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Nutanix, Inc. (NTNX)

Q3 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and thank you for standing by. Welcome to the Nutanix Third Quarter 2025 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, we'll open up for questions. [Operator Instructions] Please be advised that today's conference is being recorded.

I will now hand it over to your speaker, Rich Valera, Vice President of Investor Relations. Please go ahead.

Richard Valera

Vice President-Investor Relations, Nutanix, Inc.

Good afternoon and welcome to today's conference call to discuss third quarter fiscal year 2025 financial results. Joining me today are Rajiv Ramaswami, Nutanix's President and CEO; and Rukmini Sivaraman, Nutanix's CFO.

After the market close today, Nutanix issued a press release announcing third quarter fiscal year 2025 financial results. If you'd 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 a 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 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 used 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 Baird 2025 Global Consumer, Technology & Services Conference in New York, and we hope to see some of you there. Finally, our fourth quarter fiscal 2025 quiet period will begin on July 18.

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're happy to report third quarter results that came in ahead of our guidance. Against a dynamic backdrop, our results benefited from the strength of the Nutanix Cloud Platform, demand from businesses looking for a trusted long-term partner, and go-to-market leverage from our partnerships and programs.

Taking a closer look at the third quarter, we exceeded all our guided metrics. We grew our ARR 18% year-over-year to \$2.14 billion and delivered strong free cash flow. We also saw another quarter of strong new logo growth with strength seen across all our customer segments.

Our largest wins in the quarter demonstrated our ability to land and expand with some of the largest and most demanding organizations in the world as they look to modernize their IP footprint, including adopting hybrid multi-cloud operating models and modern applications, as well as those looking for alternative in the wake of industry M&A.

A great example is a new logo and our largest land and expand win of the quarter with a Fortune Global 500 provider of technology and services based in the EMEA region. Our two-plus-year engagement with this customer was catalyzed by their concerns regarding the proposed acquisition of their incumbent infrastructure supplier, which were realized subsequent to the close of that transaction. This new customer was initially looking at Nutanix as a second vendor alternative, but saw the value of the Nutanix Cloud Platform as a way to modernize their existing infrastructure, and ultimately two of Nutanix to replace their entire incumbent supplier over time.

Another good example is a seven-figure expansion we did with an EMEA-based IT solutions provider in the quarter. This customer was an early adopter of our GPT-in-a-Box 1.0 solution along with RedHat OpenShift for managing Kubernetes. With this expansion, they're adopting our GPT-in-a-Box 2.0 solution, including Nutanix Enterprise AI, while also replacing OpenShift with Nutanix Kubernetes platform. They see that enhanced platform as providing a centralized infrastructure for accelerated and scalable model deployment and inferencing across different sites, with initial use cases focused on information summary and search, as well as chat agent and digital assistant solutions.

Finally, a new logo win, with one of the largest asset managers in the world based in North America, demonstrated the value of the hybrid multi-cloud capabilities of the Nutanix Cloud Platform and our partnership. This customer was unhappy with the recent changes with their existing infrastructure provider, and was looking for an alternative that could work across their private and public cloud estate. They purchased the Nutanix Cloud Platform, including NC2 on AWS through the AWS Marketplace. Appreciating the consistent management, self-service, and the automation it provides across private and public clouds.

Earlier this month, we held our .NEXT Conference in Washington, DC, which drew over 5,000 attendees. During .NEXT, we made a number of announcements demonstrating our commitment to enhancing the Nutanix Cloud Platform, and strengthening our partner ecosystem. We demonstrated progress on our decision to enable customers to utilize their existing external storage hardware while adopting the Nutanix Cloud Platform powered by our AHV compute hypervisor.

Our first offering, supporting Dell PowerFlex, became generally available at the end of April, well within our stated target of the first half of this calendar year. And during .NEXT, we announced a new partnership with Pure Storage to support their FlashArray, an offering that is expected to be generally available by the end of this calendar year. We also continue to focus on helping customers build apps and run them anywhere.

To that end, we announced we are expanding our cloud platform to support Google Cloud, which will be in early access this summer. We also announced a new solution, Cloud Native AOS, which is about enabling modern applications to be able to use a set of highly resilient storage and data services wherever they're running, whether it's in the public cloud, in native Kubernetes substrates or bare metal. And finally, we announced general availability of a new version of Nutanix Enterprise AI, which adds a deeper integration with NVIDIA Enterprise AI using their latest framework to speed the deployment of agentic AI applications in the enterprise.

In closing, I am pleased with a solid Q3 results. Our ongoing innovation on our cloud platform, particularly with respect to its support of modern applications and external storage. And the progress we continue to make on partnerships. We remain focused on delivering on our vision of becoming the leading platform for running apps and managing data anywhere and capturing the multiyear growth opportunity in front of us.

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

Rukmini Sivaraman

Chief Financial Officer, Nutanix, Inc.

Thank you, Rajiv, and thank you everyone for joining us today. I will first discuss our Q3 fiscal 2025 results, followed by our guidance for Q4 fiscal 2025 and what that implies for our updated outlook for the full fiscal year 2025. Results in Q3 2025 came in above the high end of our ranges across our guided metrics. In Q3, we reported quarterly revenue of \$639 million higher than the guided range of \$620 million to \$630 million, representing a year-over-year growth rate of 22%. ARR at the end of Q3 was \$2.14 billion, representing year-over-year growth of 18%. We continue to see strength in landing new customers onto our platform from the various programs we have put in place to incentivize new logos from a general increase in engagement from customers looking at us as an alternative in the wake of industry M&A and helped by more leverage from our OEM and channel partners.

NRR, or net dollar-based retention rate, at the end of Q3 was 110% flat quarter-over-quarter. In Q3, average contract duration was 3.1 years, slightly higher than our expectations and up slightly quarter-over-quarter. Non-GAAP gross margin in Q3 was 88.2%. Non-GAAP operating margin in Q3 was 21.5%, higher than our guided range of 17% to 18%, due to slightly lower operating expenses related to timing of hiring and higher revenue.

Non-GAAP net income in Q3 was \$125 million or fully diluted EPS of \$0.42 per share based on fully diluted weighted average shares outstanding of approximately 297 million shares.

A note on taxes. Historically, we calculated the non-GAAP effective tax rate by considering our sizable US net operating loss carryforwards and tax credit carryforwards. This resulted, for example, in a 6% non-GAAP tax rate for fiscal year 2024. Going forward, we believe a long-term projected tax rate of 20% better aligns with the non-GAAP measure of profitability, better reflects our long-term tax structure, and provides better consistency across reporting periods.

This 20% non-GAAP tax rate is reflected in our statements starting in Q3 2025. It is important to note that we expect no meaningful change from a cash tax perspective. Our overall cash tax rate is expected to be approximately in the mid to high single-digit percentage range of non-GAAP profit before tax for the next few years, due to our net operating loss and tax credit carryforward balances. GAAP net income and fully diluted GAAP EPS in Q3 were \$63 million and \$0.22 per share, respectively. Free cash flow in Q3 was \$203 million, representing a free cash flow margin of 32%.

Moving to the balance sheet. We ended Q3 with cash, cash equivalents and short-term investments of \$1.882 billion, up from \$1.743 billion at the end of Q2. Moving to capital allocation, in Q3, we repurchased \$38 million worth of common stock under our existing share repurchase authorization and used about \$65 million of cash to retire shares related to our employees tax liability for their quarterly RSU vesting.

Moving to Q4 2025. Our guidance for Q4 is as follows. Revenue of \$635 million to \$645 million. Non-GAAP operating margin of 15.5% to 16.5%. Fully diluted weighted average shares outstanding of approximately 297 million shares.

Moving to the full year and based on that Q4 guidance, the updated guidance for fiscal year 2025 is as follows. Revenue of \$2.52 billion to \$2.53 billion, representing a year-over-year growth of approximately 17.5% at the midpoint and an increase from our previous guidance. Non-GAAP operating margin of approximately 20.5%, an increase from our previous guidance. Free cash flow of \$700 million to \$730 million, representing a free cash flow margin of approximately 28% at the midpoint and an increase from our prior guidance.

I will now provide some commentary and assumptions regarding our updated guidance. First, we assume that the macro and demand environment remain similar to what we saw in Q3. We expect to continue to add new customers onto our platform, while noting that last Q4 presents a tough year-over-year comparison for new logo additions. Second, we assume aggregate average contract duration for Q4 to be more or less flat relative to Q3, resulting in a full year contract duration that is expected to be flat to slightly higher compared to last fiscal year. Third, as discussed in prior earnings calls, we expect to continue to increase our investment in sales and marketing and research and development into the end of the fiscal year. These investments are directed towards addressing our large market opportunity, are expected to continue to ramp in Q4 and are factored into our Q4 and implied full year guidance.

In closing, we are pleased that our Q3 results exceeded the high end of our guidance ranges and to raise our full fiscal year guidance across all metrics. We would like to thank our employees, customers, partners, investors and stakeholders for their continued trust in us. We remain committed to continued progress, aligned with our stated philosophy of sustainable, profitable growth, both through durable top line growth and expanding margins.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Please limit yourself to one question and one follow-up in the interest of time. Please stand by while we compile the Q&A roster. One moment for our first question. Our first question will come from the line of Jim Fish from Piper Sandler. Your line is open.

James E. Fish

Analyst, Piper Sandler & Co.

Q

Hey, guys. Appreciate the questions here. Of course, I'll kick it off with a simple macro question that we're all asking on all these calls. But I guess, can you just walk us through the linearity that you saw throughout the quarter and through May at this point, just given some of the tariffs, things back and forth, especially in the month of April?

And Rajiv, separately from that, you seem to be talking up the next act of the company across platform services like managed Kubernetes. Are we seeing an improvement yet in that sort of contribution on the third wave or act, whatever you want to call it, that's traditionally been a smaller part of the business?

Rajiv Ramaswami

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

A

Yeah. [ph] This is Rajiv (17:28), I can take questions and then I'll talk about macro. We can then talk about your specific question on linearity, I think Rukmini can cover that. and then I'll call – comments on the Kubernetes piece. So, on the overall macro, Jim, it's a – continues to be dynamic, continuing to change every day. And we've seen all these changes and recent actions from the new administration.

The other related commentary on the macro is also around the federal business, right? And a lot of personnel changes – people changing in the federal government. More additional reviews. So, for us, what that meant is somewhat longer lead cycles and some variability across our Fed business.

Now, longer term, when we look at the Fed business, we are actually reasonably optimistic on the opportunity to put this business to benefit from our platform's focus. We help people modernize, and we help companies and organizations reduce their TCO. And so, I think this is clearly a focus and we can help the Fed business customers with this.

So we have factored some of this picture, when we look at our outlook. Let me also answer the Kubernetes piece and I'll then turn it to Rukmini for linearity. So, the Kubernetes piece, of course, look, I think, at our last user conference, we really focused on becoming this platform for applications and data. Both today's applications, which are all VM-based and tomorrow's applications, which are more Kubernetes-based and can be running anywhere.

And so, our whole focus in Kubernetes is about building the Kubernetes platform to align and provide customers the choice of VM [indiscernible] (18:58) containers anywhere. It's still pretty early days for the Kubernetes piece. They're actually quite enthusiastic about the initial progress we are seeing in terms of the product market fit that we've seen with what we've talked about. But it's still early days and the numbers and adoption are still pretty early.

If you recall, we really got into this about a year ago with our acquisition of D2iQ, and we're building out and will continue to buildout this platform over the next few years. So, the contribution is still small, but growing nicely.

Rukmini, you want to comment on the rest, linearity and [indiscernible] (19:34)?

Rukmini Sivaraman

Chief Financial Officer, Nutanix, Inc.

A

Sure. Sure. Hi, Jim. So, on a couple of things I'll add to what Rajiv said. So, on linearity, look, I would say more generally on the tariff point, Jim, we – as a software provider and as you know, we don't have a direct exposure to tariffs and we haven't seen an impact from tariffs to date. I would also say that more generally while linearity can move around from quarter-to-quarter, we haven't seen any meaningful sort of increase in pull ins or push outs more systematically over the course of Q3 other than what Rajiv alluded to, right, in terms of deal cycles, lengthening and some variability with regard to the US federal business specifically. And as Rajiv said, I'll reiterate that overall, there continued to be solid demand for our solutions and that – but we have factored in some of this overall kind of macro uncertainty into the updated outlook.

James E. Fish

Analyst, Piper Sandler & Co.

Q

Got it. Thanks. I'll pass it on. Appreciate the color.

Rukmini Sivaraman

Chief Financial Officer, Nutanix, Inc.

A

Thank you, Jim.

Operator: Thank you. One moment for our next question. Our next question comes from the line of Pinjalim Bora from JPMorgan. Your line is open.

Pinjalim Bora

Analyst, JPMorgan Securities LLC

Q

Oh, great. Thank you so much for taking the questions and congrats on a solid quarter. Rajiv, now that Dell PowerFlex solution is out with teams like NCIC licensing. Any way to understand the delta between the NCIC and kind of the core standard NCI license? And I know it's early, but what are you seeing around the pipeline for that product at this point? And one follow-up as I spit it out for Rukmini. The operating margin guide is coming up substantially for the year. Maybe talk about what's driving that. Is there an element of timing of expenses that might have been pushed into 2026 or are you seeing any productive improvement from kind of internal here or use cases? So, just trying to understand the sustainability of that margin levels as we go into 2026.

Rajiv Ramaswami

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

A

Yeah. So, Pinjalim, let me take the first part on NCIC and Dell PowerFlex. So, yes, we're happy that we were able to get it out at the end of April in line with what we talked about, we said to the first half [indiscernible] (21:40) we were able to get it out. Therefore, also at our conference in Washington, you heard some of the early customer feedback on that movie was on stage talking about how they were early access customer for this offering. So now the way we've gone to market is now, yes, as you said, we call it NCIC. And what it is, is the offering now includes basically the rest of the platform minus the storage, right. So, it includes our hypervisor, it includes our networking pieces, right, our security micro segmentation offerings. And of course, it includes our full management suite. And

what it does not include, of course, is storage because that storage piece is the external component. And so, that's how we've priced it. We still have a standard, pro, advanced type of, let's say, tiers of that licensing structure in there.

Now, in terms of the opportunity there, of course, PowerFlex is a – there's a limited installed base of PowerFlex, but it's at very large accounts. Customers like Moody's, among others, where there's a large footprint of PowerFlex in those accounts. And our whole strategy with NCIC, the control platform minus the storage offering is to be able to go into those environments and get traction.

So we've got – we have some good early access feedback from our customers, the product is [indiscernible] (23:06), and so we expect to see some traction with that over the next several months. And really, I think some contribution – smaller contribution in FY 2026 in terms of our actual revenue.

Rukmini Sivaraman

Chief Financial Officer, Nutanix, Inc.

A

Yeah. Hi, Pinjalim, I'll take the operating margin question. So, you're right, we're happy with our operating margin performance in Q3 and to be able to take up the guide for the full year. And so [indiscernible] (23:31) in my prepared remarks in Q3, for example, I did call out the timing of hiring as one of the reasons we overachieved on op margin relative to our guidance. And so, yes, some of those people have been hired and will start in Q4, and you'll see that there's quite a meaningful step up implied in the OP margin guide from Q3 to Q4 because we are sort of hiring folks and expect them to start in Q4.

We expect to also continue to ramp up the investments in Q4, Pinjalim, to your question. And that's of course, because we believe there's a big market opportunity here. And as we talked about before, we're investing in both sales and marketing, and on the R&D line as we look to drive more innovation.

And I think the last part of your question was around how do you think about fiscal year 2026 and sustainability here. So, of course, we'll guide to 2026 in the next earnings call. What I will say, though, of course, that all the folks we've hired here will be in the run rate for next fiscal year and that we've had some really nice margin improvements year-over-year. And that pace is going to be hard to sustain, of course, Pinjalim, going forward. So I'll leave it there. But look, I think we're happy with the ability to drive leverage overall in the model. And as you know, we've talked about those levers at a high level as being continuing improvements of – not improvement, but increase the [indiscernible] (24:49) renewals mix as a percent of total and that will continue. We have – we're drawing more productivity improvement with our sales reps and we think there's more we can do there. And then, overall, kind of prudent investments in areas where we think we can see a return. And so, those are some of the areas, and you're right, there is some timing here as well. And we'd expect all of that to be in the run rate going into fiscal year 2026.

Pinjalim Bora

Analyst, JPMorgan Securities LLC

Q

Got it. Thank you so much.

Rukmini Sivaraman

Chief Financial Officer, Nutanix, Inc.

A

Thank you, Pinjalim.

Operator: One moment for our next question. Our next question comes line of Jason Ader from William Blair. Your line is open.

Jason Ader

Analyst, William Blair & Co. LLC

Q

Yeah, thank you. So, I have two questions. First, a quick one for Rukmini. Can you help us understand ARR versus revenue just given the delta and the growth rates there? We've had a timing thing. Usually ARR growth for you guys has been above revenue growth. So that's the first question.

Rukmini Sivaraman

Chief Financial Officer, Nutanix, Inc.

A

Yes. Hi, Jason. So, I'll start with a few things on the revenue versus ARR. So, the first thing I would say is revenue, of course, is a flow metric whereas ARR is more of a stock metric. And I think a few other things to call out. So, when you think about revenue recognition for us, as you know, Jason, it's not fully ratable. There is a license portion that's recognized upfront and then the support and maintenance portion that's recognized more ratably over time. But as ARR, of course, that provides the annualize view of our installed base, therefore being more of a stock metric.

Now, two things can affect the revenue, right? So, contract duration, for example, can affect those relative growth rates because revenue is impacted by duration. So, longer duration would be in higher amounts recognized upfront for license versus a shorter duration, whether they are agnostic of that. And I talked about how contract duration came a bit higher than our expectation.

The other factor here is around large deals that can have delayed or phased deployment over time, also resulting in variability. I'll give you one example. A deal we've talked about before is this eight-figure ACV deal that we had booked in Q3 of fiscal year 2024, so the year-ago quarter. And it was billed in [indiscernible] (27:11) cash for it in a quarter later and we said then that the revenue for that transaction is going to come over, over time. And so, for example, there's a significant chunk of that revenue from that transaction that did show up in Q3. Now, that is in both revenue and ARR, but revenue, in fact, is of course more pronounced and more lumpy on revenue given that upfront component.

As overall, look, we think both revenue and ARR provide useful information about our top line and that's why we continue to provide both on a quarterly basis. But the other revenue number because of the license upfront, the commission can be a little more lumpy than ARR. So, you could say, [ph] annual view (27:50) of revenue is a better measure than purely quarterly.

Jason Ader

Analyst, William Blair & Co. LLC

Q

Okay. Great. Thank you. And then, Rajiv, VMware historically did really well with Tier 2 cloud service providers and MSPs, as basically, a cloud computing platform for those companies. We've heard some of those partners are not thrilled with the new licensing. And so, I was just hoping you could comment on any progress you guys are seeing with these types of accounts. Is it a target type of account for you or are you more focused just on the kind of larger enterprise?

Rajiv Ramaswami

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

A

Yeah, Jason, that's a very good and appropriate question actually, because for us, the cloud service provider, our managed service provider, the CSP, MSP market historically had not been a big focus area for us because we were just focused on working directly with our customers.

Now, we do think that that market actually, for us, represents a significant opportunity given the big vacuum that's out there now with VMware as you said, making some of the changes to their licensing model. And so, our business with the CSPs and MSPs, while still early, is growing. So, we've introduced specific programs for the CSPs and MSPs in terms of their – we've actually added some resources both in the field and centrally, to focus on those. We are adding also some product capabilities to enable these service providers to deliver multi-tenant offerings. And also, there's another interesting dynamic that's starting to emerge now around sovereign cloud and some of the CSPs, like [indiscernible] (29:28) in Europe that we work with our – are also emerging as a – building these local sovereign cloud for countries.

So, all of these represent, in my view, a good opportunity for us to have another route to market and get more leverage. And so, we are now starting to focus, like I said, in making additional investments in the space. Early days, but that business is – it's small right now, but expecting to grow.

Jason Ader

Analyst, William Blair & Co. LLC



Great. Thank you.

Operator: Thank you. One moment for our next question. Our next question will come from the line of Meta Marshall from Morgan Stanley. Your line is open.

Meta A. Marshall

Analyst, Morgan Stanley & Co. LLC



Great. Thanks. Maybe a couple questions for me. Just traction that you guys are having kind of with the Dells and Cisco customer – or channel partners that you've kind of added last year. Just kind of any update on where you're seeing kind of the most traction there? And then next, maybe if you could kind of give some commentary of – at your next conference, what kind of – where the highest – just where you were seeing the most activity or customer requests for kind of additional development? Thanks.

Rajiv Ramaswami

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



Okay. Thank you, Meta. So, first, let me comment on Dell and Cisco. So, first, I think Cisco is a little further along than Dell because we've had a relationship with them a little longer. They had been a consistent contributor to our new logo growth. And – I mean, it's still a minority contribution, but a steady contribution to our new logo growth.

Cisco is, again, they have a very broad footprint and we are – the customers that we are winning with them cover the gamut. They cover large customers. They cover federal customers, they cover smaller customer, their Cisco [indiscernible] (31:14) state and local education as well. So, it's a pretty broad spectrum across the board, domestic and international from Cisco.

The Dell relationship is a bit earlier in the lifecycle. There's two parts to it. There is the HCI component where Dell resells our HCI platform. That's been in the market for a couple of quarters. But I would say that that's one of many solutions that Dell has. Dell obviously would lead with their own external storage solutions first and offer up our HCI solution [ph] only (31:46) customers who are interested in HCI. But then the second part of the offering,

which is PowerFlex. Our traditional PowerFlex, I mean, that's very much aligned with Dell selling completely. And so, we are – now that the product is in the market, we are engaging with a large PowerFlex accounts. You heard from one of them at .NEXT. So that's I think going along well. But since the product is generally available, it's going to take some time for that revenue to build up.

Now, in terms of .NEXT, I thought it was a very good show for us. We had 5,000 plus attendees. We had a good, I would say one of the big things for me was also seeing the partner sponsorships grow. Two years ago, we had about 25 partners sponsoring us at the show, and then this year we had 86 partners. So that's pretty good growth, and it's a testimony to the broader ecosystem that's building around us.

Now, on your question around customer requests. I would say, clearly, our customers like us to support every external storage array that's out there. They want to see how we can make migrations as easy as possible for them. And there were many customers who talked about their migration experience moving from VMware to Nutanix at the conference.

So, I would say, enabling a broader use case for our platform, supporting external storage, they have good traction around modern applications in terms of future direction for many of these of customers that were there. So, I think those were some of the big things for us, operating across a hybrid multi-cloud environment, I think the simplicity. And then, specifically, given Washington, DC, there was a fair bit of interest also in us being able to walk in air gapped or secure environments. And we saw some examples of mission critical deployments like the US Navy talked about how they're using us on some of their ships. So, some of these need to be air gapped, some of these need to be secure environments, and some of the capabilities that we are bringing on a product also for those environments are helpful too.

Meta A. Marshall

Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you so much.

Operator: Thank you. One moment for the next question. Our next question comes from the line of Ruplu Bhattacharya from Bank of America. Your line is open.

Ruplu Bhattacharya

Analyst, Bank of America

Q

Hi. Thanks. It's Ruplu filling in for Wamsi today. I have two questions, one for Rajiv and one for Rukmini. Rajiv, can you talk about the pricing environment and in fiscal 3Q, can you talk about any share gains and competitive wins versus VMware? It sounded last couple of quarters that Nutanix was gaining some traction in terms of gaining VMware customers. So, how did that track in fiscal 3Q?

And then, Rukmini, I'll ask your question at the same time. Can you give us some commentary on how the renewables business did versus land and expand? Maybe talk about the pipeline of large deals and available to renew pull. And in years past, you had some pull-in of renewals. Any chance that that is happening this year as well? I mean, how are things trending, if you can give us any color on these points? Thank you.

Rajiv Ramaswami

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

A

All right, Ruplu. Hey, good questions. And so, first, share gains and pricing environment. Look, I think perhaps the simplest indicator of our traction is – in terms of share is perhaps the number of new customers joining us every

quarter, right? Again, this quarter was a strong quarter for new logos, we had about, I think, 620 or so. And what's also changing is the AHV adoption, the hypervisor adoption. More and more of these customers are starting their journey with us with the hypervisor. This was certainly not the case five years ago. In fact, more customers were, at that point, consuming our storage along with VMware hypervisor.

But these days, all the new logo customers, the vast majority of them are starting their journey with our own hypervisor. And we gave you some examples during our prepared remarks. We've talked about winning some large customers as well as smaller customers. So, these logos are actually across the spectrum of pretty large Global 2000-type accounts, but also smaller accounts around the world.

The pricing environment has been fairly stable. I think we've seen the competitive pricing fairly pushing customers to adopt VCF, the full VMware stack. And we have a more à la carte approach providing what customers want, and they can buy what they want to consume, what they want on very flexible terms from us. So, we haven't really seen any big changes from a pricing environment perspective.

Ruplu Bhattacharya

Analyst, Bank of America

Q

Okay. Thank you.

Rukmini Sivaraman

Chief Financial Officer, Nutanix, Inc.

A

Hi, Ruplu. I'll take your – second part of your question. So, on – for Q3 specifically, we saw good strength in landing new logos. As I think both Rajiv and I mentioned in our prepared remarks, that new logo growth was again really strong. I did mention that in Q4, the comparisons start to get harder because last Q4 was – is when we sort of started to see this increased traction with new logos, so happy with that. Expansion was good in Q3, and renewals were solid as well in Q3.

Then I think the second part of your question was around pipeline, what we're seeing with regard to large deals and perhaps available through new pull, Ruplu. So, on the large deal pipeline, we continue to see a greater mix of larger deals in our pipeline. We've talked about that in the past. So that continues to be the case. And, look, we think that will continue to cause some variability here from quarter-to-quarter as those deals land. And those are also the ones where we can see occasionally, more, let's say, request for deployments over time. For example, like that example I gave earlier of the [indiscernible] (37:36) from last year. So, we do see that from time to time and we expect that those will continue in those really large transactions because customers in those instances are willing to make a large upfront commitment, and it's reasonable that they can only consume it not all at once, but over time. So, we're willing to structure transactions in that way. So that's on the large deal side.

And then, on the available to renew pull. Look, I would say, that's a number that we have a fairly good visibility on at the start of the year. There are some timing differences. Some come in early, for example. Yes, that, I think will continue to be the case. And as you've said in the past, we certainly welcome a customer willing to renew early, as long as the economics are favorable because it's a commitment that they're willing to make with us earlier. And of course, we welcome that.

And then, the ATR number, as you said, will continue to grow. As you can imagine, though, that as that ATR base gets larger and larger, the growth rate of that and actually just large numbers will grow slower. But it is expected to continue to grow here as we add more land and expand each year and that ATR grows over time.

Ruplu Bhattacharya

Analyst, Bank of America

Okay. Thanks for all the details. Appreciate it.

Q

Rukmini Sivaraman

Chief Financial Officer, Nutanix, Inc.

Thank you, Ruplu.

A

Operator: Thank you. One moment for our next question. Our next question will come from the line of Mike Cikos from Needham. Your line is open.

Mike Cikos

Analyst, Needham & Co. LLC

Hey, guys. Thanks for taking the questions here. Just to cycle back to the competitive displacements in the VMware-Broadcom series. As you guys continue to monitor these deals in your pipeline, or is that cohort of deals exhibiting any different behavior versus the broader Nutanix pipeline, as it pertains to tariffs or the economic uncertainty out there or is the – are deals progressing at a quasi-similar rate? I'm just interested in – if you could unpackage that a little bit.

Q

Rajiv Ramaswami

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

Yeah. I think the first – Mike, it's a good question. But, first of all, it's very difficult for us to separate these deals. It's not one versus the other, right? I mean, we don't have clear sort of delineation between just, hey, this is a VMWare displacement opportunity versus a business-as-usual type deal because in every deal, [ph] we are against competition (39:51). So, it's hard for us to really discriminate across these two deals.

A

But I would say, we haven't seen any substantial different behavioral patterns, I think. I will say that on occasion, we've seen – I mean, it depends – depending on the customer and it's kind of more anecdotal than broad based is there are some customers who say, absolutely, I want to get out of VMWare-Broadcom and move. And so, those customers tend to be more motivated in progressing the deals forward at a more rapid clip and with some sense of urgency.

And so, I would say that could potentially, in some ways, independent of the macro and the rest of the macro situation, happening. But we – I think these are all too conflated for us to really extract separate meaningful observations.

Rukmini, do you want to add anything to this?

Rukmini Sivaraman

Chief Financial Officer, Nutanix, Inc.

So, one thing I'd add, I think is, Mike, your part of your question was, is there any different behavior with respect to tariffs or macros specifically, Mike? And I want to reiterate that with respect to tariffs, again, as a software provider, we don't have any direct exposure to tariffs and haven't seen an impact to date, Mike. And look, the broader macro uncertainty is out there. As Rajeev said, that's sort of intertwined with some other specific situations that our prospects and customers are dealing with, and we factored sort of all of that as we thought about our updated guidance, Mike.

A

Mike Cikos

Analyst, Needham & Co. LLC

Q

Thanks for that – for both of you on that response. And then just a quick follow-up with Rukmini. I know that we cited the timing of the hiring, if I come back to the question that Pinjalim got at. I just want to make sure I'm clear here. So, is there an expectation that during this fiscal year we will have caught up from a hiring standpoint?

Rukmini Sivaraman

Chief Financial Officer, Nutanix, Inc.

A

Well, I would say, look, we are hiring to our plan for this fiscal year. There's been some timing as I alluded to between sort of Q3 and some of those folks being hired, but starting in Q4. And so that is the intent, Mike, there. So the team is – things are all had been given out their plans and they're all hiring as rapidly as they can to bring in the right people aboard. So, we're certainly driving towards that.

Mike Cikos

Analyst, Needham & Co. LLC

Q

Terrific. Thank you very much, guys. Good luck.

Rukmini Sivaraman

Chief Financial Officer, Nutanix, Inc.

A

Thanks, Mike.

Operator: Thank you. One moment for next question. Our next question will come from the line of Nehal Chokshi from Northland Capital Markets. Your line is open.

Nehal Chokshi

Analyst, Northland Capital Markets

Q

Yeah. Thank you. And congrats on the strong results, profitability and the guidance on the profitability as well. Well done. On the ARR results, specifically the incremental ARR, which was about flat year-over-year. How would you characterize that relative to your expectations at the – in your Q2 earnings call? And I do know that you don't guide to it, but now that's also embed maybe you can at least discuss how it performed relative to your expectations?

Rukmini Sivaraman

Chief Financial Officer, Nutanix, Inc.

A

Hey, Nehal, thank you for the question. So, as you rightly said, you know, we don't guide to ARR or to net new ARR. And so, what I would say is we're happy to sort of see our NRR, net dollar based retention rate stable at 110%. That, of course, is hard to compare directly to net new ARR. I think the number you're referencing is a quarter-over-quarter incremental ARR versus NRR which is more sort of a year number, right? So, yeah, so we don't really comment on net new ARR. We don't guide to it. But I would say, we're overall happy with our outperformance exceeding our expectations and our guidance on both revenue and free cash flow for the quarter and to be able to raise all guided metrics for the full fiscal year.

Nehal Chokshi

Analyst, Northland Capital Markets

Q

Okay, great. And then, why did service company go down to [ph] \$1 million (43:45) Q-over-Q? Was there like a reduction in the number of days in a quarter or something like that?

Rukmini Sivaraman

Chief Financial Officer, Nutanix, Inc.

A

You mean professional services revenue, Nehal, was that your question?

Nehal Chokshi

Analyst, Northland Capital Markets

Q

No, the maintenance and entitlements of service revenue.

Rukmini Sivaraman

Chief Financial Officer, Nutanix, Inc.

A

Yeah. So, product versus support and entitlements. Is that the question?

Nehal Chokshi

Analyst, Northland Capital Markets

Q

Yes. Correct.

Rukmini Sivaraman

Chief Financial Officer, Nutanix, Inc.

A

Okay. Yeah. Yeah. So, look, support actually I think grew year-over-year. It grew at a slower pace maybe than you folks are used to see. I wouldn't call anything unusual there. That – as you know, that support line item really comes off the balance sheet of the deferred revenue balance on a schedule. So, it's not really reflective of anything. There is some – the old model – we have some device licenses that are still under support and some of those can move around quarter-to-quarter. So that had a small impact there for Q3 as well, Nehal. And you can see, of course, product revenue grew really nicely actually in the quarter. And that – part of that reason for that is this large deal that I talked about, which had a significant revenue recognition in Q3.

Nehal Chokshi

Analyst, Northland Capital Markets

Q

Great. Okay. Thank you.

Operator: Thank you. One moment for our next question. Our next question will come from the line of Matthew Hedberg from RBC. Your line is open.

Simran Biswal

Analyst, RBC Capital Markets LLC

Q

Hey, guys. This is Simran on for Matt Hedberg. Thanks for the question and congrats on another great quarter. Just one for me. I wanted to touch back on partnerships. Could you double click on the progress with Dell and Cisco and other conversations with OEMs that you're having as you think about broadening these partnerships? And how should we think about contribution ramping into the second half of calendar year 2025 and into 2026? Thanks.

Rajiv Ramaswami

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

A

Yeah. I think, Rukmini, you can help me on the numbers as well. But I think, first of all, I think, we continue to focus on expanding our partner ecosystem and you have to look at them in terms of – there's multiple aspects when it comes to partner. There's the strategic partners like Cisco, Dell and Pure that you mean – you talked about. And some of them actually are also go-to-market partners in the sense of they're reselling our products. So, Cisco and Dell are reselling our product. We haven't talked specifics about Pure, but the solution is not out yet with Pure. That'll be out at the end of the year. So, until then, we'll have to wait. Cisco's been in the market for a while. They continue to ramp, they continue to deliver new logos to us. And again, we are focused on incremental business with these folks.

Dell has been – the first part of the Dell solution has been in the market for a couple of quarters. But again, that's not the solution that they tend to favor, right? They'll sell their own solution with external storage first before they sell Nutanix HCI solution. Now, that we also have an external storage solution, part two of that offering with Dell, which is the [indiscernible] (46:45), so there again, the solution has just arrived in market. We are in trials and early engagements with many customers. And so, we are seeing – it's early days and we expect to see some revenue from that in FY 2026. And of course, over time, we do expect to broaden and support more of these storage array partners. And, we'll talk about those in the future calls at some point.

Operator: Thank you. One moment for our next question. Our next question comes from the line of Ben Bollin from Cleveland Research Company. Your line is open.

Ben Bollin

Analyst, Cleveland Research Co. LLC

Q

Thank you. Good afternoon, everyone. Appreciate you taking the question. Rajiv, I wanted to start big picture. When you think about the discussions you're having with customers around these investments, how do you think their thoughts are evolving around traditional three tier versus HCI? Have you seen any notable changes or willingness to migrate? Just any big picture thoughts.

And then a follow-up would be back in 2023, prior to the VMware acquisition, it did seem like there was a large number of customers pulling forward renewals. Curious, if you're seeing any top of funnel opportunities from those customers as they approach three-year milestones and what that might look like for visibility on a go-forward basis. That is it for me. Thank you.

Rajiv Ramaswami

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

A

Yeah. Both good questions, Ben. I think, on the first one, we haven't really seen a big change in terms of the three-tier storage, external storage versus HCI. We fundamentally still believe that HCI is the best way to build a private cloud foundation and a hybrid cloud foundation for our customers. But there is still a huge installed base, right? If you look at the market overall, perhaps 20% of the addressable market is HCI today, and the rest is still sitting at three-tier. And we will continue to grow into the three-tier market and convert some of those customers over time. And we laid this out at our last Investor Day almost on a [indiscernible] (49:04) basis.

Now, that said, there's still a very large installed base of three-tier storage out there. And it will – it's going to be a long, long while before all of that stuff migrates or minimum migrate. And so, that's really the reason why, from our perspective, it makes sense to go broader and think about that and not just the HCI provider anymore, but now a platform company. And as a platform, you support a broad ecosystem around you so you can have self-storage or

you can have our own storage. And so, we now let the customer decide. And we just say, look, if you want to go to HCI, you're going to get significant TCO benefits compared with [ph] TCO (49:41) solution but we like to use [ph] TCO (49:43) solution. You have the reservoir cloud platform sent to storage piece, and this did give you the best experience when it comes to hybrid cloud offering and a hypervisor options automated for VMware. So that's the thinking when it comes to HCI and [ph] TCO (50:01) storage for us.

Now, in terms of the VMware dynamic on renewals. Yes, we have quite a lot of customers did place three years. In fact, some did three years, some did five years with VMware. Actually, they heard about the acquisition or around the time the acquisition was announced or – as it started getting to be closed. And I would say the – that, again, all those customer that those renewals are coming up now, let's say, this year or next year, you can group them into perhaps two buckets, right? The first bucket are a set of customers that they say, you know what, I am actively going to migrate out and put places – put forward, take steps to do that and be out of there. And in fact, we've had several customers like that who did renew, who had bought themselves some window of time and then embarked on a migration with us. And in fact, we've talked about some of those on prior calls. We talked about a large North American insurance company that's been doing this and has a plan to – they're almost out of their dependence on VMware, right? And they've been doing the migration pretty actively and we've seen that with some of the other customers who've been public about their story with that, too.

Now, at the same time, there's also a set of customers that did not move. And – but that's up to the customer. Now, they're looking at another renewal that they'll probably have to renew. And what we see – the sense we see is, for those people who are not ready, they are increasingly saying, okay, boy, I think I hope this is my last renewal and I can do something about not being dependent again, say, three years from now [indiscernible] (51:34). So, we are seeing quite a bit of variety and variations across customers depending on how they approach this, which is why we've always characterized this, Ben, as a multi-year opportunity, right? This is not going to be just one cohort after the other cohort. It's just going to be a gradual opportunity because there's customers at many different stages in their journey.

Ben Bollin

Analyst, Cleveland Research Co. LLC

Q

Thanks, Rajiv.

Operator: Thank you. One moment for our next question. Our next question will come from the line of Mehdi Hosseini from Susquehanna Financial Group. Your line is open.

Mehdi Hosseini

Analyst, Susquehanna Financial Group LLLP

Q

Yeah. Thanks for taking my question. This is for the team. As you think about ARR, especially over the next year or two, at what point should we assume there will be increased diversification of products, especially as we move from HCI to a multi-cloud? And as part of that question, would ARR growth be driven by new logos or would existing customers be the first adopters of additional products, especially as we migrate to AI inferencing? And I have a follow-up.

Rajiv Ramaswami

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

A

Yeah. I think it's a very broad question there, Mehdi, and I'll try to pass some pieces of it, and hopefully you can help as well. So, first of all, I mean, we do have a product portfolio today. It's a [indiscernible] (53:09) platform. But again, it can be – you can consume it from a cloud infrastructure perspective. We have cloud management as

add-ons that our customers can consume, unified storage, which is also an add on. And then, our database platform. And then, now we have our modernized platform and our AI solution. So, these are all – so we already have a portfolio of products.

Of course, the bulk of our business today is still coming from the core. But we are seeing, for example, good attach with our cloud management solutions, and with some of the other elements of our portfolio they are still early. So, for example, our hybrid cloud solutions are still early. Modern applications is still fairly early. And over time, I think we do expect those portions of the portfolio to build up and be additive and be growth additive on top of our – the rest of our core as well.

Now, in terms of the nature of the ARR, of course, we have new logos and then we have expansion within our current customers. And the new logos you've seen what's happening there, we've been on a good clip when it comes to adding new customers and most – the vast majority of the new logos, new customers start with our core offering. And also, now, our hypervisor is part of that.

Now, when it comes to expansion, I think we certainly look at adding the rest of the portfolio as one of the expansion levers for us, along with more of the same workload that they were consuming are winning new workloads at the customers. So, I would say we have three expansions vectors, right, expanding with the rest of the portfolio, adding more of the same workload, expanding into new workloads. And those three also drive together expansion ARR.

Mehdi Hosseini

Analyst, Susquehanna Financial Group LLLP

Sure. And...

Q

Rukmini Sivaraman

Chief Financial Officer, Nutanix, Inc.

One thing I'd add – sorry, Mehdi, if I can add. One other aspect of your question was contribution, I think, of expansion versus new logos to ARR. And one way to think about it is that the NRR we give you every quarter, which is 110% in the most recent quarter, that is, of course, the no [ph] chargeability (55:14) to retain and expand. So, if you assume that our retention is something less than 100% and our expansion is something greater than 10%, right, to kind of get to that 110%. And then we said ARR growth of 18%, that remaining 8% over and above the NRR, that was the contribution of new logos. So, in general, when you look at land and expand performance in any given quarter, they expand typically is the significant majority of that land and expand with new logo being the smaller dollar contribution because of exactly what Rajiv said, well, people tend to start small and then continue to expand with us. That's typically what we see.

A

Mehdi Hosseini

Analyst, Susquehanna Financial Group LLLP

Sure. And the reason why I asked the question is I'm – I just want to make sure I understood the dynamics and there wouldn't be a period where ARR growth would slow as we go through this transition. But correct me if I'm wrong, from what I understand from you, these three vectors are going to provide this waterfall. So that even if, and let's say, market share gain come to an end, you have these two other vectors that kicks in and should help you sustain the double-digit growth in ARR. Is that the way – is it the right way of thinking about this simplistically?

Q

Rukmini Sivaraman

Chief Financial Officer, Nutanix, Inc.

A

So, without commenting on specific ARR expectations, Mehdi, because we don't talk about that, as you know. We don't guide to it on a quarterly, annual basis. What I will say is that we do have – we do view our business as having multiple levers of growth that Rajiv just outlined, whether it be portfolio, whether it be land and expand, landing new logos, expanding with them and so on. So, yes, we are striving to have multiple growth drivers for the business overall.

Mehdi Hosseini

Analyst, Susquehanna Financial Group LLLP

Q

Got you. And one quick follow-up. You said the long-term tax rate of 20%, right now, we're running less than 1%. Should I assume that this is a small trajectory with the increase in the tax rate?

Rukmini Sivaraman

Chief Financial Officer, Nutanix, Inc.

A

Thank you for that question. Let me clarify what I said, which is that, if you look at our – this is only about our non-GAAP effective tax, right, there is no change to cash taxes, which we still expect to be in the mid to high single-digit percent of profit before tax. So, I'm not sure where [ph] they're in the (57:38) 1%, Mehdi. And what we are saying is if you look at fiscal year 2024, for example, the way we were previously calculating the non-GAAP effective tax rate was factoring in all of our US net operating loss, NOL carryforwards and other tax carryforwards. And so that has resulted in an effective non-GAAP tax rate for fiscal year 2024 for 6%, as an example. What we're saying is we're going to – starting in Q3, which [ph] to end (58:05) 20% number, which we think is more reflective of our longer-term non-GAAP effective tax rate. It also smooths out any variation from a period-to-period.

Mehdi Hosseini

Analyst, Susquehanna Financial Group LLLP

Q

Got it. Thank you. And the 1% versus non-GAAP, but we'll take it offline Thank you so much.

Rukmini Sivaraman

Chief Financial Officer, Nutanix, Inc.

A

Thank you.

Operator: Thank you. And with that, this will conclude the question-and-answer session. Thank you for your participation in today's conference. This does conclude the program. You may now disconnect. Everyone, have a great day.

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