26-Aug-2026

Nutanix, Inc. (NTNX)

Q4 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Thank you for standing by and welcome to Nutanix Fourth Quarter 2026 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.

Now, it's my pleasure to hand the conference to Rich Valera, Vice President of Investor Relations for Nutanix. Please proceed.

Richard Valera

Vice President-Investor Relations, Nutanix, Inc.

Good afternoon, and welcome to today's conference call to discuss fourth quarter fiscal year 2026 financial results. Joining me today are Rajiv Ramaswami, Nutanix's CEO; and Rukmini Sivaraman, Nutanix's CFO. After the market closed today, Nutanix issued a press release announcing fourth quarter fiscal year 2026 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 be making forward-looking statements, including financial guidance. These forward-looking statements involve risk 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 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 Goldman Sachs Communacopia and Technology Conference in San Francisco on September 8th and the Piper Sandler Growth Frontiers Conference in Nashville on September 15th. We hope to see you at these events.

Finally, our first quarter fiscal 2027 quiet period will begin on October 17th. And with that, I'll turn the call over to Rajiv. Rajiv?

Rajiv Ramaswami

Chief Executive Officer & Director, Nutanix, Inc.

Thank you, Rich. And good afternoon, everyone. Our fourth quarter was a strong finish to our fiscal 2026 year. We felt strength across our business and are happy to have exceeded all of our guided metrics for the quarter. We saw strong uptake of our external storage offerings and Nutanix Cloud Clusters or NC2 in the quarter. Both of which are helping to mitigate the impact of ongoing supply chain challenges on our customers. We also saw good performance from our portfolio products with notable strength in our Kubernetes and database management offerings.

Turning to our full year results. In our fiscal 2026, we demonstrated good progress on a number of fronts, despite increased hardware prices and supply shortages, we delivered solid top line performance, including revenue of $2.85 billion, up 12% year-over-year, and ARR of $2.55 billion, which grew 16% year-over-year. We also saw strong new logo performance across all of our customer tiers, including the Global 2000, adding over 3,000 new customers. And finally, we generated free cash flow of $841 million, yielding a free cash flow margin of 29%. We are pleased to have delivered our third year in a row with the Rule of 40 score above 40. In FY 2026, we also saw a tangible progress on the product and partnership fronts, especially as it relates to AI and our support for external storage. We delivered Nutanix Agentic AI, a full stack software solution designed to reduce complexity, optimize performance and security, and enable lower and more predictable token costs for agentic AI applications.

On the partnership front, we signed a strategic agreement with AMD to deploy our Agentic AI platform on AMD's GPU solutions. This partnership complements our existing integration with NVIDIA's GPU solutions. It also includes broadening our support for AMD's CPUs, ensuring that our customers have maximum flexibility for both GPU and CPU-based solutions. We also announced new capabilities for our agentic AI solution to support a new generation of AI cloud providers or neoclouds, opening up a new market opportunity for us. Our partnership with ChronoScale, announced last week, represent some early success for us in this market. More recently, we have announced important new capabilities for our Agentic AI solution. These include Nutanix Agent Gateway, which provides unified governance and cost control over AI spend to our customers and a Model Context Protocol server for the Nutanix Cloud Platform, which brings secure, natural-language, agentic AI automation to hybrid multi-cloud environments.

Finally, we made good progress on our initiative supporting the use of external storage with the Nutanix Cloud Platform. In FY 2026, we added solution supporting Dell PowerStore, which became generally available earlier this month, and Everpure, which has been generally available for approximately two quarters. We also announced agreements to support NetApp and Lenovo's storage platforms. Notably, our solution supporting NetApp is currently in limited availability and was instrumental in the signing of several large wins in Q4.

I'd now like to highlight a few of our largest and most notable wins in Q4. These wins demonstrate the appeal of our platform to businesses that are looking to adopt hybrid multi-cloud operating models and deploy modern applications and AI, and increasingly to deploy our Cloud Platform while retaining their existing hardware, including servers and external storage. We saw strong momentum with our initiative to support external storage in Q4, which included a sharp quarter-over-quarter increase in bookings and the signing of several seven-figure ACV deals. These included one of our largest wins in the quarter, a new logo with a Global 2000 aerospace, defense, and security provider that was looking to modernize its IT environment. This customer chose the Nutanix Cloud Platform along with Nutanix Cloud Manager based on its lower total cost of ownership, ease of migration and ability to utilize their existing NetApp storage. We also had a seven-figure new logo win with one of the premier hospital systems in North America that was unhappy with the renewal terms they received from their existing infrastructure provider. This customer chose the Nutanix Cloud Platform to run their business critical applications and plans to utilize their existing Dell PowerFlex storage arrays going forward.

We are pleased with the progress we've seen to-date with our offerings supporting external storage and expect continued momentum on this front in FY 2027. Some of our marquee wins in the quarter also reflected the strength we saw with our portfolio products. An example is another one of our largest wins in the quarter with a Global 2000 financial services provider in the APJ region. With this multiproduct expansion, the customer now plans to use Nutanix Kubernetes Platform to deploy and manage their container-based applications while continuing to run their VM-based applications on our Cloud Platform. They also plan to extend their use of Nutanix Database Service to automate the management of their Oracle Databases. And we continue to see adoption of our AI solution in Q4 with wins across a broad array of industry verticals in both civilian and government markets.

Finally, in Q4, we saw continued momentum with NC2, our public cloud offering. This included a strong quarter-over-quarter increase in bookings and cores deployed. One seven-figure NC2 win was an expansion with a Global 2000 provider of financial services based in North America. This customer was already using the Nutanix Cloud Platform and Cloud Management to run some of their business critical workloads on-prem. However, they were looking to shift a portion of their estate to the public cloud and automate the management of their SQL databases.

To address these requirements, they plan to deploy Nutanix Database Service on NC2 running on AWS. We also landed a new logo with an EMEA based provider of automotive technology. This customer was looking to exit their data centers, avoid lock-in with their existing on-prem vendor and switch from a CapEx to an OpEx model. They plan to deploy our Cloud Platform on NC2 in OBS public cloud. In closing, we were pleased with the broad-based strength we saw in our business in Q4. Our opportunities with AI, modern applications, hybrid multi-cloud, and support for external storage provide us with a strong foundation for long-term growth.

Finally, I would like to express my sincere gratitude to our investors, customers, and partners for their trust in us and to our employees for their hard work that led to these results.

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 cover our Q4 fiscal 2026 results, followed by a review of our full fiscal year 2026 results, and then discuss guidance for Q1 2027 and full year fiscal 2027.

In Q4, we reported results that were above the high end of the range for all guided metrics. Our team executed well to deliver a strong finish for the fiscal year, despite a challenging supply chain environment and continuing uncertainty in the macro environment. In Q4, we reported record quarterly revenue of $757 million, higher than the guided range of $725 million to $745 million. ARR at the end of Q4 was $2.549 billion, representing year-over-year growth of 16%, an increase in growth rate compared to the prior quarter. NRR, our net dollar-based retention rate, at the end of Q4 was 106%, flat quarter-over-quarter. In Q4, average billings contract duration was 3.3 years, slightly lower than our expectations.

Non-GAAP gross margin in Q4 was 87.7%. Non-GAAP operating margin in Q4 was 26.2%, higher than our guided range of 21% to 23% due to lower operating expenses related to timing of hiring, among other factors, and higher revenue than expected. Non-GAAP net income in Q4 was $175 million or fully diluted EPS of $0.60 per share based on fully diluted weighted average shares outstanding of approximately 293 million shares. GAAP net income and fully diluted GAAP EPS in Q4 were $1.27 billion and $4.34 per share, respectively.

Note that Q4 GAAP net income benefited from a one-time $1.2 billion valuation allowance release related to our US deferred tax assets. We had previously noted the potential for a tax valuation allowance release in our prior 10-Q filing. Excluding this non-recurring benefit, GAAP net income and fully diluted GAAP EPS in Q4 would have been $61 million and $0.21 per share, respectively. Free cash flow in Q4 was strong at $278 million, representing a free cash flow margin of 37%, benefiting from good bookings linearity and collections in the quarter.

Moving to the balance sheet. We ended Q4 with cash, cash equivalents and short-term investments of $2.361 billion, up from $2.018 billion at the end of Q3.

Moving to capital allocation. In Q4, we repurchased $50 million worth of common stock under our authorization. We also used about $26 million of cash to retire shares related to our employees tax liability for their quarterly RSU vesting. Together, these actions help manage share dilution.

Moving to a summary of our results for the full fiscal year 2026, we were happy with our fiscal year 2026 results achieved while navigating an uncertain macroeconomic environment along with significant supply chain constraints related to the pricing and availability of servers on which our customers run our software.

Fiscal year 2026 revenue was $2.854 billion, higher than the most recent guidance of $2.82 billion to $2.84 billion and representing a year-over-year growth rate of 12%. As we have discussed in earlier calls, we believe it is important to put this revenue growth in the context of the overall growth of the business. TCV bookings growth in fiscal year 2026 was in the high-teens percentage, higher than our revenue growth, partly because customers are experiencing longer lead times for servers on which they run our software. We help our customers manage through this environment by providing them with future start dates for our software licenses, where necessary, to align with the timing of their server delivery, and we recognize software license revenue aligned with the delayed license start date.

Fiscal year 2026 ending ARR, as mentioned earlier, was $2.549 billion, representing year-over-year growth of 16%. For the full year, average contract duration was 3.2 years, slightly higher than last year's average contract duration of 3.1 years.

Non-GAAP gross margin in fiscal year 2026 was 88%, relatively flat year-over-year. As mentioned in prior calls, gross margins could move around slightly depending on the mix of professional services revenue in a given period. Non-GAAP operating margin in fiscal year 2026 was 23.7%, higher than our most recent guidance of approximately 22.5% and a year-over-year increase of approximately 2.6 percentage points.

Non-GAAP net income in fiscal year 2026 was $597 million or fully diluted EPS of $2.04 per share based on fully diluted weighted average shares outstanding of approximately 292 million shares. GAAP net income and fully diluted GAAP EPS in fiscal year 2026 were $1.507 billion and $5.17 per share, respectively, which includes the $1.2 billion of non-recurring income tax benefit associated with the release of the valuation allowance that I mentioned earlier. Excluding this non-recurring benefit, GAAP net income and fully diluted GAAP EPS in fiscal year 2026 would have been $299 million and $1.04 per share, respectively.

Free cash flow in fiscal year 2026 was $841 million, representing a free cash flow margin of 29%. In fiscal year 2026, our Rule of 40 score, defined as revenue growth rate plus free cash flow margin, was a healthy 42%, reflecting our continued focus on sustainable, profitable growth, driving durable top line growth while improving bottom line margin. In fiscal year 2026, in addition to our ongoing share repurchase activity, we completed an accelerated share repurchase of $300 million in fiscal Q2 and our board subsequently increased our share repurchase authorization in Q3, indicative of our conviction and confidence in the business.

Moving to Q1 2027. Our Q1 guidance is as follows: revenue of $755 million to $765 million; non-GAAP operating margin of 26% to 28%; fully diluted weighted average shares outstanding of approximately 294 million shares.

Moving to the full year. Our initial fiscal year 2027 guidance is as follows: revenue of $3.18 billion to $3.23 billion, representing a year-over-year growth rate of 12% at the midpoint of the range; non-GAAP operating margin of 24% to 25%, an increase from fiscal year 2026 at the midpoint; free cash flow of $850 million to $950 million, representing a free cash flow margin of 28% at the midpoint.

I will now provide a few points to note regarding our full-year guidance. First, we continue to believe in the robust market opportunity and growth vectors driving our business, which include: A, core demand for our hybrid cloud platform, including the support of external storage platform; B, cloud-native and AI offerings; and C, a growing partnership ecosystem.

Second, our guidance assumes that server supply constraints will continue, potentially impacting customers' decisions on the size and timing of their projects with us. Because of this, we are assuming a moderately higher percentage of orders with future start dates in fiscal year 2027 compared to fiscal year 2026. We also expect to continue to provide flexibility where needed for our larger customers to do phased migrations.

Third, we expect the renewals ACV cohort or available to renew pool to grow year-over-year in fiscal year 2027, but at a slower rate than in fiscal year 2026 as the overall renewal base gets larger over time.

Fourth, our non-GAAP operating margin and free cash flow guidance reflects the expected operating impact of the restructuring we announced earlier this month, with impacted approximately 5% of our global workforce. The full year free cash flow guidance incorporates $33 million to $43 million of non-recurring charges from the restructuring, and we expect $30 million to $35 million of that to be paid out in cash in Q1. We expect to reinvest the majority of the savings from this restructuring into growth areas, including our agentic and AI solutions, our cloud-native offerings, hiring more salespeople to target our large market opportunity, digital sovereignty investments and more.

Fifth and finally, a note on billings and free cash flow. The vast majority of our customers continue to pay us multiple years of cash upfront upon purchase. Consistent with the discussion during our Investor Day in April, we expect to offer more payment plan flexibility to our customers in fiscal year 2027, whether through third-party financing or annual payment structures. This provides customers with more flexibility as they make purchasing decisions. This is incorporated into our free cash flow guidance, which at the midpoint of the ranges implies a free cash flow margin of 28%.

In closing, we are pleased with a strong finish to fiscal year 2026 and we look forward to continued momentum in fiscal year 2027.

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

QUESTION AND ANSWER SECTION

Operator: Thank you so much. [Operator Instructions] One moment for our first question, please [indiscernible] (00:24:28) comes from Matt Martino with Goldman Sachs. Please proceed.

Matthew Martino
Analyst, Goldman Sachs & Co. LLC

Q

Great. Thank you. Rukmini, maybe just starting with the FY 2027 outlook, there are a few moving pieces between the healthy bookings backdrop, the hardware constraints you've been navigating, and the potential for some of that delayed activity to convert as supply improves. So, can you walk us through the assumptions behind the growth guide and what gives you the confidence around that starting point?

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.

A

Yes. Hi Matt. Thank you for the question. So, I'd highlight a few of the points that you brought up, Matt, and then just a broader backdrop as we thought about growth for next year. So, first on the growth driver side, as I said in my prepared remarks and as Rajiv alluded to as well, we think we have several growth drivers: strength in the core platform, our hybrid cloud platform, including support for external storage, the growth in our cloud-native and AI offerings and some of our other portfolio products continuing to grow, and then the third piece being continued help from our partner ecosystem, which has also continued to do evolve and grow nicely over time. And as you said, we were happy with the strength of our business in Q4 and the momentum coming out of fiscal year 2026.

Now, on the other side, we believe that the ongoing supply chain challenges that our customers are facing with respect to both pricing and availability of servers on which to run our software will continue and are expected to continue into fiscal year 2027, which could impact customers' decisions on size and the timing of their projects with us. So, that's one of the reasons we want to continue to provide flexibility with future start dates, and that's why we're assuming a moderately higher percentage of orders with future start dates in 2027 compared to 2026. And the other reason for that, we intend to continue to also provide flexibility when larger customers want to complete phased migrations on to our platform.

The other piece that we mentioned was renewals cohort expected to grow in 2027, but at a slower rate than it grew in 2026, Matt. So, those are some of the puts and takes and that we finished 2026 with good momentum and we're comfortable with the guidance that we provided you today for 2027.

Matthew Martino
Analyst, Goldman Sachs & Co. LLC
Q

All right. Very helpful. And Rajiv, for you, nice to see the strong uptick in both NC2 and external storage this quarter. How is that changing the opportunity for the business, both in terms of the customers you can reach and the pace at which they can move forward, especially with these supply constraints out there?

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

Yeah. I think the whole reason for doing this was to make it easier for customers to adopt our platform. So, that certainly when we went into this supporting external storage, we were more thinking of this as broadening our platform, providing our customers with flexibility to adopt our platform for compute, networking, management, cloud-native, AI, et cetera, with storage being an option. Storage could be HCI or storage could be external storage.

Now, in the face of supply chain and what we're seeing today, this has become a really great opportunity because customers can now migrate to Nutanix while keeping their existing hardware, right, both their servers and storage. So, we saw very good uptake for our external storage opportunity just in Q4 alone. In fact, today, we now support multiple Dell platforms. We support Everpure. We are in limited availability with NetApp and that's already led to multiple deals, significant deals, seven-figure deals in Q4. And so, we do expect that to continue to accelerate in FY 2027 for us.

Very similar thing in public cloud. We are in the major public clouds, all the three major hyperscalers and we also extend our platform to some of the European providers like OVS, et cetera. And this is also providing customers a very easy way to adopt our platform when you have supply chain constraints. And we saw a good uptick in our NC2 business this quarter. We expect that to also continue during FY 2027.

Matthew Martino
Analyst, Goldman Sachs & Co. LLC
Q

Very helpful. Thank you, both.

Operator: One moment for our next question, please, that comes from Sanjit Singh with Morgan Stanley. Please proceed.

Sanjit K. Singh
Analyst, Morgan Stanley & Co. LLC
Q

Yeah. Thank you for taking the questions and congrats on the very strong bookings this quarter. Definitely, when I look at my model, net new ARR is up the most it's been in quite a long time. And so, Rukmini, I wanted to understand a little bit about the revenue guidance and in terms of what's actually making it so strong. I mean, you talked about the headwinds, right, a slower growing renewal base. We have a higher mix of future start date deals or phased migration deals and you're guiding to sustained growth. So, on the other side of those potential headwinds going into next year, what's driving the sustained growth outlook? Is there an element there of better bookings that you guys deliver this year converting into revenue next year? I just want to understand some of those dynamics.

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.
A

Hi Sanjit. So, yeah, to answer your question on what is driving the growth next year, I think it's a few things that we've touched on and I'll add a little more color to that, Sanjit. So one is, like I said, we're exiting 2026 with strong momentum. Q4 was a great quarter across multiple dimensions. And as Rajiv said in his prepared remarks, we saw strength practically across the board. So, it's a great quarter. I feel like we're entering 2027 with good momentum. So, yes, we do expect continued growth in overall bookings to continue.

And some other specific growth drivers that I've mentioned. So, for example, external storage support that we've talked about here and NC2, the question that was asked right before, we expect those to grow faster than the overall growth, meaning that they're going to be an accelerant to our overall growth because those are all options and choices for our customers that we didn't have before and we believe is allowing people to transition on to our platform even amidst what's happening on the server supply chain. So, I would say that includes external storage, includes NC2.

And then we also have our cloud-native offerings, which we had a good year for those in 2026, and we expect that to also be an accelerant to growth next year off of a smaller base. And all of these are smaller portions of our overall business, but are expected to grow nicely going into next fiscal year.

Rajiv, anything you would add to that?

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

Yeah. I would just say the ecosystem around us is also helping the OEMs, the cloud partnerships that we have. What I would say is I think we feel good about all the growth vectors while also providing us some levers to handle the supply chain issues, which are real and will continue this year. No doubt about it, right. I think I expect the supply chain shortages and price increases to continue through the rest of this fiscal year for us. But despite that, I think we feel good about the fact that we have a portfolio that really meets the needs for what customers want. They're looking to do these migrations from their existing providers. They are looking to adopt cloud-native. They are looking to go run AI in a cost effective manner and manage and govern that. They want to operate on-prem, they want to operate in the public cloud, they want to operate in service providers and neoclouds. So, we have all of these coming together, and those are the growth drivers that are the underlying foundation for the numbers that we gave you.

Sanjit K. Singh
Analyst, Morgan Stanley & Co. LLC
Q

Understood. It's very clear. And just as a follow-up, Rajiv, as we think about that ecosystem, particularly the storage partnerships and the storage OEMs, between what you have coming online with NetApp, what's already available on the Dell side of the equation as well as Everpure, which of these partnerships do you think will be the biggest potential accelerant going into next year?

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

I would say all of them, Sanjit, because I think with every one of them – with Dell, we have PowerFlex and PowerStore. With Everpure, we have all their flash arrays. And with NetApp, we have, again, a good chunk of their arrays that we support. I would say those three are all going to be significant for us and significant growth drivers. And we've already seen that now. We've seen deals across all of those and an acceleration in Q4 of that business. And even though NetApp has only limited availability, what that means is we are bringing on a subset of customers. We will expect to be soon opening it up broadly to anybody who wants it. We are already closing deals with NetApp. So, I think all three of those providers are going to be quite significant for us this year.

Sanjit K. Singh
Analyst, Morgan Stanley & Co. LLC

Q

Great. Congrats on Q4.

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.

A

Thank you.

Operator: Thank you. Our next question comes from James Fish with Piper Sandler. Please proceed.

James E. Fish
Analyst, Piper Sandler & Co.

Q

Hey guys. Maybe just wanting to understand a little bit if you guys are seeing any net pull-in of demand. Actually given what's going on with hardware, are we seeing that backlog still build, given your sort of high-teens bookings come into the year? Those kind of details would be helpful. Thanks.

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.

A

Hi Jim. I'll start and Rajiv can add, if he like. So, on the question about pull-ins, so the short answer is we did not really see anything unusual in terms of pull-ins in Q4. Now, you remember that in our fiscal Q2, in our January quarter, we did call out that we had seen some pull-in activity into that quarter, given some anticipated price increases for servers that did not really appear to be the case in either fiscal Q3 or fiscal Q4, Jim. Now, that's sort of one piece of it. And then, more broadly, I think we've talked about this future start date dynamic for a while now and that continues to be something that we expect to continue to see in 2027. And I made some comments about that in my prepared remarks. So, that's in there. But I don't think that to your specific question that we saw anything unusual about pull-in activity in Q4.

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

A

Yeah. And just to add to that, Rukmini, I think certainly I agree with you, we didn't see anything on the pull-ins. What we did see, though, was we were able to close a reasonable number of large deals, multi-million dollar ACV deals in Q4. And forecasting those is generally very hard, of course. We tend to figure out some subset of them that we can, but we executed very well on our large deals in Q4. And we gave you several examples in the script.

James E. Fish
Analyst, Piper Sandler & Co.

Q

Yeah. Wins were pretty impressive, especially on the NetApp side this early, Rajiv. Rukmini, circling back with you actually on free cash flow guide here, understanding you're reinvesting majority of the reduction in force here and you're also dealing with multiple moving parts including, hey, look, we don't know in terms of what percentage of customers might go on this flexible billing arrangement. So, I guess, is there a way to break down how much you guys are embedding in terms of a shift more towards third-party financing or the annual billings terms instead of the multi-upfronts? Just trying to understand like where we're at overall in terms of annual versus multi-annual billings payment structures. Thanks.

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.

A

Yes. Thanks, Jim. So, I think I'll make a couple of comments on just free cash flow overall. So, to your first point, if you look at our ACV bookings, currently for the full year 2026, we were just about a double-digit percent of our TCV bookings were – TCV bookings, not ACV – were from these annual payments. And as I noted and you alluded too also, Jim, we expect to continue to offer more payment plan flexibility to customers in 2027, whether it's a third-party financing or annual payment structures. And we've assumed a mix there, Jim, and because we think that it does provide more flexibility for customers as they think about their purchasing decisions.

The second piece I'll say is the restructuring charges, which we've said we expect to be between $33 million and $43 million will be paid out in fiscal year 2027. And those are – obviously, we don't expect that to be a recurring charge. But even if you normalize for that, if you sort of add that back to the guide we gave you, the free cash flow margin is effectively the same as it was in fiscal year 2026, right. So, that's one piece that you can add back to the free cash flow guide if you want to normalize for the restructuring activity. And yes, as we said, we do expect to reinvest vast majority of the savings from the restructuring into the growth areas that I talked about. So, all of that is factored into the free cash flow guide.

Operator: One moment for our next question that comes from Joseph Cardoso with JPMorgan. Please proceed.

Joseph Cardoso
Analyst, JPMorgan Securities LLC

Q

Hey, thanks for the question. Maybe just the first one is a bit of a clarification and whether you can flesh out kind of the supply constraint environment that you guys are talking about. I know you touched on it in a few questions, but maybe just being a little bit more pointed. Are you seeing any expansion of lead times? How are you thinking about constraints in pricing exiting the fiscal year and whether these things have been worsening or are they stabilizing as you kind of progress through the quarter? And are you seeing it impact demand more near term? And then, as we think about the outlook going into fiscal 2027, are you expecting a deterioration across those vectors or are you thinking about it more stabilizing but at this higher level? And then I have a follow-up. Just trying to understand those moving pieces there.

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

A

Yeah. Can I maybe take a broad cut, Rukmini, you can add also. So, we did see significant price increases in fiscal 2026 on hardware, big jumps, I would say. We do expect to see additional price increases this year, but perhaps moderating not perhaps to the same extent, but it's hard for us to predict. But we have assumed that prices will continue to go up, at least modestly during this fiscal year.

From a lead time perspective, what we've seen is kind of very mixed. We are seeing lead times starting to stabilize, but some vendors and some SKUs will have extended lead times. Others will be able to deliver within more normal lead times. So, I think what we try and provide for customer is to say encourage them to look at the whole set of vendors that we work with, which is pretty much every OEM out there, every server vendor out there, and we go procure what works best for them both from a pricing and availability perspective. And we work very closely with them to help them through this process. So, that's what we expect. I do expect that this will continue through all of FY 2027.

Rukmini, anything to add?

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.
A

Yeah. I'll add maybe a couple of comments. So, both on pricing and lead times, we saw that really in the latter part of 2026. We didn't really see in Q1, for example, of our fiscal year 2026. What we expect in 2027 is that lead times will continue to remain elevated at this point based on what we know for the entirety of 2027. And same for prices, right. So, that is sort of a different way to think about 2026 versus 2027 and what we've assumed in the 2027 guide.

Joseph Cardoso
Analyst, JPMorgan Securities LLC
Q

Got it. Very useful color. And then, maybe just for my next just on the 5% head count that you guys disclosed, you're also guiding for growth while reinvesting the majority of savings into some of those areas like agentic AI, cloud-native sales, et cetera. How should we think about the savings relative to how it hits margins versus redeployment? And maybe just kind of walk through like how you guys are thinking about avoiding cutting sales capacity right now as you're thinking about some of this demand converting and the payback timeline there? Thanks for the questions.

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.
A

So, I can start and Rajiv, I welcome you to add on.

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

Sure.

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.
A

So, I think the way we thought about planning for fiscal year 2027 is that those things that we plan on doing every year. So, for example, there's an annualization of all the people who were hired in 2026, and all of them will be sort of now in the full year of 2027, right, so that's just an annualization of those who are hired. That also raises that we give everyone, all of our employees, every year. So, those are things we do every year.

And then, there were all these areas that we alluded to, right, so our agentic and AI offerings, adding more reps to sort of – so we have enough sales coverage out there to address the market opportunity, digital sovereignty, all the areas that I called out, were areas that we wanted to make sure we were investing in commensurate with the opportunity that we saw. And so, the restructuring was intended to make sure that we were deploying those resources and investments aligned with the areas where we think we will have the highest return. And so, that's how you should think about it. And if you put all that together and given all that and incorporating sort of the top line, the pace that we have guided to, you'll see that our operating margin guide is higher than fiscal year 2026, right. So, we've sort of shared with you all that we're going to continue to drive increasing operating margins. And so, we feel good about being able to do that and guide to that while making sure we're investing in all the right areas that we need to. Rajiv, anything you would add?

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

No. You covered it.

Operator: One moment for our next question that comes from Radi Sultan with UBS. Please proceed.

Radi Sultan
Analyst, UBS Securities LLC

Q

Awesome. Yeah. Thanks for taking the question. First for Rajiv, as I think about sort of the neocloud opportunity, the ChronoScale strategic agreement, like, can you just walk us through the revenue opportunity to Nutanix there? And is there a potential to upsell other parts of the portfolio like NKP and NDB into those end customers? Or is that just limited to AI solutions for now?

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

A

Yeah. First of all, Radi, thanks for the question. It's actually the full stack that we provide to ChronoScale. It's everything, our Nutanix Cloud Platform, our NKP offering, and on top of that, the Nutanix agentic AI portion. So, it's a full stack that they will deploy on top of their hardware and deliver a range of AI-based services, right, GPU services, CPU-based services to enterprise customers. So, it is a full stack. So, not just AI, number one.

Number two, they are a service provider. So, the revenue model for us is as and when they onboard customers, when they go out there and win customers, that's when we start seeing the revenue coming in, right, for us. So, and that's the case with all our service provider business for the most part, right, which is it's tied to them winning customers in the platform. And we also expect that, yeah, this is the first neocloud that we did such a partnership with. As you know, we only recently announced our – and brought our portfolio to market for the neocloud with a full multi-tenant offering the entire stack. So, we are working with other neoclouds as well here during the year to win them over.

Radi Sultan
Analyst, UBS Securities LLC

Q

Awesome. And then, Rukmini just on duration continues to kind of tick up healthy year-over-year. I guess like what's driving the health of duration and sort of what's embedded in the guide in terms of average contract duration for this year and maybe just walk through the key moving parts there?

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.

A

Yes. Hi, Radi. So, for duration in fiscal year 2027, we're assuming it'll stay, flat to maybe slightly higher, compared to 2026, Radi. And so, I think we've talked about before, there's a lot of things that can drive duration. We have seen in the past and we saw some in fiscal year 2026 as well, just some larger deals with longer durations and those can sway that number. We've talked about overall renewals duration is shorter than land and expand duration generally speaking. But sometimes, customers will opt for longer renewals durations as well. And now, especially if we give them more flexibility on payment schedules, et cetera. So, a few moving pieces there. And what's assumed and embedded in the guidance we gave you is that overall average contract durations in 2027 to be flat to slightly higher.

Radi Sultan
Analyst, UBS Securities LLC

Q

Awesome. Thank you very much.

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.
A

Thank you, Radi.

Operator: Thank you. Our next question comes from Param Singh with Oppenheimer. Please proceed.

Param Singh
Analyst, Oppenheimer & Co., Inc.
Q

Hi. Thank you so much for taking my question and great quarter. I had a couple of questions here. One, thinking about your full year guide, I appreciate all the color and the conservatism. But as you think about it in terms of the growth drivers on a year-over-year basis, if you could rank order or quantify, what do you think is going to come in from, let's say, the traditional hyper-converged business, including taking share from VMware versus say your NCI Compute or I should say qualification external storage. And then, finally, the other pieces of the portfolio, whether it's databases or the AI side. And then, I had a follow-up question. Thank you.

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

Yeah, maybe, let me start there. So, the bulk of our new business for this year, the land and expand business that we will close will be HCI, right. Still, right? That's the bulk. But that's not the fastest growing, but that's going to be the majority of the business. Now, our external storage which is really what you refer to as NCI-C was off to a very strong Q4. And we expect that to grow very nicely this year. So, I think the growth rate on that is going to be pretty high and quite substantial this year with a lot of opportunity there. So, I would put that in as in terms of, contribution from a growth perspective, that's probably going to be the largest growth contributor.

Right behind that would be our cloud-native offering. Our cloud-native public cloud as well as our AI offerings and our Nutanix Database Service. All of those coming behind that will also grow. So, I would say those are the three, right. HCI, largest component of the business; external storage, fast grower for this year; and the remaining portfolio products will also be growing very rapidly.

Param Singh
Analyst, Oppenheimer & Co., Inc.
Q

Thank you so much for that, Rajiv. And as my follow-up maybe for Rukmini, I appreciate that, you're reinvesting into the business as you should. But with this level of growth rate, I was hoping to see a little bit more margin expansion. So, maybe help me think through, how do you think about the necessary components of organic investment at this point and how much would you want leverage to show up versus reinvest into the business going forward?

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.
A

Yes, look, I think the growth versus margin balance, Param, is obviously one we spend a lot of time thinking about. And we believe it was important, as you alluded to, to invest in certain areas where we think we are well-positioned to win and where we think we see the return. We had already seen the return and want to double down or we believe it's important for us to go and play in those areas because we know, we expect to have a higher return there. And look, the reason we did the restructuring was because we believe that there were, certain things we could do within our existing OpEx and overall spend envelope that we should reallocate in order to be able to go and fund some of this growth, right. So that's how we've approached it. And we do believe that there's more room for margin expansion. I think we've been quite consistent in saying that, our non-GAAP operating margins today are not where we think our steady state operating margins will be. We think there's room for it to expand meaningfully from here over time and are happy that from even – for an initial guide for 2027 that, that the midpoint is higher than what we delivered in 2026.

Param Singh
Analyst, Oppenheimer & Co., Inc.

Q

Understood. Thank you so much for the color, Rajiv, Rukmini.

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.

A

Thank you, Param.

Operator: Thank you. Our next question comes from Wamsi Mohan with Bank of America. Please proceed.

Wamsi Mohan
Analyst, Bank of America Merrill Lynch

Q

Yes, thanks so much. Just to maybe not beat a dead horse here. But are you assuming that the server availability gets better or worse or remains unchanged as you look into fiscal 2027? Rukmini, I think you said you only have the back half impact on server availability in 2026. So, is there a way to also think through how much of growth impact that had in fiscal 2026 and that the growth impact that you're anticipating in fiscal 2027 is maybe roughly double of what you're thinking in fiscal 2026. Is that maybe the right way to think about it?

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.

A

Yeah. So, we haven't sort of quantified that explicitly, Wamsi. Yeah, I think what we want to say though is that, from a lead time perspective, we really saw that elongated in any kind of meaningful way, only in the latter part of 2026. And we know starting 2027 that it's – we expect it to stay elongated and lead times, look, well, I think will move around depending on what's happening in the market, obviously it's a very dynamic market and people's ability to get various components and memory and everything else. So, we think lead times will still be elevated and move around maybe from time to time in fiscal year 2027. So yes, what we did say was it's a full year in 2027 versus partial year in 2026. And that, we expect to continue to offer this flexibility with start dates to make sure that people – customers are – who are willing to make commitments with us and are ready to do so are able to do so while timing it with when they're getting the servers. So, that's how I would think about it, Wamsi.

And the other piece is on pricing of servers, which I think, Rajiv, you've talked a little bit about earlier, which is that we expect that to continue to increase in 2027, perhaps not at the same pace, but continue to go up and which can impact as how customers think about their projects and timing and sizing and all of that. Rajiv, anything you would add?

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

A

Yes. So Wamsi, there are some offsetting factors here. There is no doubt that supply chain impacted us for a portion of last year, and we expect it to impact us for the full year. Right. So that's more headwind this year compared to last year, and the prices are going to remain elevated. And so, we expect that. But offsetting on the other side is that our external storage portfolio is growing. We now have many more storage arrays that we support compared to last year. And so that allows us to offset some of this issue, right, because those customers can, use it without buying new hardware. So, we have some of that offsetting factor. And then, the public cloud usage, I think, and also, we've learned from the last six months on how to work with our customers to help them with these supply issues. So, we've got some offsetting factors to counter the headwinds, the broader headwinds that we see with the supply chain this year. So, that's what we factored in as we try to give you our guide for the year.

Wamsi Mohan
Analyst, Bank of America Merrill Lynch

Q

Okay. Thank you. I appreciate that. And then, maybe Rajiv, for you, you made a quite a few comments around sort of agentic AI. I was curious as to your perspective on how much, are we at a point where agentic AI and the enterprise on-prem side is inflecting in a meaningful way, as you think about 2027, 2028. When do you think we start to see meaningful inflection for the industry and for you, in particular?

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

A

Yeah, I would say, for us, by the way, it's a relatively new portfolio product area for us and it's growing quickly off a small base as we continue to add significant capabilities to the platform over the last six months even. Now, from an industry-wide adoption, I would say, we're still very, very early. I wouldn't necessarily say we are at an inflection point where this is going to scale rapidly. But more and more customer, this is a topic of conversation with everybody, starting with a gateway that everybody wants to have to have some regulation around cost controls and governance that's fairly broadly deployable and applicable to a lot of companies. And then, there's going to be a subset of companies that have significant usage, relatively speaking, that will deploy either on-prem or in, say, a third-party service provider on a colo, their own infrastructure, right, GPU clusters for running their AI workloads. And that opportunity, we're starting to see. I mean, we have some initial wins that we talked about, some of those even at our user conference earlier this year.

And we expect, for example, at Nutanix, we have our own internal usage where, we are a software company, we have been using our AI models for the entire software development lifecycle for quite a while. And like most other companies, we started out using frontier models and cloud models. And the costs – as the costs are going up and the usage started going up for us dramatically. We have now shifted to deploying our own clusters with our software stack on it, running open-weight models, and we hope that we will be able to service the majority of our internal needs with that rather than going to the frontier models. And we will – of course, still continue to go to the frontier models to get the best of the [indiscernible] (00:54:58). But we expect that to be a smaller portion. And for all the stuff that runs on our clusters with open-weight models, we no longer have to pay on a per token basis, right. That's a onetime investment that we make, and then, we can use it to the maximum extent over many years. So, I think this kind of a model, I think I would say more enterprise customers will start to adopt over time. But we're still very early days.

Wamsi Mohan
Analyst, Bank of America Merrill Lynch

Q

Okay. Thanks, Rajiv.

Operator: One moment for your next question, please. It comes from Matt Hedberg with RBC. Please proceed.

Simran Biswal
Analyst, RBC Capital Markets LLC

Q

Hey, guys, this is Simran on for Matt Hedberg. Congrats on the quarter. I had two questions. First, Rukmini, the color around ATR for fiscal 2027 was helpful. Just double clicking on that, how should we think about linearity of renewals through the year and the level of deal visibility you have as we think about the supply chain constraints?

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.

A

Yes. Hi, Simran. So, I think the first thing I'll point out, right, that is on renewals, we don't really see or expect any kind of meaningful impact from supply chain because the supply chain comes into play really largely when customers are using us or choosing us for newer deployments or for migrations, things like that, where they are adopting our cloud platform, specifically HCI, right, not external storage fees, and therefore, need to go and procure servers, which is not the case for an renewals, right. So that's the good news on renewals that those are largely independent and insulated from any kind of supply chain challenges.

And then, I think part of your question was, what about linearity through the quarters? Look, I think based on our visibility, it's – there's nothing unusual, I would call out, Simran. If we were to see that, we will make sure to update you going forward. As you know and Rajiv talked about before, like with any other, subscription-based company, sometimes things can renew early. If customers are ready or if we're selling them expansion and the customer wants to sort of bundle all of that in and renew early, we're, of course, happy to do that as long as it's good economics and so on. And so, that can happen in timing from time to time. But that also again, even in those instances, the revenue really shows up in the quarter, in which it was due. So yeah, other than that, nothing unusual. I would call out about renewals linearity at this point.

Simran Biswal
Analyst, RBC Capital Markets LLC

Q

Got it. That's helpful. And then, anything to call out in terms of performance and expectations around US Fed?

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.

A

Yeah. So, we had a really good quarter with the US Fed in fiscal Q4. As Rajiv said, we had really good broad-based performance in Q4 and US Fed was no exception. We had a really strong quarter in the US Fed for Q4. And looking at Q1, seasonally, it tends to be our largest quarter for US Fed. And the teams are, of course, looking, working hard to make sure that we deliver to our opportunity with the US Fed. Anything you would add, Rajiv, to that on Fed?

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

A

No. No, I think you covered it.

Simran Biswal
Analyst, RBC Capital Markets LLC

Q

Great. Thanks, guys.

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.

A

Thank you.

Operator: Thank you. And our next question is from Mike Cikos with Needham. Please proceed.

Mike Cikos
Analyst, Needham & Co. LLC

Q

Great. Thanks for taking the questions, guys. And I'll echo my congrats on the quarter as well as the strength of the net new ARR this quarter and execution. I just – I think it's been answered a couple different ways, but maybe not as [ph] bluntly (00:58:51). But if I think about this quarter and the strong results you posted, can you just comment on to what degree this quarter may have benefited from a catchup on contracts that have been signed with future start dates and ultimately, converting into revenue? Was that a factor that we need to consider here or no, we continue to see things slide to the right and this really was just execution in the quarter. And I appreciate that any quick follow-up as well. Thank you.

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.

A

Mike, I'll start. I don't think we saw – well, we didn't see any kind of catchup in future start date in Q4, Mike. So, I wouldn't call that out as a reason for the overall outperformance in Q4. You mentioned net new ARR. And you know, one maybe piece of additional color I'll add on that is that even our net new ARR performance was also a function of our strong overall performance in the quarter. Specifically to ARR, we had a lower than typical average billing duration in the quarter and I called out sort of billing duration was a bit lower than expected in Q4, and that drove a higher net new ARR relative to the revenue we generated in the quarter. And billing duration can move around from quarter to quarter. And based on our view of Q1, we expect billing duration to go the other way to be meaningfully higher in Q1 based on what we know. And that would tend to drive a lower net new ARR for, a given revenue. So that's the only additional color I would add, Mike. But no, there wasn't kind of a future start date catchup in Q4.

Mike Cikos
Analyst, Needham & Co. LLC

Q

Excellent. Okay.

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

A

Yeah, I'd just – I would just add to that, Rukmini, I think that we are also assuming a moderately higher percentage of orders with future start dates in FY 2027 compared to FY 2026.

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.

A

Yeah.

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

A

And so this continues.

Mike Cikos
Analyst, Needham & Co. LLC

Q

Understood. Understood. And I appreciate the color on both fronts there. I also wanted to ask, I know you guys are calling out the available to renew. This pool is going to continue to grow, albeit at a slower rate versus what we just saw in fiscal 2026. My question, I know it's a little bit longer-term here, but like I'm looking at the number of new logos that you guys have acquired and we really saw a pickup exiting fiscal 2024 in that 4Q, right? If I'm just assuming average of, call it, three-ish plus year contract duration, when the volume of new logos really started to tick up. Is it fair to assume that that ATR pool like the growth there should see an acceleration, if you will, if we think about fiscal 2028? And again, I'm just trying to think about the volume of new logos that you guys acquired as well as the breadth of the platform.

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.

A

So, I'll take a shot at that, Mike. So look, overall, generally happy with the new logo performance and I'm trying to harken back to Q4 2024, Mike, and what was happening there. And look, I would say, I think when you look at our land and expand ACV, which is, think of that as net new kind of business coming on to the platform. Land, our new logo ACV is actually minority of land and expand, which is not a surprise or anything. We've talked about that before and as you would expect for a company of our size, expand just as a proportion of the total land and expand is the higher proportion. So, expand is much – most of that is expand relative to land. So, while very happy with the land performance over time, it is still a minority of the land and expand.

And so, no, I don't think there's any kind of dynamic where there's some year, where it will go up or anything like that, Mike. And remember that there are no [ph] base has also (01:02:40) gotten, larger and larger every single year. And we had those initial few years where it was growing really rapidly because we were really only starting to build the renewal base in those early years. So yeah, that's what I would sort of say. I don't think there's – as big of a correlation perhaps as you think between any kind of things that happened in Q4 2024 and the renewal ACV expectations.

Mike Cikos
Analyst, Needham & Co. LLC

Q

Understood. Thank you again, guys, and congrats on a strong finish to the year.

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.

A

Thank you, Mike.

Operator: Thank you. And ladies and gentlemen, this concludes our Q&A session and conference for today. We want to thank everyone for participating, and you may now disconnect.