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Nutanix, Inc. (NTNX)

Q3 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and thank you for standing by. And welcome to Nutanix Q3 2024 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Rich Valera, VP of Investor Relations at Nutanix.

Richard Valera
Vice President-Investor Relations, Nutanix, Inc.

Good afternoon, and welcome to today's conference call to discuss third quarter fiscal year 2024 financial results. Joining me today are Rajiv Ramaswami, Nutanix's President and CEO; and Rukmini Sivaraman, Nutanix's CFO.

After the market closed today, Nutanix issued a press release announcing third quarter fiscal year 2024 financial results. If you like to read the release, please visit the Press Releases section of our IR website.

During today's call, management will make forward-looking statements, including financial guidance. These forward-looking statements involve risks and uncertainties, some of which are beyond our control, which could cause actual results to differ materially and adversely from those anticipated by these statements. For more detailed description of these and other risks and uncertainties, please refer to our SEC filings, including our most recent Annual Report on Form 10-K and our subsequent Quarterly Reports on Form 10-Q, as well as our earnings press release issued today. These forward-looking statements apply as of today, and we undertake no obligation to revise these statements after this call. As a result, you should not rely on them as predictions of future events.

Please note, unless otherwise specifically referenced, all financial measures we use on today's call except for revenue are expressed on a non-GAAP basis and have been adjusted to exclude certain charges. We have provided, to the extent available, reconciliations of these non-GAAP financial measures to GAAP financial measures on our IR website and in our earnings press release.

Nutanix will be participating in the Bank of America Global Technology Conference in San Francisco on June 4. We hope to see some of you there. Finally, our fourth quarter fiscal 2024 quiet period will begin on Wednesday, July 17.

And with that, I'll turn the call over to Rajiv. Rajiv?

Rajiv Ramaswami

President, Chief Executive Officer & Director, Nutanix, Inc.

Thank you, Rich, and good afternoon, everyone. We delivered a solid third quarter with results that came in ahead of our guidance. We continued to see steady demand for our solutions driven by businesses prioritizing their digital transformation and infrastructure modernization initiatives, and looking to optimize their total cost of ownership, or TCO.

Taking a closer look at the third quarter. We were happy to have exceeded all our guided metrics. We delivered quarterly revenue of $525 million and grew our ARR 24% year-over-year to $1.82 billion. We also had another quarter of solid free cash flow generation. Overall, our third quarter financial performance reflected continued disciplined execution.

Our largest wins in the quarter demonstrated the appeal of the Nutanix Cloud Platform to organizations that are looking to modernize and improve the efficiency of the data center footprints, while managing through some of the disruption from recent industry M&A.

Our largest new customer win of the quarter was an eight-figure ACV deal with a North American-based Fortune 50 financial services company that was looking to streamline and automate the deployment and management of their substantial fleet of databases. This customer purchased the Nutanix Cloud Platform with Nutanix Database Service to automate all of their internal database deployment and management needs, while also modernizing the three-tier footprint, previously used for running their databases. This win was substantially larger than our typical land win, and marked the culmination of an approximately two-year engagement.

Another notable win in Q3 was a significant renewal and expansion with a North American-based Fortune 500 provider of consumer packaged goods. This customer, whose data center footprint has historically been split between Nutanix and a competitor, was looking to standardize their automation and self-service capabilities on a single class. They decided to standardize our Nutanix Cloud Platform, including our AHV Hypervisor, and Nutanix Cloud Management to handle their self-service and automation needs. They also added Nutanix's Unified Storage and Nutanix Database Service for their unstructured data management and database automation needs respectively.

Going forward, this customer plans of swapping out the competitive software in their existing footprint and also utilizing Nutanix Cloud Platform for all of their expansion needs. We see these wins as a testament to our ability to both land significant deals and expand within the largest companies. And we are encouraged by the substantial increase in the number of customers and partners engaging with us, including some of the world's largest companies. However, these larger opportunities tend to have longer sales cycles, can involve aggressive, competitive responses, and exhibit greater variability with respect to timing and outcome. Rukmini will provide more color on the impact of these dynamics.

Last week, we held our annual .NEXT conference in Barcelona, Spain, where the excitement from the 4,000-plus attendees was tangible. At .NEXT, we made a number of announcements demonstrating continued progress and plans on enhancing the functionality of the Nutanix Cloud Platform and broadening our partnerships, especially with respect to support for modern applications and enterprise AI.

On the enterprise AI front, we announced GPT-in-a-Box 2.0, which will deliver expanded GPU and large language models support, automated configuration and management of model inference endpoints for GenAI applications, simplified model management and an expanded partner program.

This includes a new partnership with Hugging Face to provide access to the Hugging Face Library of large language models for Nutanix customers, as well as an expanded partnership with NVIDIA that includes the planned integration of NVIDIA's Inference Microservices, or NIM, into our automated enterprise AI solution.

More broadly, we continue to see a high level of interest and additional wins with GPT-in-a-Box in Q3, including a win with a large EMEA-based government agency that was looking to deploy GenAI with fraud detection as the initial use case.

On the modern application front, we announced the Nutanix Kubernetes Platform, or NKP, to simplify management of container-based modern applications using Kubernetes on-premises and in any native public cloud servers.

We also took initial steps in extending our Data Services for Kubernetes, or NDK, to cloud-native containerized environments. This will simplify the development of resilient data-intensive modern applications in public clouds and allow customers to ultimately run them anywhere in keeping with our Project Beacon vision.

Finally, we announced a broadening of our partnership with Dell. While Nutanix software already works well with Dell hardware, we announced two new elements of our long-standing partnership. First, Dell is going to sell a tightly integrated hyperconverged solution, combining the Nutanix Cloud Platform software with Dell's PowerEdge servers. This will provide our customers with the choice of procuring Nutanix's platform directly from Dell. We expect that this solution will be available later this calendar year.

Second, we will together deliver the Nutanix Cloud Platform powered by AHV hypervisor for compute and Dell PowerFlex for storage. This will allow customers to reuse some of their existing IP-based Dell three-tier storage hardware, protecting their investment and giving them choice. We are in the development stage for this offering at this time and expect it to be available in calendar 2025.

Now I'd like to comment on the recently published results of our sixth annual Nutanix Enterprise Cloud Index, a survey of 1,500 IT decision makers around the world. The top three priorities identified by respondents were data security and ransomware protection, implementing the right hybrid IT operations, and implementing AI strategies. I see these results as playing to the strengths of the Nutanix Cloud Platform, which has built-in ransomware protection with our Data Lens capability, enables hybrid multicloud operating models, and has strong support for AI with our GPT-in-a-Box solution.

In closing, I'm pleased with our solid Q3 results, our ongoing innovation on our Cloud Platform, particularly with respect to its support for modern applications and generative AI, and on the progress we continue to make on partnerships. We remain focused on delighting our customers while driving sustainable, profitable growth.

And with that, I'll hand it over to Rukmini Sivaraman. Rukmini?

Rukmini Sivaraman

Chief Financial Officer, Nutanix, Inc.

Thank you, Rajiv. I will first review our Q3 fiscal 2024 results, followed by guidance for Q4 fiscal 2024 and the implied full-year fiscal year 2024 guidance.

Results in Q3 2024 came in above the high end of our range across all guided metrics. ACV billings in Q3 were $289 million, above the guided range of $265 million to $275 million, representing year-over-year growth of 20%.

Revenue in Q3 was $525 million, higher than the guided range of $510 million to $520 million, representing a year-over-year growth rate of 17%.

ARR at the end of Q3 was $1.82 billion, representing year-over-year growth of 24%. In Q3, we continued to see modestly elongated average sales cycles compared to historical levels. Average contract duration in Q3 was 3 years, 0.2 years higher than Q2.

Non-GAAP gross margin in Q3 was 86.5% higher than our guided range of approximately 85%.

Non-GAAP operating margin in Q3 was 14% higher than our guided range of 7.5% to 8.5%, largely due to: one, lower operating expenses as a result of higher than expected nonrecurring payments related to one of our partnership agreements and timing of hiring; and two, higher revenue and higher gross margin.

Non-GAAP net income in Q3 was $85 million. Our fully diluted EPS of $0.28 per share based on fully diluted weighted average shares outstanding of approximately 302 million shares.

DSOs based on revenue and ending accounts receivable were 39 days in Q3. Free cash flow in Q3 was $78 million, representing a free cash flow margin of 15%. We ended Q3 with cash, cash equivalents and short term investments of $1.651 billion, up slightly from $1.644 billion at the end of Q2.

We continued repurchasing shares in Q3 under the share repurchase program previously authorized by our board of directors. We have repurchased about $106 million worth of shares year-to-date through Q3 2024.

As a reminder, our sustainable generation of free cash flow enabled us to transition to net share settlement to pay for employees tax liability on RSU vesting starting in Q2 and going forward from our previous method of sell to cover. We used $58 million of our cash in Q3 and $53 million in Q2 for a total of over $111 million of cash year-to-date for this purpose.

More information on the mechanics of next year's settlement and its impact can be found in the Appendix section of our earnings presentation found on our Investor Relations website. This, along with our share repurchase program, will help us continue to manage dilution.

Moving to Q4 2024, our guidance for Q4 is as follows. ACV billings of $295 million to $305 million. Revenue of $530 million to $540 million. Non-GAAP gross margin of 85% to 86%. Non-GAAP operating margin of 9% to 10%. And fully diluted shares outstanding of approximately 302 million shares.

The updated guidance for full-year fiscal year 2024 is as follows. ACV billings of $1.12 billion to $1.13 billion, representing a year-over-year growth of 18% at the midpoint of the range. Revenue of $2.13 billion to $2.14 billion, representing a year-over-year growth of 15% at the midpoint. Non-GAAP gross margin of approximately 86%. Non-GAAP operating margin of approximately 15%. And free cash flow of $520 million to $540 million, representing a free cash flow margin of 25% at the midpoint.

I will now provide some commentary regarding our updated fiscal year 2024 guidance, specifically the following four points. First, we are seeing continued and significant new and expansion opportunities for our solutions. However, we continue to see a higher mix of larger deals in our pipeline, which is driving greater variability in our new and expansion business. The number of opportunities greater than $1 million in ACV in our pipeline has grown at higher than 30% for each of the last three quarters compared to the corresponding quarters last year.

Relatedly, the dollar amount of pipeline from opportunities greater than $1 million in ACV has grown at well over 50% for each of the last three quarters compared to the corresponding quarters last year. These larger opportunities often involve strategic decisions and C-suite approval, causing them to take longer to close, and to have greater variability in timing, outcome and deal structure. And as we mentioned previously, we have continued to see a modest elongation of average sales cycles relative to historical levels.

Our fiscal year 2024 new and expansion ACV and ARR performance year-to-date has been affected by these dynamics, and have been below our initial expectations at the beginning of the fiscal year. We expect these dynamics to continue in Q4.

As an example for the eight-figure ACV transaction in Q3 that Rajiv mentioned, we expect the billings and cash collection to be in Q4, while the associated subscription revenue is expected to be recognized over multiple years starting in fiscal year 2025. Additionally, it is worth noting that this transaction was approximately two years in the making, taking longer to close than our prior expectation, but came in with a longer contract duration and a higher total contract value than expected. We anticipate similar variability in deal structures and longer sales cycles for some of the larger opportunities in our pipeline.

Second, the guidance assumes that our renewals business will continue to perform well in Q4.

Third, the full year guidance continues to assume that average contract duration would be flat to slightly lower, compared to fiscal year 2023, as renewals continue to grow as a percentage of our billings.

Fourth, the updated full year free cash flow guidance includes the benefit of the eight-figure ACV transaction, which was booked in Q3. In addition, the full year free cash flow guidance also assumes the impact of certain nonrecurring benefits over the course of the year, including approximately $40 million of operating expenses, of which we expect to receive approximately $30 million of nonrecurring cash payments, related to one of our partnership agreements.

In closing, we are pleased that our Q3 performance, exceeded guidance across all metrics and to continue to make significant progress aligned with our stated philosophy of sustainable, profitable growth.

With that, operator, please open the line for questions.

QUESTION AND ANSWER SECTION

Operator: And thank you. [Operator Instructions] And our first question comes from Pinjalim Bora from JPMorgan. Your line is now open.

Pinjalim Bora
Analyst, JPMorgan Securities LLC Q

Great. Hey, guys, congrats on the question. Thanks for taking the question. Rajiv, one question for you. I wanted to ask you about the decision to kind of extend the AHV to support compute-only nodes. On one hand, it seems like it could actually help you create an on-ramp to migrate workloads into the Nutanix HCI platform. But on the other hand, it could elongate the time for a customer to make that decision, since AHV might increase the time they stay on their existing 3D architectures. So maybe talk about that puts and take there. And is there any incremental investment in that decision that we should be thinking about as we think about next year?

Rajiv Ramaswami
President, Chief Executive Officer & Director, Nutanix, Inc. A

Yeah. I think excellent question, Pinjalim. We thought about this one long and hard. Here's kind of the rationale for why we're doing this. One of the things we've talked about as customers migrate from legacy three-tier to HCI architecture is that, it requires them typically to do a hardware refresh, right? Get rid of their legacy storage arrays, and some of – and their existing servers and move to an HCI configuration. And that actually can slow things down a bit in terms of our ability to get into an account because we have to wait for their hardware depreciation cycle typically, before they buy new hardware.

Now the rationale with this announcement with Dell is, we are starting out by supporting AHV with PowerFlex, which is one of their – Dell's storage platforms. Now, doing so allows us to get in the door, right, with existing customers who have made an investment in the storage array already, without having to replace the storage array. And so, it allows us faster entry into an account, not slower. It's going to be faster, right, with a portion of our portfolio. And we are still very much on that mission of converting over time our customers to this modern cloud HCI architecture, which creates a platform for the future. So on balance this gives us easier insertion into accounts where they're not quite ready to go depreciate their hardware yet, allowing us to then over time convert them over to HCI. So that's the rationale behind us supporting external storage. We are starting out with just IT storage only and that was specifically with Dell PowerFlex at this time, right? And again, I think that's the rationale.

Pinjalim Bora
Analyst, JPMorgan Securities LLC Q

Yeah. Understood. And any thoughts on the incremental investment that we should think about maybe going into next fiscal year?

Rajiv Ramaswami
President, Chief Executive Officer & Director, Nutanix, Inc. A

I think it's factored into our current run rate. By the way, on this, we already have our engineering teams and this solution is in development currently and it's included in our ongoing R&D expenses.

Pinjalim Bora
Analyst, JPMorgan Securities LLC

Q

Understood. One quick-follow up for Rukmini. Is it possible Rukmini to understand kind of the size of this eight-figure deal that might be – from a point of view of just free cash flow guidance that you have, it seems like a huge $100 million upside, if my numbers are correct that I looked at?

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.

A

Thank you, Pinjalim. So, we are not commenting on the specific size of the deal beyond what we said in terms of eight-figure ACV. And I'll also remind folks that we do collect cash upfront for all and if it's a multi-year contract. And we alluded to the fact that this transaction came in with a longer contract duration than we had initially expected. The total ACV – total TCV, actually, the total contract value was larger than we had expected, Pinjalim. And so yeah, we're happy to be able to raise our free cash flow guide to the range that we did, $520 million to $540 million for the full year.

Pinjalim Bora
Analyst, JPMorgan Securities LLC

Q

Got it. Congrats on the quarter. Thanks.

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.

A

Thank you.

Operator: And thank you. And one moment for our next question. And the next question comes from James Fish from Piper Sandler. Your line is now open.

Quinton Gabrielli
Analyst, Piper Sandler & Co.

Q

Hey, guys. This is Quinton on for Jim Fish, thanks for taking our questions. Rajiv, maybe for you first. I'd love to hear incremental color you have around the partnerships with Cisco. Obviously, we've announced some deployment optionalities there. But how are your win rates there? How have reps kind of adopted the selling of Nutanix Platform? And kind of any traction you can kind of further talk on would be great.

Rajiv Ramaswami
President, Chief Executive Officer & Director, Nutanix, Inc.

A

Sure, Quinton. So, in Q3, we saw some good additional wins for this new solution with Cisco. And we've seen good encouraging progress with respect to Cisco's ability to bring in new logos for us. Also at .NEXT last week, we announced that we are certifying our AHV hypervisor to run on Cisco UCS servers. This will enable customers to repurpose their existing Cisco servers to run our software connected to our storage-only nodes, right, again, running our own software.

So, with respect to the contribution, we expect to see a growing contribution from Cisco in Q4 and, of course, into FY 2025. And certainly, we are encouraged by the partnership in terms of their reps, especially their specialist reps, because Cisco again has a very big sales force but a lot of those sellers are also networking sellers, but they do have a specialist team, sales team focusing on data center sales, and those are the people who are more familiar with the Nutanix offering. So, we are overall encouraged by the contribution. The overall contribution for this year is small, modest, as we said in the past, and we expect a bigger contribution into FY 2025.

Quinton Gabrielli
Analyst, Piper Sandler & Co.

Q

Yeah, that makes a lot of sense. And then maybe touching a bit on Pinjalim's question earlier. After the AHV combination with Dell Storage, is there really anything from a feature or functionality standpoint that would limit a VMware customer from being able to move to AHV now that kind of the hypervisor-only has been enabled? Or is it kind of an optionality where this opens up all VMware customers to move over to Nutanix? Thank you.

Rajiv Ramaswami
President, Chief Executive Officer & Director, Nutanix, Inc.

A

Again, another great question there, Quinton. So, first of all, I want to say that, first of all, we are only initially supporting one storage platform, and that is PowerFlex, okay? But the concept is about offering AHV stand-alone to work with third-party storage, right, which is a big chunk of the installed base out there, legacy installed base, which is separate virtualized servers connected to three-tier storage.

Now, we are starting out with a very small footprint, to be clear, right? We're only supporting one storage array and it's an IP-based storage array. So, I don't think we'll ever get to a point where we'll support every storage array that's out there on the planet. That's not going to happen. We will start with Dell PowerFlex, and then over time, incrementally add other IP-based storage arrays, right? Not fiber channel storage. So, expect that this is something that we can get a broader and broader opportunity scope over time. But it does open the door to supporting third-party storage.

Quinton Gabrielli
Analyst, Piper Sandler & Co.

Q

Makes a lot of sense. Thank you, all.

Operator: And thank you. And one moment for our next question. And our next question comes from Jason Ader from William & Blair (sic) [William Blair] (00:29:17). Your line is now open.

Jason Ader
Analyst, William Blair & Co. LLC

Q

Yeah. Thank you. Good afternoon, guys. Just to follow up on the first few questions for Rajiv. On the stand-alone AHV deployment option with third-party storage, how are you planning on pricing AHV in those types of environment? I know you're starting with Dell PowerFlex. But is it right to think about the pricing would be similar to kind of a HCI solution?

Rajiv Ramaswami
President, Chief Executive Officer & Director, Nutanix, Inc.

A

Yeah. I mean, Jason, again, as you can imagine, the whole reason for doing this is to provide an alternative solution for customers who are looking to reuse their existing storage but replace their hypervisor. But we also want to think about this as an on-ramp to HCI, not just the stand-alone hypervisor being the endgame in itself. And therefore, we will figure out what the appropriate pricing needs to be to achieve that outcome. So we haven't – prices offering is still in development, won't be available until next year. So, still early days for us. And we will monitor customer feedback and make more decisions on this over time.

Jason Ader
Analyst, William Blair & Co. LLC

Q

Okay. Great. And then a follow-up for Rukmini. I know you mentioned on the new and expansion business that it was below your expectations coming into the year because of the longer sales cycles. Could you comment on how the pipeline has fared relative to your expectations entering the year, because it sounds like – you gave some data points there. It sounds like the pipeline is extremely strong.

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.

A

Thank you, Jason. Correct. I mean, I think we have strong pipeline generation and we gave you some qualification around the larger deal pipeline, which we did comment on last quarter as well. And the qualification I had in my script was that if you look at opportunities greater than $1 million in ACV as a threshold in our pipeline, that number of deals has grown at higher than 30%, right, for the last three quarters, and the dollar amount of that pipeline from opportunities greater than $1 million has grown even faster at well over 50%. And so, the pipeline is strong. I think what we're seeing in the market is a bit of a dichotomy on that versus I think what's closing and I'd let – Rajiv, do you want to add more on that?

Rajiv Ramaswami
President, Chief Executive Officer & Director, Nutanix, Inc.

A

Yeah. I mean, Rukmini, to your point, we are seeing the dichotomy. We've got this vast opportunity opening up to us on the one hand. And that's for sure, but at the same time, in terms of the deals that we are closing in the near term, right, I mean, these deals are taking longer, these larger deals. So, on the opportunity side, I was at .NEXT last week and it was amazing to see the substantial increase in the customers who are engaging with us, including some of the world's largest companies and ones that we have won business with and who are willing to talk about it very publicly in terms of their modernization experience, and their migration experiences.

And at the same time, we see an increased level of activity with our channel partners, our OEM partners, all looking to engage deeper with us. Now, the engagements themselves on the other side have been taking longer than expected to close. And they've shown greater variability with respect to the timing and the outcome than we expected.

Now, I think this is because of a higher mix of larger and more strategic opportunities. And of course, some of which are influenced by this Broadcom acquisition. Now with respect to this Broadcom opportunity, we have said and we do expect that this will take out time to play for all the reasons we've previously discussed that includes three reasons.

First, many VMware customers have signed multi-year ELAs with VMware prior to the acquisition, buying them time. Second, as we've talked about before, a lot of the install base also requires a hardware refresh to run HCI. Although, once we do get out the AHV, we start addressing a portion of this market as well. But also, I think the situation has been very dynamic recently, number three. We've seen Broadcom display a lot of flexibility with respect to their pricing, their packaging changes, especially when they are faced with the probability of losing some of their larger customers or responding to push back from the market and from the customer base. So those are some of the reasons why we've had some pressure on our recent new and expansion ACV performance.

Jason Ader
Analyst, William Blair & Co. LLC

Q

Thank you.

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.

A

Thank you, Jason.

Operator: And thank you. And one moment for our next question. And our next question comes from Wamsi Mohan from Bank of America. Your line is now open.

Wamsi Mohan
Analyst, BofA Securities, Inc.

Q

Yes. Thank you so much. Given your commentary on the longer time to close some of these deals, that you're saying will last into Q4. Would you say that changes any of your outlook also around 2025? I mean, why should it not sort of extend beyond Q4, is my first question. I'll follow up.

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.

A

Yeah. Thank you for that question, Wamsi. So, to date, this fiscal year, we've been outperforming our initial free cash flow expectations, but have been below our initial expectations on new and expansion ACV and ARR, as you alluded to. While we're not commenting on fiscal year 2025, our longer term targets today, we remain committed to driving top-line growth and strong free cash flow generation. And we expect to provide our initial fiscal 2025 guidance on our next earnings call as we typically do.

Wamsi Mohan
Analyst, BofA Securities, Inc.

Q

Okay. Okay. Thanks, Rukmini. And I guess, as a follow-up, I mean, this higher mix of larger deals, right, you said, like, this has been tracking pretty strongly now for three quarters, what is driving the higher mix of the larger deals? Is that more competitive traction? I think, Rajiv alluded to some of that. Or is there incremental attach across your stack, and would you say that the demand environment has changed materially across the last three quarters? Thank you so much.

Rajiv Ramaswami
President, Chief Executive Officer & Director, Nutanix, Inc.

A

Maybe I can take that. There's multiple reasons for that, Wamsi. So, first, of course, look, there is a larger set of market opportunities available to us at these larger accounts, and these larger accounts tend to be associated with larger deals, number one. Number two, our platform has evolved to a point where now we can go after pretty much all the workloads that companies are running, which means we can go after broader opportunity set. Number three, of course, the competitive dynamics in terms of what's happening with Broadcom is stimulating a portion of this. And so these are the reasons why we are seeing more large deals in our pipeline.

Wamsi Mohan
Analyst, BofA Securities, Inc.

Q

Okay. Thank you so much, Rajiv.

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.

A

Thank you.

Operator: And thank you. And one moment for our next question. And our next question comes from Simon Leopold from Raymond James. Your line is now open.

Simon Leopold
Analyst, Raymond James & Associates, Inc.

Q

Great. Thanks. Appreciate you taking the question here. One of the things I wanted to follow up on was how your views have evolved regarding the opportunities to take business from VMware versus your assessment say, six months ago. And then I've got a quick follow-up that I'll come back with.

Rajiv Ramaswami
President, Chief Executive Officer & Director, Nutanix, Inc.

A

Maybe I'll take that to start; Rukmini, you can provide more color. I would say largely the opportunity is a multi-year opportunity, as we've been saying all along. It's not here and now in terms of closing deals, right, these things are going to take many years. And so we look at it as a multi-year tailwind for us, for all the reasons that we talked about, Simon.

And I don't think that part of it has changed, right? It's been the same, as we've said, right. There's customers who have assigned ELAs, therefore it takes time, the hardware refresh cycles involved in the process. The only big change that we've seen over the last couple of months, in fact, is that the situation with just what Broadcom is doing is also evolving rapidly. They've tried a bunch of things. They're stepping back on some of the things that they've tried, also the competitive situation is just quite dynamic on that front.

And, these larger deals, of course, are taking longer also for us to close. So, the ones that are in the pipeline are taking for all these reasons that we talked about. So, I'd say compared to the overall thesis about this being a multi-year opportunity hasn't really changed for us. In the short term, I think what we're seeing is these larger deals are going to take more time. And that's just a fact of life as we have to deal with the dynamics of all of the things that are going on right now.

Simon Leopold
Analyst, Raymond James & Associates, Inc.

Q

Appreciate that. And then maybe my follow-up is tied into this, is at least the anecdotes from my perspective seem like Broadcom's price hikes and bundling were bigger than I would have anticipated. I don't know what you were expecting, but they surprised me. So, I'm wondering if there's some inflationary aspect that maybe it's a tailwind for Nutanix that gives you the ability to be more aggressive and potentially even raise price up against the inflation coming from Broadcom. Thank you.

Rajiv Ramaswami
President, Chief Executive Officer & Director, Nutanix, Inc.

A

Yeah. I think, first of all, I think clearly Broadcom is doing what they're doing in terms of the bundling and the subscription price increases and so forth. Now, when we look at our pricing response there, we've always been competitively priced from a HCI architecture, right. A lot of the competitive or the install base out there is legacy, right, which is three-tier architecture, this server and storage.

And our philosophy has always been to make sure that our solution pricing is attractive from a HCI perspective as companies move from those legacy architecture to the modern HCI architecture. And that's still the underlying philosophy that drives our pricing and we price to value. We've always been a premium offering in the market and we pride ourselves on being really simple to use, delighting our customers, but also pricing based on value. So, we continue to do that, Simon. So that part hasn't changed and we will continue to be agile in terms of responding to whatever we see as competitive situations in the market.

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.
A

The one thing I'd add...

Simon Leopold
Analyst, Raymond James & Associates, Inc.
Q

Thank you very much.

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.
A

...to reiterate that, Simon, is that while Broadcom's effective list prices for many of their customers may have increased significantly, the actual prices, meaning the discount levels in the market, especially when they're sort of at risk of losing business or otherwise challenged can, as you can imagine, will be lower than those list prices and, as Rajiv said, remain quite dynamic is what we're seeing in the market.

Rajiv Ramaswami
President, Chief Executive Officer & Director, Nutanix, Inc.
A

Yeah. And we've seen them respond aggressively when they are faced with the threat of losing large customers.

Simon Leopold
Analyst, Raymond James & Associates, Inc.
Q

Thank you.

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.
A

Thank you, Simon.

Operator: And thank you. And one moment for our next question. And our next question comes from Meta Marshall from Morgan Stanley. Your line is now open.

Meta A. Marshall
Analyst, Morgan Stanley & Co. LLC
Q

Great. Thanks. A couple of questions. Maybe first, you mentioned kind of starting with PowerFlex and may consider others. Just wondering with the time it's going to take to kind of build the solution for PowerFlex, would that shrink as you added other storage or just how to think about kind of adding incremental or the time to add other incrementals?

And then, as a second question, Rukmini, you did kind of mention or at least I missed if you did, anything about early renewal dynamics this quarter? If I did miss it, apologies. But if you could just kind of restate whether there are any dynamics there to be noteful of? Thanks.

Rajiv Ramaswami
President, Chief Executive Officer & Director, Nutanix, Inc.

A

Yeah. I'll cover PowerFlex and Rukmini will cover renewals, Meta. So on the PowerFlex situation, of course, there is an initial development effort to take our hypervisor and make it stand-alone ready, right.

We've never had that in the past because we've always sold our hypervisor as part of our HCI solution. And now for the first time, we are disaggregating it. So there is some development work required to do that and we are doing that and the first target is PowerFlex.

Now once we do this with PowerFlex, I expect that the additional effort to bring on other IP storage, right, clearly IP, not fiber channel, IP storage will be incremental. We won't have to do all of these over again. Once we have the first storage array qualified with incremental work, we should be able to bring in more IP storage arrays into the mix.

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.

A

And Meta to your second question on renewals. So we have seen outperformance of our renewals business so far this fiscal year due to a combination of a few things. One is good discipline around renewals economics and pricing. Second is improved on-time renewal performance. And then third is some early and co-term renewals, I think, was your specific question. And so the benefit of this stronger performance is primarily been seen in ACV billings and free cash flow. And just as a reminder, this will have a modest benefit to revenue because revenue from early renewals, specifically on the early renewals piece, would only be recognized in the quarter in which they are due. So yeah, overall happy with the outperformance in renewals year-to-date.

Meta A. Marshall
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you.

Operator: And thank you. And one moment for our next question. And our next question comes from Mike Cikos from Needham & Company. Your line is now open.

Mike Cikos
Analyst, Needham & Co. LLC

Q

Hey, guys. Thanks. Great. Thank you for taking the questions here. I just wanted to come back to the large deals and thank you for the statistics, Rukmini, around that $1 million ACV plus cohort. Could you help us think about given the greater variability for the timing of those deals, have there been any change in philosophy regarding how management constructs its guidance?

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.

A

Thank you, Mike, for that question. So, I would say, in general, our guidance philosophy hasn't changed, Mike. What we are trying to do is to, of course, create more visibility internally and put more scrutiny around how we review the opportunities in our pipeline. And this is in partnership with our sales organization as they think about these opportunities coming in, how we qualify them, and how can we think about just the quality of the pipeline in addition to the quantity of the pipeline.

We also, as you can imagine, Mike, closely watch duration here, right, like, how long the pipeline has been open and we'll continue to do so. I think, I would say, we have, as we've talked about on this call, have closed some larger deals over the last few quarters, including the one we talked about, that Rajiv alluded to on the eight-figure ACV that we talked about. But we'll continue to sort of build more data points, right, as we do more of those.

So, yes, I think trying to put more rigor into various processes, both on the go-to-market side and on the finance side, but the philosophy in terms of how we approach guidance hasn't changed, but certainly a lot more rigor being put into how we think about forecasting.

Mike Cikos
Analyst, Needham & Co. LLC

Q

Great. And just to follow up as well, I think at the end of your prepared remarks, I know you were citing some of the nonrecurring benefits and cash payments related to partnership agreements. So first, can you just run through those numbers again real quickly. And then secondly, just as a reminder, what are those payments in relation to with respect to those partnership agreements?

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.

A

Yeah. So, Mike, what we said was that, when I was talking about the full-year free cash flow guidance, we said that the OpEx this year is expected to benefit by about $40 million and cash flow by $30 million, which is $30 million off that $40 million. Because of these nonrecurring cash payments, we don't expect them to recur beyond kind of this period. And it's related to one of our partnership agreements, Mike, and we're leaving it at that.

So, I'm not going to get more specific on what the payment is, but it is a $40 million benefit to OpEx this year. It is throughout the year and it's expected to be, of that $40 million, $30 million will also be a free cash flow benefit to this year. The only other maybe modeling point for you all is that $40 million of OpEx that I alluded to in terms of benefit is sitting in the R&D line within OpEx for your reference.

Mike Cikos
Analyst, Needham & Co. LLC

Q

Got it. Okay. Thank you very much, Rukmini.

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.

A

Thank you, Mike.

Operator: And thank you. And one moment for our next question. And our next question comes from Matt Hedberg from RBC Capital Markets. Your line is now open.

Matthew Hedberg
Analyst, RBC Capital Markets LLC

Q

Great. Thanks for taking my questions, guys. I had a question – there's been a lot of conversations here on the large deals and timing. It sounds great that they're growing in size. But obviously you've noted that creates a fair amount of uncertainty there. I'm sort of curious, are you doing anything to accelerate, I would call it, more of the run rate business that might be more predictable? I assume partners like Dell and Cisco could be driving that. But are there other things you can do to maybe help offset the timing of larger deals?

Rajiv Ramaswami
President, Chief Executive Officer & Director, Nutanix, Inc.

A

Yeah. I think – certainly, first of all, we haven't seen any changes to our conversion ratio on the what you would call maybe run rate deals. And I think in terms of what we are doing on that front, by the way on the run rate stuff, also, we are incentivizing our channels to get us more new logos. We have migration programs in place for competitive takeouts, where, of course, companies like Cisco can help bring us more new logos there as well.

And then in terms of larger deals itself, when you look at what we're trying to do there to expedite the larger deals that we talked about, we have put together a cross-functional team for these types of large deals, that include sales, finance and product folks with executive sponsorship for pursuing these deals specifically. And we are quite familiar with the cycle of this, product qualification, customer-specific request that may come in for some of these larger wins, vendor qualification process, and then, of course, commercial negotiations, right? All of these. So we do what we can do under our control. But at the same time, we also have to factor in the customers' timelines and processes as well, right, because that's going to be a gating item as well in some of these.

Matthew Hedberg
Analyst, RBC Capital Markets LLC

Q

Thanks, Rajiv. Well done on the quarter, guys.

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.

A

Thank you.

Operator: And thank you. And one moment for our next question. And our next question comes from Ben Bollin from Cleveland Research Company. Your line is now open.

Ben Bollin
Analyst, Cleveland Research Co. LLC

Q

Good afternoon, everyone. Thanks for taking the question. Rajiv, I'm curious if you could elaborate a little bit more on how you feel enterprise investigations around their own internal AI efforts might be influencing their refresh activities, your win opportunities. You mentioned data security and ransomware as priorities within that. But curious if you could expand on that and speak to any sequence of investments that you see across those customers.

Rajiv Ramaswami
President, Chief Executive Officer & Director, Nutanix, Inc.

A

Yeah. I think there is a natural sequence of hardware refresh that is driven by typically aging of hardware on the one side; and then on the other side, new initiative. And I think what you're talking about comes from the AI. AI is very much part of the new initiative, Ben. So when it comes to the AI part, for enterprise AI, I mean, there's been a lot of talk about AI in the public cloud and a lot of it has to do with training of these large language models.

Now, in enterprise AI, it has to be run where the data is and a lot of that is going to be on-prem. And in fact, I think that's the reason why we announced our GPT-in-a-Box 2.0, simplifying things as well as the partnerships that we announced last week at .NEXT. But most of our customers, I would say, are in the early phases of that journey. A lot of them are doing proof-of-concept at initial use cases to validate the GenAI use cases that we've talked about, whether it be fraud detection or customer support or documents such as summarization or co-piloting.

So this is pretty early on that front. They are making fairly hardware investments. But I would say more for proof-of-concept and trying out rather than volume production and deployments. And I think this will play out over time. They're going to go through these concepts – proof-of-concepts, validate the business proposition, and then get into a production deployment scenario.

Ben Bollin
Analyst, Cleveland Research Co. LLC

Q

Yeah. That's great. And as a follow-up, looking at the commentary around the opportunities for larger deals, if you look at maybe more traditional deal sizes versus these larger deals, could you speak to a little bit about who is involved and how it's different? And then any thoughts on the average evaluation duration between the two? That's it for me. Thank you.

Rajiv Ramaswami
President, Chief Executive Officer & Director, Nutanix, Inc.

A

Yeah. I think on the smaller deals, it's more business than usual. I mean, our field reps are at the front of that opportunity with customers. And in a very small – in a sector of the market, we have actually had the channel – our channel partners take the lead on some of those opportunities. But in a lot of these cases, our reps are very much involved and they're compensated in exactly the same way as they would be compensated for any of the deals. Because, for us, new business is a new business, whether it comes as large or small. And like I said, with respect to the conversion rate on the smaller deals, we haven't seen any of the changes over the last several quarters. It's been roughly about the same. So we haven't seen any major changes on that front.

Rukmini, is there anything that you would like to add on this?

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.

A

Only on, I think, Ben's question about duration, I think just how long they're taking, that was part of the question, Ben. I think we talked about how these larger deals do tend to take longer often because they're strategic or they just have more approvals, things like that. And we haven't sort of given you a specific quantification of one versus the other. We did give the example though of this particular eight-figure deal that we talked about, which took approximately two years for it to come to a close. So, yeah, it does take longer than what I think was referred to earlier as sort of our run rate business.

Ben Bollin
Analyst, Cleveland Research Co. LLC

Q

Thank you.

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.

A

Thank you.

Operator: And thank you. And one moment for our next question. And our next question comes from George Wang from Barclays. Your line is now open.

George Wang
Analyst, Barclays Capital, Inc.
Q

Thanks for taking my question. Hey, Rajiv. Do you have any updated thoughts on the repatriation trends? Since, increasingly, you mentioned that there has been some examples of repatriation kind of private cloud with additional build-outs kind of in the hybrid cloud space. Just curious if you have any notable trends kind of you have seen from the quarter.

Rajiv Ramaswami
President, Chief Executive Officer & Director, Nutanix, Inc.
A

Yeah, George. I mean, I think every quarter, we see a handful of these where people are running something in the public cloud and they might want to repatriate it back on-prem. We've certainly seen that with some of our customers. I wouldn't call it a major trend in terms of like everybody trying to do that, but there's a few customers every quarter that we see doing that.

What I would say is, rather than looking at it from a repatriation angle, for us, the bigger angle is the fact that for – since the vast majority of enterprise workloads are still running on-prem in data centers, our CIOs these days are – the new reality for them is that the world is hybrid and a lot of those workloads, they're going to look at how to run them on modern platforms, how to run them in a hybrid cloud kind of model and not necessarily take all those workloads and take them to the public cloud, which may have been the case five years ago.

So, perhaps, this is more triggering a need for running modern applications, modernizing their on-prem infrastructure, running modern applications. And that goes for even the newest of modern applications. GenAI is a similar example of that. There will be, in my view, a fair amount of GenAI workloads also being deployed on-prem metadata is and perhaps even at the edge where a lot of data is being generated. So that's more the trend, I would say, call out rather than a mass repatriation.

George Wang
Analyst, Barclays Capital, Inc.
Q

Okay. Thank you. Just a quick follow-up. Just in terms of the incentives through a channel to attract new logos, kind of, do you have anything notable to call out quarter-to-quarter or still kind of a similar sort of trend you are sort of providing to the channel to kind of upsell and cross-sell? Just curious if there's additional initiatives on the promo and kind of incentive front?

Rajiv Ramaswami
President, Chief Executive Officer & Director, Nutanix, Inc.
A

Yeah. I mean we try to be somewhat neutral in terms of cloud versus on-prem. In fact, we have the same product and the same licensing, whether a customer chooses to deploy it on-prem or in the public cloud. With respect to new logos, we are fine. In fact, how will we get the new logos? In fact, it was interesting. We actually had a new logo this time. We didn't cover that in the earnings call, but it was actually an example of a customer who started with us in the public cloud and over time, they would deploy more on-prem but they're starting out with us in the public cloud. And now that is not the norm. I would say most of our customers have started out with us on-prem and then move to the public cloud. But with respect to incentives to our field and to our channel, it's all around new logos which are way to get it.

George Wang
Analyst, Barclays Capital, Inc.
Q

Okay. Great. Thank you.

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.

A

Thank you, George.

Operator: And thank you. And I'm showing no further questions. This concludes today's Nutanix Q3 conference call. Thank you for participating. You may now disconnect.

Rajiv Ramaswami
President, Chief Executive Officer & Director, Nutanix, Inc.

Thank you.

Operator: Thank you.