolute total return over 12 months with a favorable risk-reward ratio.

Outperform (O): Expected to materially outperform sector average over 12 months.

Sector Perform (SP): Returns expected to be in line with sector average over 12 months.

Underperform (U): Returns expected to be materially below sector average over 12 months.

Restricted (R): RBC policy precludes certain types of communications, including an investment recommendation, when RBC is acting as an advisor in certain merger or other strategic transactions and in certain other circumstances.

Not Rated (NR): The rating, price targets and estimates have been removed due to applicable legal, regulatory or policy constraints which may include when RBC Capital Markets is acting in an advisory capacity involving the company.

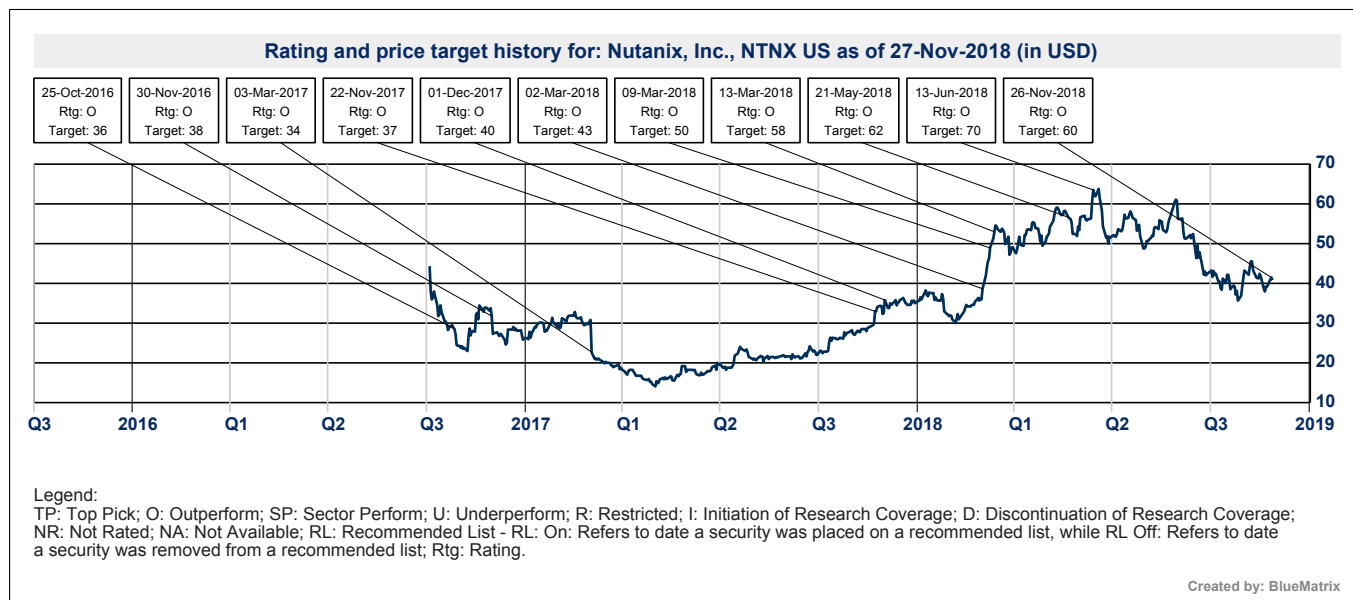
Risk Rating

The **Speculative** risk rating reflects a security's lower level of financial or operating predictability, illiquid share trading volumes, high balance sheet leverage, or limited operating history that result in a higher expectation of financial and/or stock price volatility.

Distribution of ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick/Outperform, Sector Perform, and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis.

Distribution of ratings				
RBC Capital Markets, Equity Research				
As of 30-Sep-2018				
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
BUY [Top Pick & Outperform]	859	54.33	251	29.22
HOLD [Sector Perform]	646	40.86	125	19.35
SELL [Underperform]	76	4.81	5	6.58



References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by RBC Wealth Management or one of its affiliates. RBC Wealth Management recommended lists include the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Dividend Growth (RL 8), the Guided Portfolio: ADR (RL 10), and the Guided Portfolio: All Cap Growth (RL 12), and former lists called the Guided Portfolio: Large Cap (RL 7), the Guided Portfolio: Midcap 111 (RL 9), and the Guided Portfolio: Global Equity (U.S.) (RL 11). RBC Capital Markets recommended lists include the Strategy Focus List and the Fundamental Equity Weightings (FEW) portfolios. The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

Equity valuation and risks

For valuation methods used to determine, and risks that may impede achievement of, price targets for covered companies, please see the most recent company-specific research report at <https://www.rbcinsightresearch.com> or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.

Nutanix, Inc.

Valuation

We calculate our base-case price target of \$60 using a 7.0x EV/S multiple on CY/19 revenue estimate. Our target multiple is essentially in line with fast-growing software peers and a premium to networking and storage peers, which we believe is reasonable given an above-average growth rate and transition to a software-only model. Our price target supports an Outperform rating.

Risks to rating and price target

Risks to our price target and rating could include changes in the macro environment, moderating IT spending, a slowdown in revenue growth, changes in OEM and channel relationships, or should acceptance of the company's products change relative to new entrants and established competitors.

Conflicts policy

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to <https://www.rbccm.com/global/file-414164.pdf>

or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. We reserve the right to amend or supplement this policy at any time.



Dissemination of research and short-term trade ideas

RBC Capital Markets endeavors to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. RBC Capital Markets' equity research is posted to our proprietary website to ensure eligible clients receive coverage initiations and changes in ratings, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax, or other electronic means, or regular mail. Clients may also receive our research via third party vendors. RBC Capital Markets also provides eligible clients with access to SPARC on the Firms proprietary INSIGHT website, via email and via third-party vendors. SPARC contains market color and commentary regarding subject companies on which the Firm currently provides equity research coverage. Research Analysts may, from time to time, include short-term trade ideas in research reports and / or in SPARC. A short-term trade idea offers a short-term view on how a security may trade, based on market and trading events, and the resulting trading opportunity that may be available. A short-term trade idea may differ from the price targets and recommendations in our published research reports reflecting the research analyst's views of the longer-term (one year) prospects of the subject company, as a result of the differing time horizons, methodologies and/or other factors. Thus, it is possible that a subject company's common equity that is considered a long-term 'Sector Perform' or even an 'Underperform' might present a short-term buying opportunity as a result of temporary selling pressure in the market; conversely, a subject company's common equity rated a long-term 'Outperform' could be considered susceptible to a short-term downward price correction. Short-term trade ideas are not ratings, nor are they part of any ratings system, and the firm generally does not intend, nor undertakes any obligation, to maintain or update short-term trade ideas. Short-term trade ideas may not be suitable for all investors and have not been tailored to individual investor circumstances and objectives, and investors should make their own independent decisions regarding any securities or strategies discussed herein. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets' research.

For a list of all recommendations on the company that were disseminated during the prior 12-month period, please click on the following link: <https://rbcnw.bluematrix.com/sellside/MAR.action>

The 12 month history of SPARCs can be viewed at <https://www.rbcinsightresearch.com>.

Analyst certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

Third-party-disclaimers

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P") and is licensed for use by RBC. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

References herein to "LIBOR", "LIBO Rate", "L" or other LIBOR abbreviations means the London interbank offered rate as administered by ICE Benchmark Administration (or any other person that takes over the administration of such rate).

Disclaimer

RBC Capital Markets is the business name used by certain branches and subsidiaries of the Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets, LLC, RBC Europe Limited, Royal Bank of Canada, Hong Kong Branch and Royal Bank of Canada, Sydney Branch. The information contained in this report has been compiled by RBC Capital Markets from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. RBC Capital Markets may be restricted from publishing research reports, from time to time, due to regulatory restrictions and/ or internal compliance policies. If this is the case, the latest published research reports available to clients may not reflect recent material changes in the applicable industry and/ or applicable subject companies. RBC Capital Markets research reports are current only as of the date set forth on the research reports. This report is not, and under no circumstances



should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC Capital Markets.

Additional information is available on request.

To U.S. Residents:

This publication has been approved by RBC Capital Markets, LLC (member FINRA, NYSE, SIPC), which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC.

To Canadian Residents:

This publication has been approved by RBC Dominion Securities Inc. (member IIROC). Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

To U.K. Residents:

This publication has been approved by RBC Europe Limited ('RBCEL') which is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority ('FCA') and the Prudential Regulation Authority, in connection with its distribution in the United Kingdom. This material is not for general distribution in the United Kingdom to retail clients, as defined under the rules of the FCA. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

To German Residents:

This material is distributed in Germany by RBC Europe Limited, Frankfurt Branch which is regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin).

To Persons Receiving This Advice in Australia:

This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product. This research report is not for retail investors as defined in section 761G of the Corporations Act.

To Hong Kong Residents:

This publication is distributed in Hong Kong by Royal Bank of Canada, Hong Kong Branch, which is regulated by the Hong Kong Monetary Authority and the Securities and Futures Commission ('SFC'), RBC Investment Services (Asia) Limited and RBC Investment Management (Asia) Limited, both entities are regulated by the SFC. Financial Services provided to Australia: Financial services may be provided in Australia in accordance with applicable law. Financial services provided by the Royal Bank of Canada, Hong Kong Branch are provided pursuant to the Royal Bank of Canada's Australian Financial Services Licence ('AFSL') (No. 246521.)

To Singapore Residents:

This publication is distributed in Singapore by the Royal Bank of Canada, Singapore Branch, a registered entity licensed by the Monetary Authority of Singapore. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance. If you have any questions related to this publication, please contact the Royal Bank of Canada, Singapore Branch. Royal Bank of Canada, Singapore Branch accepts responsibility for this report and its dissemination in Singapore.

To Japanese Residents:

Unless otherwise exempted by Japanese law, this publication is distributed in Japan by or through RBC Capital Markets (Japan) Ltd. which is a Financial Instruments Firm registered with the Kanto Local Financial Bureau (Registered number 203) and a member of the Japan Securities Dealers Association ("JSDA").

® Registered trademark of Royal Bank of Canada. RBC Capital Markets is a trademark of Royal Bank of Canada. Used under license.

Copyright © RBC Capital Markets, LLC 2018 - Member SIPC

Copyright © RBC Dominion Securities Inc. 2018 - Member Canadian Investor Protection Fund

Copyright © RBC Europe Limited 2018

Copyright © Royal Bank of Canada 2018

All rights reserved