Nutanix Inc

Takeaways from management meetings; Large opportunity ahead

Maintain Rating: BUY | PO: 55.00 USD | Price: 45.86 USD

Opportunity to benefit from changes to VMware offerings

We hosted investor meetings (virtual) with CEO Rajiv Ramaswami, CFO Rukmini Sivaraman and Richard Valera, VP of IR. Nutanix (NTNX) has a software stack which is comparable to VMware Cloud Foundation (VCF). VMware likely has several hundred thousand customers using vSphere vs. several thousand using VCF. VCF on subscription could be more expensive to customers as we have noted previously providing NTNX an opportunity to gain share. Given that several (especially large) customers had signed multi-year agreements with VMware, the rate and pace of any share gains will likely be gated by the cadence of renewals. NTNX can benefit from gaining channel partners if Broadcom de-emphasizes partners with lower revenue contribution. Overall, the meetings re-enforced our confidence in our thesis on the company. We maintain our Buy rating on higher growth, profitability and improving FCF. No change to ests. Our PO stays at $55 based on 7x EV/C24E sales.

AI remains an important workload for NTNX

AI has been an important workload on NTNX platforms, even before the advent of GenAI. NTNX has a small but good AI engineering team in-house. It is still early days for NTNX's new GPT-in-a-box offering as customers experiment to see if they can get accurate and predictive results. Major use cases include customer support, information retrieval from documents, co-piloting during software development, and enhanced fraud detection.

Cisco partnership has potential beyond HyperFlex

Management expects small revenue benefit from the new partnership with Cisco in FY24, and likely higher benefit in F25/F26. Cisco historically had low single digit share in the HCI space. In the first year, most of the revenue gain likely comes from converting existing Cisco Hyperflex customers. In outer years, NTNX hopes this partnership will help capture new customers beyond the current Hyperflex installed base. This partnership involves a software revenue share agreement between NTNX and Cisco.

Other takeaways from the meetings

Renewals represent about 1/3rd of total billings, and help to de-risk total revenue growth. Some customers are repatriating workloads to on-prem. Pace of growth in available-to-renew is expected to be higher in F25 after decelerating in F24.

Estimates (Jul) (US$)	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
EPS	(0.46)	0.57	0.89	1.19	1.59
GAAP EPS	(3.62)	(1.14)	(0.36)	0.09	0.52
EPS Change (YoY)	68.9%	NM	56.1%	33.7%	33.6%
Consensus EPS (Bloomberg)			0.90	1.24	1.81
DPS	0	0	0	0	0
Valuation (Jul)					
P/E	NM	80.5x	51.5x	38.5x	28.8x
GAAP P/E	NM	NM	NM	509.6x	88.2x
EV / EBITDA*	NM	48.8x	33.5x	23.8x	17.5x
Free Cash Flow Yield*	0.2%	1.9%	3.2%	3.8%	5.3%

* For full definitions of *iQmethod* SM measures, see page 8.

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Stock Data

Price	45.86 USD
Price Objective	55.00 USD
Date Established	30-Nov-2023
Investment Opinion	C-1-9
52-Week Range	23.35 USD - 47.83 USD
Mrkt Val (mn) / Shares Out (mn)	10,989 USD / 239.6
Free Float	99.6%
Average Daily Value (mn)	99.57 USD
BofA Ticker / Exchange	NTNX / NAS
Bloomberg / Reuters	NTNX US / NTNX.OQ
ROE (2024E)	NA
Net Dbt to Eqty (Jul-2023A)	NA
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

AI: Artificial Intelligence
FCF: Free Cash Flow
GenAI: Generative AI
HCI: Hyperconverged Infrastructure
AHV: Nutanix Acropolis Hypervisor

iQprofile SM Nutanix Inc

*iQ*method SM – **Bus Performance***

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	-5.7%	9.8%	15.1%	18.1%	20.6%
Return on Equity	NM	NM	NM	NM	329.9%
Operating Margin	-5.4%	8.1%	12.0%	14.3%	16.2%
Free Cash Flow	18	207	351	417	583

*iQ*method SM – **Quality of Earnings***

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	NM	1.7x	1.6x	1.4x	1.4x
Asset Replacement Ratio	0.6x	0.9x	1.0x	1.0x	1.1x
Tax Rate	NM	10.6%	9.2%	11.0%	11.0%
Net Debt-to-Equity Ratio	NM	NM	NM	NM	-148.0%
Interest Cover	NA	NA	NA	NA	NA

Income Statement Data (Jul)

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	1,581	1,863	2,119	2,603	3,226
% Change	13.4%	17.8%	13.8%	22.8%	23.9%
Gross Profit	1,312	1,574	1,802	2,198	2,688
% Change	14.3%	20.0%	14.5%	22.0%	22.3%
EBITDA	2	227	331	466	635
% Change	NM	NM	45.6%	40.7%	36.3%
Net Interest & Other Income	3	27	37	36	36
Net Income (Adjusted)	**(101)**	**159**	**265**	**364**	**498**
% Change	**66.7%**	**NM**	**66.8%**	**37.6%**	**36.6%**

Free Cash Flow Data (Jul)

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(446)	(153)	(71)	28	162
Depreciation & Amortization	88	76	76	92	112
Change in Working Capital	65	64	82	57	93
Deferred Taxation Charge	0	0	0	0	0
Other Adjustments, Net	361	285	339	336	336
Capital Expenditure	(49)	(65)	(75)	(96)	(119)
Free Cash Flow	**18**	**207**	**351**	**417**	**583**
% Change	**NM**	**NM**	**69.7%**	**18.8%**	**39.7%**
Share / Issue Repurchase	(59)	0	(18)	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	89	(146)	0	0	0

Balance Sheet Data (Jul)

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	403	513	830	1,248	1,831
Trade Receivables	125	157	235	382	435
Other Current Assets	1,131	1,192	1,172	1,172	1,172
Property, Plant & Equipment	113	112	114	118	125
Other Non-Current Assets	594	553	542	542	542
Total Assets	**2,366**	**2,527**	**2,894**	**3,461**	**4,105**
Short-Term Debt	145	0	0	0	0
Other Current Liabilities	1,005	1,136	1,244	1,447	1,593
Long-Term Debt	1,156	1,218	1,239	1,239	1,239
Other Non-Current Liabilities	849	880	874	874	874
Total Liabilities	**3,156**	**3,234**	**3,357**	**3,560**	**3,706**
Total Equity	**(790)**	**(707)**	**(462)**	**(98)**	**400**
Total Equity & Liabilities	**2,366**	**2,527**	**2,895**	**3,462**	**4,106**

* For full definitions of *iQmethod* SM measures, see page 8.

Company Sector

IT Hardware

Company Description

Nutanix is the largest name in the nascent HyperConverged infrastructure market with 35% share, and was the first company to gain widespread acceptance among large enterprises. While the company uses a channel-only strategy, a large proportion of lead generation is currently provided internally. Nutanix ships both an "appliance" and "software-only" models, and has functionality for all three major hypervisors VMware's vSphere, Microsoft's Hyper-V, and its own open source KVM "Acropolis".

Investment Rationale

Our Buy rating is based on improving fundamentals including ACV billings, revenue, operating margin and FCF growth, competitive strength in the HyperConverged storage market, brand recognition, systems being server agnostic, and ability to move data workloads across cloud platforms.

Stock Data

Average Daily Volume	2,180,048

Quarterly Earnings Estimates

	2023	2024
Q1	0.03A	0.29A
Q2	0.26A	0.28E
Q3	0.04A	0.17E
Q4	0.24A	0.16E

Key points from the meetings

We hosted investor meetings (virtual) with Nutanix (ticker: NTNX) management including CEO Rajiv Ramaswami, CFO Rukmini Sivaraman, and Richard Valera, and Blake Anderson from Investor Relations.

- NTNX has not seen a slowdown in IT spending. But customers are focused on ROI (Return on Investment) and TCO (Total Cost of Ownership) and are scrutinizing more where they spend their money.
- IT spending should grow faster than GDP and digital transformation and application modernization should grow at a faster rate. Software tech spending probably grows faster than overall IT spending.
- Return to on-premises: Running workloads in the public Cloud can be expensive, and customers also care about data security and privacy. Customers are not putting every workload in the public cloud anymore. Some steady state applications can run more efficiently on-premises. Some customers are repatriating public cloud workloads to on-premises. Management highlighted a recent report from X (former Twitter) which cited 60% cost savings that the company saw from moving workloads back to on-premises. NTNX management believes this trend of moving workloads back to on-premises will continue for many years. NTNX can support customers on public clouds (AWS, Azure) or on-premises based on what makes sense for the customer.
- Renewals environment: NTNX is doing a better job at driving renewals (by simplifying the renewal process, and being able to drive higher customer spend during renewals). This is proving to be a solid foundation for the company's journey to the subscription model. As the mix of renewals as a percent of total billings grows (now about 1/3rd of total billings) it reduces the risk associated with total revenue growth. At the end of F25, NTNX expects 40% of total billings to be from renewals, and this grows to about 50% in F27. In the context of NTNX, renewals refers to renewal of software licenses (irrespective of whether the underlying hardware is replaced or not). Renewals typically have lower contract duration.
- NTNX has a separate sales team for New and Expansion sales, vs. Renewals. New and expansion sales staff are assigned a quota and are compensated on incremental sales. Renewals are more efficient, and the commissions paid are less. The Renewals sales team now also has an expansion focused quota.
- Early days for the Cisco partnership: NTNX expects to see a small benefit from this partnership towards the end of this fiscal year. If Cisco sales brings in a new customer to NTNX, they will get a higher commission vs. if it is an existing NTNX account. NTNX hopes to gain access to a new customer set via the partnership with Cisco. Existing hyperflex customers from Cisco likely get converted to NTNX sooner, while new customers will probably take longer. Cisco's market share in HCI historically has been low single digits. NTNX is seeing some competition from legacy 3-tier storage vendors, other HCI vendors and with public cloud vendors, who are all trying to capture a share of the legacy Hyperflex customer base.
- NTNX provides the same software environment for both on-premises and cloud workloads, so the same IT team can manage both environments with the same tools. NTNX enables customers to not get locked into any particular public cloud. With NTNX, customers can typically move workloads to the cloud in a few months given the software runs seamlessly vs much longer (could be up to 18 months) if trying to do it themselves. Some customers also use NTNX for global expansion (a customer ran an instance of NTNX on AWS locally in a

foreign country to satisfy regulatory requirements). NTNX can also help to better utilize AWS instances.

- Pace of growth in available-to-renew (ATR) is slower in F24 due to timing and duration of contracts. Management still expects to see a faster pace in F25.

- How NTNX stacks up against VMware? For core infrastructure, NTNX is comparable to VMware Cloud Foundation (VCF). NTNX has additional data services for managing files and objects (NTNX Unified Storage), disaster recovery and database service. For modern Apps, NTNX has Kubernetes run time and management, and with Red Hat NTNX can cover the full VMWare Tanzu stack. NTNX makes it simpler to port software licenses. NTNX has added functionality for security audits and mission critical workloads (like databases). NTNX Central allows to administrators to manage a large set of NTNX clusters from one single interface.

- Changes to VMware pricing: Broadcom/VMware announced consolidation of offerings to VMware Cloud Foundation (VCF) and VMware vSphere Foundation including new bundling of previously standalone products. The company also noted a 50% list price reduction to VCF offerings. Both VCF and vSphere are only available as subscriptions, not as perpetual licenses. Broadcom will not support perpetual licenses going forward. In many cases, subscription licenses could end up as more expensive. vSphere Enterprise Plus has a broad set of customers. NTNX management believes that Broadcom would concentrate on VMware's large customers/corporates. Those customers may not be able to completely move away from VMware. However, NTNX is seeing more engagement even with those customers. Customers outside of VMware's top 10,000 may not have dealt with Broadcom directly before, and may be better candidates for NTNX to gain share. While the recent Broadcom/VMware announcement related to pricing changes, and changes to channel go-to-market, has not yet had an impact on NTNX revenues, engagement with VMware customers has increased.

- NTNX has been working on leveraging the channel more. This year NTNX management re-segmented the company's go-to-market where bottom-tier customers were handed off to the channel. With respect to Broadcom/VMware, all existing VMware channel partners now have to re-register with Broadcom. It is not known as to how many of those channel partners will be accepted by Broadcom. NTNX management believes there is a chance that smaller channel partners, with less than a certain amount of revenue, may not be accepted. There is some anxiety in the partner community on this. In our opinion, NTNX could see benefit gaining some channel partners away from Broadcom.

- GPT-in-a-box: This is a fairly recent offering from NTNX that allows customers to run their AI applications wherever they want. They can run AI on-premises using their own proprietary data. Most NTNX customers are still in an experimental stage using GPT-in-a-box. They are trying to figure out if they can get accurate and predictive results. The major use cases include: 1) customer support, 2) document information retrieval, 3) co-pilots during software development, and 4) more enhanced fraud detection. Some AI models hallucinate (responses that look correct, but are wrong). So, customers are trying to make sure that they get predictable and accurate results. Also, in general, the larger the AI model, the more expensive it is to train. So, customers want to use the smallest model they can use to get the desired results. They would like to pick a model that is just good enough for their needs, and then train it with their own use-case specific data. As with past technology trends, NTNX management believes there likely will be a period of hype cycle surrounding AI, followed by a period of disillusionment, and then a period of real growth (it could take a couple of years to get to that phase).

NTNX already has a good AI team in-house. The group is well regarded in the open-source AI community. NTNX has been investing in the AI space for past 3-years. AI was an important workload for NTNX platforms even before GenAI.

- NTNX is training its sellers to explain to customers how easy it is to migrate to NTNX (management mentioned several thousand virtual machines have transitioned to NTNX, from VMware, over time using automated tools). Customers can be migrated from using vSphere hypervisor to AHV hypervisor within a few months. If a customer has a full VMware software stack, then it takes more time to migrate.
- Some VMware customers may want to follow a dual vendor strategy. Management highlighted on customers maintaining two software stacks running for their private cloud and having another automation layer to operating both software stacks from one interface.
- NTNX can help finance customers during a transition period. NTNX also has incentives for channel partners where they get paid more if they bring in new customers. NTNX is building awareness in the media and running webinars about its product offerings.
- Free cash flow (FCF): Management remains confident with its prior FCF guidance. Management has assumed that it will continue to get cash upfront when signing deals. Management has also assumed that some customers will ask for shorter duration contracts given the weaker macro. Also, management assumes that renewals will continue to have lower contract duration. So far, NTNX has not seen any dramatic change in billings. This year NTNX raised FCF guide for F24 by $60mn after just one quarter.

Model

Exhibit 1: NTNX Income Statement

We model F24 revenue/EPS of $2.12bn/$0.89

	F2023A				F2024E								
($ in millions except per share data)	**1Q23A**	**2Q23A**	**3Q23A**	**4Q23A**	**1Q24A**	**2Q24E**	**3Q24E**	**4Q24E**	**F2022A**	**F2023A**	**F2024E**	**F2025E**	**F2026E**
Sales	**433.6**	**486.5**	**448.6**	**494.2**	**511.1**	**550.5**	**507.9**	**549.9**	**1,580.8**	**1,862.9**	**2,119.5**	**2,603.4**	**3,226.0**
Product	208.6	250.5	212.5	240.5	246.9	248.4	228.6	248.2	757.6	912.1	972.1	1,181.4	1,472.6
Support and Other services	225.0	236.0	236.1	253.7	264.1	302.2	279.3	301.8	823.2	950.8	1,147.3	1,422.0	1,753.4
Cost of Sales	71.9	74.0	72.5	70.0	71.8	80.5	80.4	84.6	269.1	288.4	317.3	404.9	538.1
Product	7.3	8.3	8.6	6.7	7.2	7.9	9.1	9.2	34.4	30.8	33.5	37.8	47.1
Support and Other services	64.6	65.8	63.9	63.3	64.6	72.5	71.2	75.4	234.7	257.6	283.8	367.1	491.0
Gross Profit	**361.7**	**412.5**	**376.1**	**424.2**	**439.3**	**470.1**	**427.6**	**465.3**	**1,311.7**	**1,574.5**	**1,802.2**	**2,198.4**	**2,687.9**
Product	201.3	242.3	203.9	233.8	239.7	240.4	219.5	239.0	723.2	881.3	938.6	1,143.6	1,425.5
Support and Other services	160.4	170.2	172.1	190.4	199.5	229.6	208.1	226.3	588.5	693.2	863.6	1,054.9	1,262.5
R&D	109.0	106.0	115.8	114.2	113.6	119.6	119.4	133.6	427.6	445.0	486.2	572.7	643.8
Sales & Marketing	211.4	206.7	211.9	210.0	213.8	231.2	228.6	253.0	861.2	840.0	926.6	1,088.2	1,320.9
General & Administrative	30.7	30.2	41.4	36.4	32.4	34.9	32.5	35.2	108.7	138.7	135.0	164.0	200.0
Operating Income	**10.6**	**69.6**	**7.0**	**63.6**	**79.5**	**84.4**	**47.1**	**43.5**	**(85.8)**	**150.8**	**254.5**	**373.5**	**523.2**
Interest Expense and other, net	(2.3)	(5.9)	(9.0)	(9.6)	(10.2)	(9.0)	(9.0)	(9.0)	(2.9)	(26.8)	(37.2)	(36.0)	(36.0)
Pretax Income	**12.9**	**75.5**	**16.0**	**73.2**	**89.6**	**93.4**	**56.1**	**52.5**	**(83.0)**	**177.6**	**291.6**	**409.5**	**559.2**
Taxes	4.9	3.7	4.5	5.7	4.6	10.3	6.2	5.8	18.5	18.9	26.8	45.0	61.5
Minority Interest	-	-	-	-	-	-	-	-	-	-	-	-	-
Rate	38.3%	4.9%	28.1%	7.8%	11.0%	11.0%	11.0%	11.0%	-22.3%	10.6%	10.6%	11.0%	11.0%
Non-GAAP Net income excluding FAS 123R	**8.0**	**71.7**	**11.5**	**67.5**	**85.0**	**83.1**	**49.9**	**46.7**	**(101.4)**	**158.7**	**264.8**	**364.4**	**497.7**
Non GAAP EPS excl FAS123	**$0.03**	**$0.26**	**$0.04**	**$0.24**	**$0.29**	**$0.28**	**$0.17**	**$0.16**	**($0.46)**	**$0.57**	**$0.89**	**$1.19**	**$1.59**
Non-GAAP Net income including FAS 123R	**(73.0)**	**(13.6)**	**(61.4)**	**(5.1)**	**1.0**	**(0.9)**	**(34.1)**	**(37.3)**	**(444.7)**	**(153.0)**	**(71.2)**	**28.4**	**161.7**
GAAP Diluted EPS including FAS123	**($0.43)**	**($0.31)**	**($0.35)**	**($0.06)**	**($0.07)**	**($0.00)**	**($0.14)**	**($0.15)**	**($3.62)**	**($1.14)**	**($0.36)**	**$0.09**	**$0.52**
Avg. Basic Shares (MM)	229	231	235	238	241	243	245	247	221	233	244	252	260
Diluted Shares - NON GAAP EPS (MM)	275	279	282	286	293	297	299	301	221	281	297	306	314
As % of Revenue													
Product revenue	48.1%	51.5%	47.4%	48.7%	48.3%	45.1%	45.0%	45.1%	47.9%	49.0%	45.9%	45.4%	45.6%
Support revenue	51.9%	48.5%	52.6%	51.3%	51.7%	54.9%	55.0%	54.9%	52.1%	51.0%	54.1%	54.6%	54.4%
Cost of Goods Sold	16.6%	15.2%	16.2%	14.2%	14.1%	14.6%	15.8%	15.4%	17.0%	15.5%	15.0%	15.6%	16.7%
COGS Products	3.5%	3.3%	4.0%	2.8%	2.9%	3.2%	4.0%	3.7%	4.5%	3.4%	3.4%	3.2%	3.2%
COGS Support & Other Services	28.7%	27.9%	27.1%	24.9%	24.5%	24.0%	25.5%	25.0%	28.5%	27.1%	24.7%	25.8%	28.0%
Gross Profit	83.4%	84.8%	83.8%	85.8%	85.9%	85.4%	84.2%	84.6%	83.0%	84.5%	85.0%	84.4%	83.3%
Gross Profit Products	96.5%	96.7%	96.0%	97.2%	97.1%	96.8%	96.0%	96.3%	95.5%	96.6%	96.6%	96.8%	96.8%
Gross Profit Support & Other Services	71.3%	72.1%	72.9%	75.1%	75.5%	76.0%	74.5%	75.0%	71.5%	72.9%	75.3%	74.2%	72.0%
R&D	25.1%	21.8%	25.8%	23.1%	22.2%	21.7%	23.5%	24.3%	27.0%	23.9%	22.9%	22.0%	20.0%
Sales & Marketing	48.8%	42.5%	47.2%	42.5%	41.8%	42.0%	45.0%	46.0%	54.5%	45.1%	43.7%	41.8%	40.9%
General & Administrative	7.1%	6.2%	9.2%	7.4%	6.3%	6.3%	6.4%	6.4%	6.9%	7.4%	6.4%	6.3%	6.2%
Operating Earnings	2.4%	14.3%	1.6%	12.9%	15.6%	15.3%	9.3%	7.9%	-5.4%	8.1%	12.0%	14.3%	16.2%
Interest & Other Expense	-0.5%	-1.2%	-2.0%	-1.9%	-2.0%	-1.6%	-1.8%	-1.6%	-0.2%	-1.4%	-1.8%	-1.4%	-1.1%
Pretax Earns	3.0%	15.5%	3.6%	14.8%	17.5%	17.0%	11.0%	9.5%	-5.2%	9.5%	13.8%	15.7%	17.3%
Non-GAAP Net income excluding FAS 123R	1.8%	14.7%	2.6%	13.7%	16.6%	15.1%	9.8%	8.5%	-6.4%	8.5%	12.5%	14.0%	15.4%
Year-Over-Year Growth													
Sales	15%	18%	11%	28%	18%	13%	13%	11%	13%	18%	14%	23%	24%
Product revenue	16%	20%	6%	43%	18%	-1%	8%	3%	7%	20%	7%	22%	25%
Support revenue	13%	16%	16%	17%	17%	28%	18%	19%	20%	16%	21%	24%	23%
Cost of Sales	6%	11%	8%	4%	0%	9%	11%	21%	9%	7%	10%	28%	33%
Gross Profit	16%	19%	12%	33%	21%	14%	14%	10%	14%	20%	14%	22%	22%
R&D	3%	0%	9%	4%	4%	13%	3%	17%	6%	4%	9%	18%	12%
Sales & Marketing	-4%	-4%	2%	-4%	1%	12%	8%	20%	-7%	-2%	10%	17%	21%
General & Administrative	15%	12%	55%	27%	5%	16%	-22%	-3%	12%	28%	-3%	22%	22%
Operating Earnings	-125%	-6721%	-229%	-270%	650%	21%	575%	-32%	-69%	-276%	69%	47%	40%
Interest & Other Expense	-374%	-2951%	-2670%	126%	339%	53%	0%	-6%	-149%	841%	39%	-3%	0%
Pretax Earns	-130%	-6104%	-378%	-320%	594%	24%	251%	-28%	-71%	-314%	64%	40%	37%
Non-GAAP Net income excluding FAS 123R	-117%	-1269%	-212%	-275%	967%	16%	334%	-31%	-67%	-256%	67%	38%	37%
Non GAAP EPS excl FAS123	-113%	-1017%	-188%	-238%	903%	9%	310%	-34%	-69%	-223%	57%	34%	33%
GAAP Diluted EPS including FAS123	-78%	-41%	-31%	-92%	-85%	-99%	-60%	169%	-28%	-69%	-68%	-126%	454%
Diluted Shares - NON GAAP EPS (MM)	28%	28%	27%	27%	6%	6%	6%	5%	7%	27%	6%	3%	3%

Source: Company reports, BofA Global Research estimates

BofA GLOBAL RESEARCH

Price objective basis & risk

Nutanix Inc (NTNX)

PO of $55 is based on 7x EV/C24 sales estimate. This multiple is slightly above the high end of the long-term range 2-6x. In our opinion the multiple above the high end of the range is appropriate given the better growth and profitability metrics that Nutanix is delivering partially offset by weaker macro and constrained enterprise spending.

Downside risks to our PO are a more protracted downturn in the economy, delayed recovery in the supply chain, delays in hiring sales reps, increased competition from established vendors link Dell/EMC, HP Enterprise and NetApp making headway into the HyperConverged market, increasing DRAM and NAND cost hurting gross margins, sales reorganization resulting in slower billings growth or customer acquisition rate, and disruption with key partners or IT distribution channel.

Upside risks are faster than expected recovery in the macroeconomy and Enterprise IT spending, faster than expected recovery in sales rep count and higher than expected productivity, and unexpected share gains.

Analyst Certification

I, Wamsi Mohan, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - IT Hardware and Technology Supply Chain Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Amphenol	APH	APH US	Wamsi Mohan
	Corning Inc.	GLW	GLW US	Wamsi Mohan
	Dell Technologies Inc.	DELL	DELL US	Wamsi Mohan
	Flex Ltd.	FLEX	FLEX US	Ruplu Bhattacharya
	HP Inc.	HPQ	HPQ US	Wamsi Mohan
	International Business Machines Corp.	IBM	IBM US	Wamsi Mohan
	Jabil Inc.	JBL	JBL US	Ruplu Bhattacharya
	Nutanix Inc	NTNX	NTNX US	Wamsi Mohan
	Roku, Inc.	ROKU	ROKU US	Ruplu Bhattacharya
	Seagate Technology	STX	STX US	Wamsi Mohan
	Sensata Technologies Holdings Plc	ST	ST US	Wamsi Mohan
	TD Synnex Corp	SNX	SNX US	Ruplu Bhattacharya
	TE Connectivity Ltd.	TEL	TEL US	Wamsi Mohan
	Teradata Corporation	TDC	TDC US	Wamsi Mohan
	Western Digital Corporation	WDC	WDC US	Wamsi Mohan
NEUTRAL				
	Apple Inc.	AAPL	AAPL US	Wamsi Mohan
	Arrow Electronics Inc.	ARW	ARW US	Ruplu Bhattacharya
	Avnet Inc.	AVT	AVT US	Ruplu Bhattacharya
	CDW Corp	CDW	CDW US	Ruplu Bhattacharya
	Concentrix Corporation	CNXC	CNXC US	Ruplu Bhattacharya
	Hewlett-Packard Enterprise	HPE	HPE US	Wamsi Mohan
	Pure Storage	PSTG	PSTG US	Wamsi Mohan
UNDERPERFORM				
	DigitalOcean	DOCN	DOCN US	Wamsi Mohan
	NetApp Inc.	NTAP	NTAP US	Wamsi Mohan
	Sanmina Corporation	SANM	SANM US	Ruplu Bhattacharya
	Vishay Intertechnology, Inc.	VSH	VSH US	Ruplu Bhattacharya
	Vizio	VZIO	VZIO US	Wamsi Mohan

iQmethod SM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5 Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings	**Numerator**	**Denominator**
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt – Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit	**Numerator**	**Denominator**
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap = Current Share Price × Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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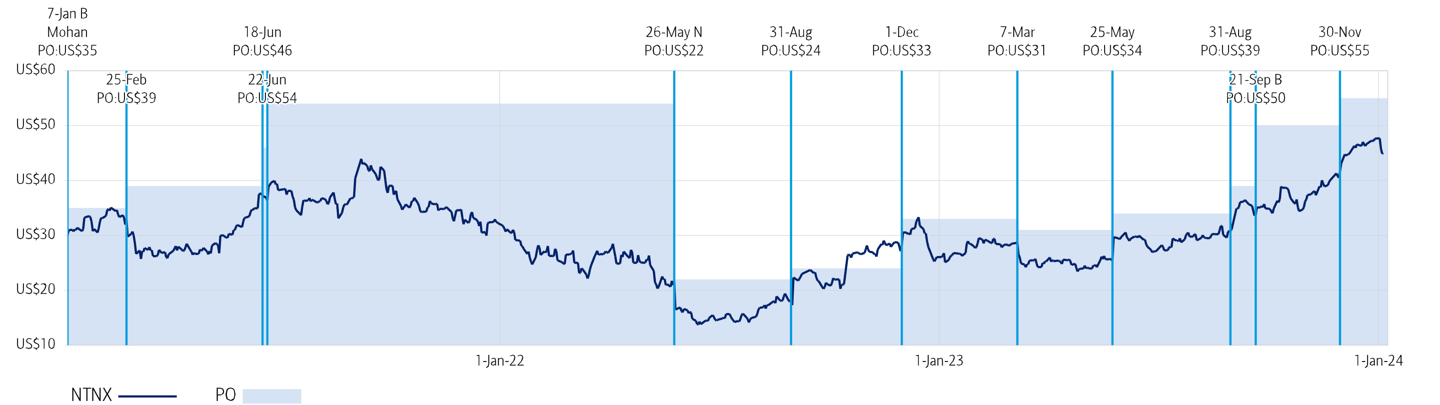
Nutanix (NTNX) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships R1	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships R1	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

[R1] Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster[R2]
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

[R2]Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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