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Nutanix, Inc. (NTNX)

Q1 2027 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and thank you for standing by. Welcome to the Nutanix First quarter 2027 earnings conference call. At this time, all participants are in a listen-only mode. After the speaker's presentation, there will be a question-and-answer session. [Operator Instructions] . Please be advised that today's conference is being recorded.

I would now like to turn the conference over to your speaker for today, Rich Valera, VP 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 first quarter fiscal year 2027 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 first quarter fiscal year 2027 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

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recent annual report on Form 10-K 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 UBS Global Technology and AI Conference in Scottsdale on November 30, the Raymond James TMT and Consumer Conference in New York on December 7th, and the Barclays Global Technology Conference in San Francisco on December 10th. We hope to see some of you at these events.

Finally, our second quarter fiscal 2027 quiet period will begin on January 16th. 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. Earlier today we announced that I am working with the board to identify and recruit my successor, and will be stepping down from my role as CEO after a successor has been appointed and assumes the role. This was a thoughtful decision that I came to with the board, grounded in a shared belief that now is the right moment to plan for Nutanix's next chapter of leadership.

What drew me to Nutanix six years ago was the rare combination of a category defining platform, a deeply loyal customer base, and a team that consistently executes at the highest level. Our competitive position is the strongest it's ever been, and the market opportunity in front of us is the largest it's ever been. I will work closely with the board to ensure a seamless transition. Until the process is complete and my successor assumes the role, I remain fully committed as CEO of Nutanix and I will continue to drive our FY 2027 strategic priorities forward. I will also continue to serve as a senior advisor to the company for a period of time after my successor is in place. It has been an honor to lead this company and I look forward to supporting the board in identifying Nutanix's next leader who can build on our transformation and the opportunities ahead.

With that, let me turn to the quarter. We delivered quarterly revenue of $772 million, above our guidance range, and grew our ARR 15% year-over-year to $2.63 billion. We also saw another quarter of solid free cash flow generation. In Q1, we continued to see success in the marketplace with our cloud platform. Our largest and most notable wins this quarter demonstrate the appeal of our solution to businesses that are looking to adopt hybrid multi-cloud operating models and deploy modern apps and AI workloads, alongside traditional apps.

Increasingly, customers are looking to do this while retaining their existing hardware, including servers and external storage.

Our largest win in the quarter with a North American-based Fortune 100 provider of financial services, reflects ongoing traction with our solutions supporting external storage. This customer chose the Nutanix Cloud Platform to run their business critical applications, including SQL databases and virtual desktops and plans to utilize their existing Dell PowerFlex storage arrays going forward.

During Q1, we also saw significant wins on our solutions supporting Dell's PowerStore, Everpure, and NetApp, which became generally available at the end of the quarter.

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On the new logo front, our largest win in Q1 was with a North American-based medical technology company, looking to replace their incumbent vendor. They selected the Nutanix Cloud Platform for their business-critical VM workloads along with our Nutanix Kubernetes Platform for their cloud-native and AI applications. Going forward, they also plan to use NC2 on Azure to extend workloads into the public cloud.

We believe wins like this reinforce that when enterprises modernize their IT, they view Nutanix as a complete future-ready partner.

Another win with a government agency in the APJ region also reflects traction we are seeing with customers using our platform for AI. This customer chose the Nutanix Cloud Platform to establish an internal GPU-as-a-Service offering. They plan to run multiple AI applications, including video analytics and vision language models on the service.

On the investment side, we completed our acquisition of Ryax Technologies in Q1. We plan to incorporate Ryax's [ph] DPU (00:08:15) utilization and smart scheduling technology into our platform to enable greater efficiency and resource utilization for AI and cloud-native workloads.

We also saw strength in the service provider business in Q1, signing several seven-figure deals with managed service provider partners across the Americas and EMEA regions. We view this performance as a validation of the investments we've made to enhance our platform's multi-tenant and operation capabilities for service providers.

Finally, our platform continued to receive industry recognition in the first quarter. Nutanix was named a leader in the 2026 Gartner Magic Quadrant for distributed hybrid infrastructure, our third consecutive year; and a Challenger in the Gartner Container Management Magic Quadrant. Notably, Gartner also recognized Nutanix as a leader in their new Server Virtualization Magic Quadrant, positioning us highest in ability to execute.

We believe these recognitions reflect what we're seeing in the market. The Nutanix Cloud Platform has become a preferred destination for enterprise customers, seeking a proven, seamless, alternative to legacy virtualization providers.

In closing, our business performed solidly in the first quarter, including ARR growth of 15% year-over-year and solid free cash flow performance. I believe the fundamentals of our business remain healthy. We remain focused on delighting our customers, while driving sustainable, profitable growth.

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

Rukmini Sivaraman

Chief Financial Officer, Nutanix, Inc.

Thank you, Rajiv. I am grateful for your many years of leadership, and thank you everyone for joining us today. I will first start with our Q1 2027 results, then provide guidance for Q2 2027 and an updated view of our full year fiscal year 2027 outlook.

In Q1, we reported results that were above the high end of the range for all guided metrics. In Q1, we reported record quarterly revenue of $772 million, higher than the guided range of $755 million to $765 million, and a year-over-year growth rate of 15%. ARR at the end of Q1 was $2.633 billion, representing year-over-year growth of 15%.

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NRR, our net dollar-based retention rate at the end of Q1 was 105%, down slightly quarter-over-quarter. In Q1, average billings contract duration was 3.4 years. Non-GAAP gross margin in Q1 was 88.5%. Non-GAAP operating margin in Q1 was a quarterly record of 32.1%, higher than our guided range of 26% to 28%. Our margin performance this quarter benefited from a favorable confluence of small operational efficiencies across multiple areas rather than a single outsized driver.

Non-GAAP net income in Q1 was $216 million and fully diluted EPS was $0.73 per share based on fully diluted weighted average shares outstanding of approximately $295 million shares.

GAAP net income and fully diluted GAAP EPS in Q1 were $144 million and $0.49 per share respectively. Free cash flow performance in Q1 was good at $209 million, representing a free cash flow margin of 27%.

Moving to the balance sheet. We ended Q1 with cash, cash equivalents, and short-term investments of $2.468 billion, up from $2.361 billion at the end of Q4.

Moving to capital allocation, in Q1, we repurchased $50 million worth of common stock under our authorization. We also used about $74 million of cash to retire shares related to our employees' tax liabilities for their quarterly RSU vesting. Together, these actions help manage share dilution.

Moving to guidance. Our guidance for Q2 2027 is as follows: revenue of $820 million to $830 million; non-GAAP operating margin of 27% to 28%; fully diluted weighted average shares outstanding of approximately 295 million shares.

Moving to the full year, our updated guidance for fiscal year 2027 is as follows: revenue of $3.18 billion to $3.23 billion, unchanged from our prior guidance; non-GAAP operating margin of 24.5% to 25.5%, an increase of 50 basis points from our prior guidance; free cash flow of $875 million to $975 million, an increase of $25 million from our prior guidance, and representing a free cash flow margin of 29% at the midpoint.

I will now provide a few points to note regarding our full year guidance. First, the assumptions I highlighted in our last earnings call about our robust market opportunity and growth drivers, server supply constraints, future start dates, and growth in our renewals ACV cohort remain largely unchanged.

Second, a note on revenue seasonality. We expect Q3 revenue to be seasonally down quarter-over-quarter by mid- to high-single-digit percent, relative to our Q2 guidance, a higher percentage than in the last couple of years but in line with the years before that. Our quarter-to-quarter revenue seasonality can be affected by a number of factors, including revenue contributions from deals booked in prior quarters and business available to renewal seasonality.

Finally, a reminder that the assumptions that I mentioned in the last earnings call regarding billings and free cash flow also remain largely unchanged.

In closing, we are pleased to have exceeded all of our guided metrics for Q1 in a dynamic environment. I'd like to thank our customers, shareholders, and partners for your continued support and our employees for their hard work in achieving these results.

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

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QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] The first question today will be coming from the line of Sanjit Singh of Morgan Stanley. Please go ahead.

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

Q

Thank you for the questions. And Rajiv, congrats on an awesome run at Nutanix. To pick up on that point, I was wondering if you could just give me a sense of why you think it's now the right time to have a change in leadership? And to the extent you'll be involved in finding your successor, what are some of the criteria that you think would be most important as we go into this next era of the company?

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

A

Sure, Sanjit. And it's a very good question. And, of course, top of mind. First, look, it's been six years here for me at Nutanix, and in some ways, we built the second chapter of the company after the founding era and establishing the HCI piece. If you look at the chapter 2 of what we built together with the team, it's completing the journey to becoming a subscription company, transforming to be profitable and growing, expanding the product portfolio quite significantly from HCI to a platform company that works across clouds, that supports external storage, that has cloud-native capabilities, and now moving into the future AI capabilities.

And so we've done a fair bit of work. Chapter 2 is well-established at this point. And there's a lot of opportunity in terms of driving growth with chapter 2. And I feel like we are in a very good place there.

Now, the next chapter, chapter 3 is the next five years of the company, and that is the next transformation to be done. And that's about establishing Nutanix as the platform for AI. And so we are at the beginning of the journey. We've gotten a good start. There's a lot to do over the next five years. And that's why, I feel like we are at an inflection point, where we've got the chapter 2 that's fairly well established at this point; now we have to continue to execute for the next many years and quarters on it, but we really have to build chapter 3 and do so in a significant way.

And so this as – I've been talking to the board for a bit here about this as well in terms of our strategic direction and the timing for succession. And so we came to the conclusion together that this is perhaps the right time, right, so that we can bring somebody in, and also that we want to announce it ahead of time as we look for the appropriate next leader.

And what do we expect of that person? We want that person to really scale this journey, right, that we've been on already and really establish Nutanix, not only continue what we're doing, but also build on top of it to really build Nutanix as the AI platform company.

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

Q

I appreciate the thoughts, Rajiv. And then, as a follow-up Rukmini, when I look at the guides even the prior two years, I think last year you guys had actually lowered the guide given the dynamic environment around the server supply chain issues. I think in fiscal year 2025, you had reiterated the guide in Q1.

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So seeing you reiterated the guide, I guess, is not too much of a surprise. When you look at some of the metrics this quarter, I look at the customer adds were a little bit lower than last quarter and last year's Q1, the NRR ticked down. I just want to get a sense of whether that's any sort of seasonal Q1 impact or anything on – that's poised to linger for the balance of the year? Thank you.

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.
A

Thank you, Sanjit. So, yeah, on the on the first question about the revenue guide, so you're right that it is early in the fiscal year. And we typically – as you alluded to, we did this in fiscal year 2025 and prior years. We typically do not raise the full year revenue guidance after Q1. And there's still a lot to go and many variables to consider. So we're happy to have raised our operating margin and free cash flow guidance for the year and kept our revenue guidance unchanged.

And then, I think your part of your other question was around new logos and NRR. So, on new logos, we believe that that performance was affected by some reallocation we did in Q1. So we had a higher-than-normal reallocation of our customer and prospect accounts in Q1, and that had a bit of an impact on the new logo addition. We believe the impact of this is temporary and largely behind us, and we expect new logos to be up quarter-over-quarter going into Q2.

And then, the last bit, there was a lot of questions in there that you phrased, Sanjit. So the last bit on NRR, you are right, and [ph] I know it did tick (00:20:56) down slightly quarter-over-quarter as I said in my prepared remarks. And that as we've talked about was impacted by some factors we've discussed before like our ASPs of new logos have been increasing over time, which means that it creates a bit of a headwind on expansion growth rate, which is reflected in NRR.

This NRR was also impacted directionally by overall bookings performance in Q1. And of course, we continue to remain focused on driving adoption and expansion of our solutions within our customer base, and that continues to be a focus. But NRR can move around from quarter to quarter because of the factors I mentioned.

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

Right. I appreciate the thoughts. Thank you.

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.
A

Thank you, Sanjit.

Operator: Thank you. One moment for the next question, please. Our next question will be coming from the line of Jim Fish of Piper. Please go ahead.

James E. Fish
Analyst, Piper Sandler & Co.
Q

Hey, Rajiv. It was great working with you and best of luck in your future endeavors. Maybe just as we think about the fiscal 2029 Analyst Day targets that you guys referenced about six months ago now, a lot of the growth was dependent on AI and containers, and a lot of prepared remarks here were kind of talking about the traditional blocking and tackling around hyperconverged including within VDI and database penetration.

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So, I guess, my first question is really how should we think about applications penetration beyond VDI and database at this point? And secondly, how has the attach been trending on that AI and container-based side of the story? Thanks.

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

Yeah, I think both – to me, Jim, the future definitely is preparing for a world of cloud-native and AI. And our cloud-native business is certainly coming along very nicely and growing very nicely year-over-year. Lots of good traction. In fact, we have been calling out NKP in prior quarters. On AI, I would say that our – we believe we have good product market fit at this point. In fact, one of the larger deals this quarter was very much driven by AI workloads, right.

This government agency in Asia-Pacific that we talked about, for example, using us as the platform for them to deliver AI internally, right, to all their customers. So we are starting to see good traction as customers and enterprises start using AI. It's still early days on that front, and that's the next transformation that we talked about.

We are seeing more and more interest in open-weight models in terms of people using open-weight models as a counter to frontier models and starting to run them whether it be in their own environments, or whether it be in your clouds or even on bare-metal hyperscalers. So, we do, I think, have a really good set of opportunities here to address, and we are seeing good traction. The AI numbers are still relatively small, but growing nicely. And so to me, in addition to all the mission-critical workloads – by the way, we highlight [ph] some VDI (00:24:04) and so forth but – and databases, but today, we're already at a point where we are running pretty much all enterprise mission-critical workloads, right.

We can do complete transformations of anything that is running, let's say, on a legacy environment onto [ph] a Nutanix (00:24:18) environment. And increasingly, these very same customers are looking to use us for cloud-native, new workloads and for AI workloads.

James E. Fish
Analyst, Piper Sandler & Co.
Q

Got it. And then, VMware introduced that Essentials or Express package that's at the...

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

Yes...

James E. Fish
Analyst, Piper Sandler & Co.
Q

...kind of lower end of the market. Have you seen any change then as a result to your pipeline as a result, or can you kind of talk about how that could be impacting you here on the net new customers?

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

Yeah. So I think it's too early to tell on that. By the way, they just introduced it, vSphere Essentials, I believe, it's called. And this is kind of largely a market that they are not focused on, right, before. And so we have to see how it does. But so far it has not had any impact really, and it's too early. They just put it out there. We are fairly strong

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and we are working to become even stronger in that segment of the market, where you're – and this is more targeted at the lower end of our customer base, so what I would call Tier 3 customers in our pyramid of sales.

And so Nutanix actually has a strong offering now with both HCI and external storage and being able to support a broader set of external storage platforms out there – even at the low end, a lot of that is IP attached, not necessarily fiber channel attached. So, it starts playing to our strengths. So, it's too early – going back to your question on VMware, on that offering to make any judgment about how it's doing.

Operator: Thank you. One moment for the next question. Our next question will be coming from the line of Matt Martino of Goldman Sachs. Please go ahead.

Matthew Martino
Analyst, Goldman Sachs & Co. LLC

Q

Great. Thanks so much, Rajiv. Thanks for the partnership and congrats on a nice run here. Maybe just one on continuity for the CEO search. Given the number of initiatives underway across the portfolio and the go-to-market organization, how are you thinking about maintaining execution through the transition? And should we expect the strategic priorities you laid out at the Investor Day to remain consistent?

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

A

Yes. We have no plans to change any of the strategic priorities at this point, Matt. And I'm going to be here, fully engaged, continue to drive business as usual. I'm here on the call. I'll be here running the company still and help identify and on board the new successor and help afterwards in an advisory capacity as well. So the idea here is to make this – in terms of as continuous and as seamless as possible and not really miss a beat when it comes to execution here, both across product and across GTM.

Matthew Martino
Analyst, Goldman Sachs & Co. LLC

Q

Okay, great. And then, for either you or Rukmini, just on the server availability, can you just give us an update on server availability and lead times? Are conditions broadly in line with your planning assumptions? And are customers changing deployment timing, vendor selection, or architectural decisions in response? Thank you.

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

A

Yeah. Maybe I'll take a crack and, Rukmini, you can add on. So I think the lead times, I would say, for servers have stabilized – and depending on the configuration, some will still have extended lead times, some will have shorter lead times. It tends to vary very dramatically week-by-week, month-by-month. Pricing remains elevated. That has not changed at all, right. I mean, there's still a huge shortage of memory. There's still significant shortage of CPUs. And then so, we're still seeing significant pricing uplifts in the market, right? I mean, pricing uplift at this point are incremental compared to the big rise we saw over the last year, but nevertheless, we look at that as a headwind.

Now, for us, while that's a headwind on the one front, some of it we're able to offset, of course, with all the alternatives that we have in place – the ability for us to sell our software to customers where they can use us without requiring them to change hardware, whether it'd be on, say, somebody else's HCI infrastructure, or whether it'd be with external storage and the subset of external storage that we support, which is, of course, not yet complete – recall that we support IP storage and within the IP support Dell, Everpure, and now NetApp as

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well, which went GA this last quarter. So, we still look at that to offer some of that more customers also using us in the public cloud now, where they can get capacity faster than what they can get on-prem servers for.

Matthew Martino
Analyst, Goldman Sachs & Co. LLC

Q

Thank you.

Operator: Thank you. One moment for the next question. Our next question will be coming from the line of Radi Sultan of UBS. Please go ahead.

Radi Sultan
Analyst, UBS Securities LLC

Q

Awesome. Thanks for taking the question. And, Rajiv, it's been a real pleasure. Maybe first – I've been hearing more seven-figure ACV new logo lands for external storage just in some of my own work. And so I'm just curious, are you seeing the more recent external storage new logo landings at higher ACVs than last year when you first rolled out external storage?

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

A

In fact, one of our largest wins this quarter was exactly that. It was with PowerFlex, right, customer using us with PowerFlex, and it was a significant large win for us. So, yes, I mean, if you look at like – certainly, right, I mean, external storage represents about 80% of the deployed infrastructure out there, especially at the larger customers. And the larger customers tend to have bigger estates, and therefore, larger deal opportunities for us.

And so we have a good pipeline of external storage opportunities. And now, we've got Dell, PowerFlex, PowerStore, NetApp now coming on board, of course, Everpure, we're doing quite well with Pure (sic) [Everpure] (00:30:04) together as well. So, yes, no doubt about it. It opens the door to these larger accounts where especially in a time where they don't want to go, change out their hardware. So, it's certainly reflective of the fact that we do have quite a few large deals from that area.

Radi Sultan
Analyst, UBS Securities LLC

Q

Awesome. And then, for Rukmini, just if you could just unpack the Q3 seasonality a bit more, how much is just the available to renew cohort? And then, is this Q3 seasonality, what we should expect going forward? Or is this a dynamic, very specific to the cohort this year?

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.

A

Sure. Hi, Radi. So, yeah, the reason I called out the Q3 seasonality is because it is a little different from what we've seen in the last couple of years, but it is in line with the years before that, Radi. So, it can move around somewhat from year to year.

And I think the other thing I would say is that when I look at Q3 or any quarter-to-quarter variation, it can depend on orders that were booked in prior periods, but revenue showing up in a current quarter that can move those quarters around. So that's one factor. And then just how we see the available to renew pool that's coming in. And

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I believe your question was on the point I made about Q3 seasonality relative to Q2, correct? Did I answer that? Is that your question, Radi?

Radi Sultan
Analyst, UBS Securities LLC
Q

Yeah. Yeah, no, exactly you hit it.

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.
A

Okay. Okay. Good. Yeah. So that's what I'd call out. I think the reason we mentioned it was because it's a little bit different from the last couple of years. And to me, it's nothing more than just timing of when deals come in, when they show up in revenue, and then, a little bit of how the available to renew pool is flowing into revenue.

Radi Sultan
Analyst, UBS Securities LLC
Q

Thank you.

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.
A

Thank you.

Operator: Thank you. One moment for the next question, please. Our next question will be coming from the line of Howard Ma of Guggenheim. Please go ahead.

Howard Ma
Analyst, Guggenheim Securities LLC
Q

Great. Thanks for taking the question. I have two. My first one is, your calculated RPO bookings was down about 2% year-on-year. Is that due to server supply constraints and deal timing? Or was it other factors? And it's because given the confluence of near-term growth catalysts like the external storage partnerships and more mature AI and Kubernetes portfolio, I'm just trying to understand the disconnect between the qualitative and the in-quarter bookings performance, or if it was just timing?

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.
A

Yes. Hi, Howard. Welcome. So first, we believe that the overall demand environment is healthy. And as you alluded to, lots of drivers even in our own business, in addition to the overall demand environment that we believe is healthy overall.

Now, to your question, bookings in Q1, like you alluded to, which you all can calculate from an RPO bookings perspective, bookings in Q1 declined slightly year-over-year. And we believe that bookings performance was affected by the higher-than-normal reallocation of accounts that I talked about in Q1. Reallocation of customer and prospect accounts. And we believe the impact of that is temporary and largely behind us.

And then, the other point that I'd make is that we also had fewer-than-expected large deals closing in Q1. And as we've said before, the timing of those large deals can vary from quarter to quarter.

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One other point that is worth noting here is that our software bookings expectations for the full year are largely unchanged compared to three months ago, and that is underpinned by a strong pipeline of large deals, the growing momentum with external storage and growth in cloud-native and AI solutions that we've been talking about here.

Howard Ma
Analyst, Guggenheim Securities LLC

Q

Okay, great. Thank you, Rukmini. And a follow-up either for you or Rajiv is how would you describe your pipeline visibility and the granularity of targeting Broadcom, VMware migrations, I guess, today versus a year ago? And if there are any additional go-to-market investments that you need to make to accelerate the migrations this year? Thanks.

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

A

Maybe I'll start and, Rukmini, you can continue. So that's a big chunk of our pipeline, but it's hard to – we've always said it's hard to distinguish between what, say, just a pure Broadcom take-out initiative versus just a normal – looking for modernization, et cetera. But there's still a lot out there of customers looking to migrate away. And these tend to be full-fledged migrations.

And so if you look at what we've been doing both from a product and go-to-market perspective, we continue to make that easier and easier for our customers. I would say, the biggest single thing that we've done over the last year has been supporting the external storage array side, because that allows for the customers to do in-place migration with their existing hardware.

And our solutions have been in the market for some period now, but still very much early and ramping, right. We've had Pure (sic) [Everpure] (00:35:09) for a few quarters now, PowerFlex for a bit longer than that, PowerStore a little less than that, and NetApp now just became generally available.

So that, I think, is a big unlock in terms being able to go out there and get to a good subset. It's still not the full set, but it's still a good subset of the installed base out there that we can now go and help customers migrate.

The actual migration for a long time has been fairly easy to do once you have everything set up, but a lot of it is automated. So we've done that work already. We've got the professional services both with us and our channel partners going for quite a while. So, to me, it's more getting – working with the base of customers, getting customers to plan ahead of time, so that they get time to go plan and deploy and get their migrations done before their next renewal cycle.

Howard Ma
Analyst, Guggenheim Securities LLC

Q

Yes. Thank you, Rajiv.

Operator: Thank you. One moment for the next question. And our next question will be coming from the line of Ruplu Bhattacharya of Bank of America. Please go ahead.

Ruplu Bhattacharya
Analyst, BofA Securities, Inc.

Q

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Hi. Thanks for taking my questions. I'm filling in for Wamsi today. Rajiv, wanted to echo my congrats and it was great working with you, wishing you all success in your future endeavors.

My question to you would be when you think across – when you look across all of the partnerships that Nutanix has, whether it's Dell, Cisco, NetApp, AMD, which ones do you think have the potential to generate the highest revenue over the next 12 months? And when do you think Nutanix should start disclosing partner-sourced revenue? Or at least when does it become a material part of new ACV? And I have a follow-up for Rukmini.

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

A

Yeah. First of all, I think – you've got to – there's multiple routes to market here, right. With many of our partners, it's – they're not reselling our product, but we work together. Like, with all the storage partners today, except for Dell, it is actually meet at the customer, right? We support it, but we meet at the customer. So they buy from Nutanix and it happens to work with their Everpure array or with their NetApp array, right.

And that part, by the way, is actually, I think, going to be the – one of the single biggest growth drivers for us over the next year. Now, that's not necessarily – some of it will be sourced by the partner in terms of they bring the customer to us; others will be sourced by us, and it's a mix. But it is not a sell-through. It is still we are selling to the customers, but we are collaborating together. And that, by itself, is I think the single biggest unlock, right, and growth driver that I would see.

Now, on top of that, in terms of actual resell, we do have Cisco and now Dell, again, which I think with external storage being there, I think the alignment with Dell is getting better now. And Cisco, of course, continues to be a good seller of our product – reseller of our product, although their footprint in the market is relatively limited given their server footprint overall.

Ruplu Bhattacharya
Analyst, BofA Securities, Inc.

Q

Okay. Thanks for that detail, Rajiv. Rukmini, in terms of operating margins, I mean, you beat your guidance midpoint by almost 500 basis points, but you're taking up the full year only 50 basis points. So can you talk a little bit more about what drove the outperformance in operating margin? In fiscal 1Q, you mentioned a couple of incremental improvements, but what is happening in the rest of the year? How should we think about that? Thank you.

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.

A

Yes. Hi, Ruplu. So, yeah, you're right. There is embedded in the guide, to your point, a significant ramp in operating expenses throughout the course of the year, Ruplu. The ramp itself is not unusual for us as we sort of finish our planning, deploy all of the dollars, and it sort of gets deployed over time.

This year, as we had announced in August, we had a reduction in force, which, of course, we had to get through. And so I would say, in terms of the margin beat for Q1, as I said in my prepared remarks, that was due to several factors, none of them was sort of one big driver. And so that drove the beat in Q1. And for the rest of fiscal year 2027, yes, we took our guide up by 50 basis points, and that I think of as a balance between all the investments we've said we're going to make this year.

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I talked about investing in areas we outlined this last quarter, such as our agentic and AI solutions, our cloud-native offerings, hiring more salespeople, digital sovereignty investments, et cetera. And so we intend to continue to make those investments over the course of the year, and/or balancing that with continuing to drive efficiencies in the business. So that's all factored into the raise for the full year op margin.

Ruplu Bhattacharya
Analyst, BofA Securities, Inc.

Q

Thank you for the details.

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.

A

Thank you, Ruplu.

Operator: Thank you. One moment for the next question. Our next question will be coming from the line of Joseph Cardoso of JPMorgan. Please go ahead.

Q

Hi. Thank you for taking my question. This is [ph] MP (00:40:23) on for Joseph Cardoso, and thank you, Rajiv, for the partnership here.

So for my first question, can you please double-click on the drivers of better-than-guided revenue this quarter? And primarily, is it driven by the new external storage-based offerings, or there are more factors at play here?

And then, as you suggested, that new logo additions would probably improve going forward. So does that involve, like a confluence of positive revenue tailwinds, which would help revenue growth accelerate or something? So yeah, and I have follow-up.

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

A

Yeah, Rukmini, do you want to try and take the first part? I can chime in after that.

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.

A

Sure. So, I think the first question was what drove the revenue outperformance in Q1. And I would say, look, we've talked about how the overall demand environment remains healthy and our revenue in Q1 also benefited from the strong level of RPO that we entered the year with, and slightly lower-than-expected percent of orders with future start dates. But overall, really happy to beat our Q1 revenue number. And then, I believe the second question was around new logo expectation and how that translates to revenue? Rajiv, do you want to start, or I'm happy to take that.

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

A

No, no, go – take that, and I'll chime in afterwards. Go ahead.

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Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.

A

Yeah. So, what we said was that in Q2, we expect the count of new logos to be up quarter-over-quarter going into Q2. And we've given you the revenue guidance for Q2 as well, right. So I wouldn't extrapolate anything beyond that. And of course, for us continuing to add new logos and welcoming new customers onto our platform continues to be a priority. And there are puts and takes on that.

As I think Rajiv discussed earlier, one is – I think customers and prospects are seeing higher hardware prices in the market, which they have to think about, and which are partially being offset by our support for external storage and public cloud.

Rajiv, anything you would add to that?

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

A

I think you covered all of it, Rukmini.

Q

Yes. Thank you. And for my second question, I think you mentioned earlier in the call that the step-up in average contract duration is kind of driving the NRR to decline. So can you peel that dynamic a bit and help us understand more about that, and then, how to potentially think about any recovery in NRR going forward? Thank you.

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.

A

Yeah. So I think what I said on NRR was that NRR was impacted directionally by the overall bookings performance. We've talked about how our ASPs for new logos have been steadily increasing over the past few years, which creates a bit of a headwind from an expansion growth rate perspective for those accounts when they start with us with a higher ASP on their first purchase. And that's reflected in NRR.

And I would say, look, expansion continues to be a focus for us and we really drive hard to make sure that – I mean, I know your prior question was on new logo. So, of course, important to acquire and welcome new customers onto the platform, and also continue to expand with them over time, right. So both of those are factors. And beyond that, we're not really guiding to NRR on a forward-looking basis.

Q

Thank you.

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.

A

Thank you.

Operator: Thank you. One moment for the next question. Our next question will be coming from the line of Param Singh of Oppenheimer & Company. Please go ahead.

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Param Singh
Analyst, Oppenheimer & Co., Inc.

Q

Yeah, hi. Thank you. First of all, Rajiv, it's great working with you over the last few years. You're definitely going to be missed. I do have a couple of questions here. Firstly, on the quarter, I wanted to understand more of your upside seem to be coming from support services versus product group this quarter. Maybe you can help me unpack that for us on – and any other dynamic, and it does seem that product growth decelerated quarter – on a year-over-year basis from last quarter. And then I had a follow-up. Thank you.

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.

A

Param, I think I heard you say that more growth – the growth discrepancy between product and support is that the question?

Param Singh
Analyst, Oppenheimer & Co., Inc.

Q

Yeah. I mean, if I just look at product revenue growth last quarter versus this quarter and your outperformance also seemed to be coming more from support and services in 1Q versus products. I wanted to understand the dynamic behind that, Rukmini.

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.

A

Sure. Yeah. I think first, I'll start by saying that we don't run the business this way, right? The way we look at the business is ultimately on subscription revenue and professional services, which we also give you a breakout for. And the reason for that is product is mainly upfront. So when we – depending on what we're recognizing in any given quarter, the product can move around, as you know, because it's – the PCV of that is taken upfront, and that can vary with duration. So it does move around from quarter to quarter and year-over-year.

Support, on the other hand, is ratable over time. So that's how I sort of think about those two lines, Param, that I wouldn't read too much into those lines, because they can move around depending on what's happening in each line.

We think more of it and we run the business really more on overall revenue and subscription and services, because that's how we go to market, and all of that. And of course, we give you this breakdown, because we want to make sure that we're doing all the right disclosures for you all, but a little bit different from how we think about and run the business.

Param Singh
Analyst, Oppenheimer & Co., Inc.

Q

Understood. Thank you. And as my follow-up, if I could, look, I appreciate it's just the first quarter and you're not updating full year revenue numbers, but I want to kind of think about what's changed between last quarter and this quarter. Firstly, you did have a bit of an outperformance, your 2Q guidance is good, but what has changed, if you will, from maybe signing new customers or expanding with customers in terms of NCIC versus NCI? And also, what else are you seeing in the market? I know you alluded to better or at least stable server, I guess, supply chain times. So let me, help me understand, even if it's 1Q why not change the 1Q – why not change the full year guidance there? Thank you.

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Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.
A

I'll start and then Rajiv, you should add in as you see fit.

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

Sure.

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.
A

So Param, I know, I think we typically do keep the full year guide after Q1 beat. And I think this was alluded to earlier the call as well. And simply because there's just a lot to execute to. We've talked about a lot of the factors here. You brought up the server supply chain dynamics, which we've said is mostly stable on the lead time. pricing remains elevated and continues to tick up, but at a slower pace but remains high. And we would view that as a headwind. Rajiv talked about all the factors that are mitigating that, like our external storage support, our cloud offerings, and then of course, all of the nice growth we're seeing in our cloud-native and AI offerings.

So there's I think puts and takes and we continue to see that overall demand is healthy as we've talked about as well. And so feeling good about the full year software bookings as I mentioned earlier in one of my responses to an earlier question. So you sort of put all that in and we believe that it's still early in the fiscal year and so chose to keep the full year guide and are happy with the Q2 guide that we gave you and the beat on Q1.

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

Understood. Thank you so much. Appreciate it.

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.
A

Thank you, Param.

Operator: Thank you. One moment, please. Our next question will be coming from the line of Ben Bollin of Cleveland Research. Please go ahead.

Ben Bollin
Analyst, Cleveland Research Co. LLC
Q

Good evening, everyone. Thank you for taking the question. Can we discuss a little bit between the relationship of bookings and rev rec? I think there's been some signs of improving server shipments or lead times which should benefit activations. I guess I'm interested in your thoughts on how much of the quarterly revenue outperformance was new demand versus conversion of previous bookings? And then I have a follow-up.

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.
A

Sure. I can start. Hi, Ben. So on the question for – I think there were a few questions in there, right. So one was around bookings to revenue and as it ties to, for example, the server availability and lead times. So, I'll start with that. So we said earlier that we are seeing server lead times more or less be stable, and, but they're still dynamic

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depending on the configuration, is what Rajiv said earlier. So we did benefit from slightly lower than expected percent of orders with future start dates in Q1. I said that earlier. And we think it's too early to sort of declare that they are sort of back to normal or that future start dates therefore should be at a different level, Ben. So benefited from that somewhat in Q1, but too early to say how sustainable that is.

And the other point is that in Q1 for revenue, we did benefit from the strong RPO on which we entered the year. So I think those are sort of the two questions that you asked, Ben, did I cover it or do you have a follow-up?

Ben Bollin
Analyst, Cleveland Research Co. LLC

Q

Yeah, that works. That addresses the question. The follow-up, how do we think about the relationship between ACV bookings, revenue, and ARR through the balance of the year, given the backlog, the RPO performance, the lead times, when does that converge? Just any high-level thoughts on how we should think of the different trajectories? Thank you.

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.

A

Yeah, thanks, Ben. So, look, I think we, first all we guide to revenue and we try to give you as much color as we can behind what's driving that. And I would say, we've talked about our expectations for bookings for the year, for the software bookings for the full year remain unchanged from 90 days ago and feeling good about the overall demand environment. And then ARR, as we've talked about, is the duration agnostic view of the business and the installed base and how it's doing. And so the reason we also give you all ARR is because of that, and that is duration agnostic and it gives you a sense of the installed base because revenue for us, as we've discussed previously, is that revenue, the license portion, the product portion gets recognized upfront and does vary depending on duration, higher the duration, higher the upfront portion because it gets, TCV gets recognized and then support is ratable, right?

So to me, revenue and ARR both are useful in their own ways as you think about the health of the business. And then ACV bookings, we don't really disclose or talk about. And then the RPO bookings that I think there was another question earlier about that is TCV bookings. Just to be clear, right, all the RPO and RPO-related metrics that you all see externally are on TCV.

Operator: Thank you. One moment for the next question. The next question is coming from the line of Jason Ader of William Blair. Please go ahead.

Jason Ader
Analyst, William Blair & Co. LLC

Q

Yeah. Thank you. Good afternoon. Rajiv, we're going to miss you. So good luck. You talked about Nutanix's chapter 3 as being all about establishing the company as a platform for enterprise AI. I guess my concern is that we're hearing that the AI factories, enterprises are building tend to be more three tier in nature because they want independent scaling of compute and storage. So my question is, does HCI become less relevant in this new chapter? And why am I – why is that not correct if you don't agree with that?

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

A

Yeah. And Jason, this is actually part of the reason why we have been transforming the company to be no longer wedded to HCI. Right. We are now a platform company and we are fine. We're no longer wedded to HCI versus

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external storage, right. I will say the new world of AI has a couple of that characteristics. One is, of course, scale, compute and storage, separately. The second is compute. It's all cloud-native, right? Even all these AI factories that are being built are largely cloud-native with Kubernetes. So which is why we made the pivot over time to do both external storage on one side and cloud-native and containers on the other side. Right? Because we are preparing for a world where, we were a HCI company and then, also then a standalone VM, virtual machines operating with external storage for today's mission-critical workloads, to tomorrow's mission-critical workloads where they will be hybrid in nature, they are going to be more cloud-native, much more so. And with compute and storage, separately scaling. And we've also been, by the way, working even one is to support external storage. But even within our own HCI, the definition of HCI has changed, by the way, today, even within HCI now we can actually have compute only nodes and storage only nodes and scale storage independent of compute. So the definitions are changing. And we fully agree, right, that you are able to scale all of these across different dimensions. And so we are, absolutely Nutanix is well prepared and ready to execute on that world.

Jason Ader
Analyst, William Blair & Co. LLC

Q

Okay, thank you. And Rukmini a follow-up for you. Can you provide any metrics on, maybe I missed it on the call, but any metrics on external storage deals and some of the momentum that you have there? And any just quantification of like how significant the revenue, or ACV as for the NCIC business?

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.

A

Yes. So we saw – go ahead, Rajiv.

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

A

No, no, go ahead, Rukmini. You can go ahead.

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.

A

Yeah, we saw good performance from our external storage solutions in Q1. And as Rajiv noted in his prepared remarks, right, our largest win in the quarter was with our solution supporting Dell PowerFlex and we also signed other significant deals with all of our other supported storage platforms. And then we're also happy to add the general availability for NetApp late in the quarter. And so overall, we're happy with the traction we're seeing, Jason, not sort of putting out any specific metrics I think at this time, but overall, really happy with the traction we're seeing on external storage.

Jason Ader
Analyst, William Blair & Co. LLC

Q

Okay. And then just a final thing for you, Rajiv, is just as we go into chapter 3 here and I know you're passing the mantle to someone else, but Nutanix is so associated with HCI, I just – I wonder from a branding perspective if that could be a hurdle as you move forward? How do you get over that?

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

A

Yeah. And I think look there is a past and there is a future, right, Jason. And if you even were to look at our user conferences over the past few years, it's been less and less about HCI and more and more about how we are a

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platform company for cloud-native and AI. And we will continue to push that as our brand. Our marketing initiatives are all aligned around that. Even the conferences that we are going to are very different. And I do believe the awareness of what we can bring to the table now is certainly growing. We're not fully there. I mean, yes, we are not viewed at this point as a AI platform company yet, but that's what we have to go build and establish.

And a part of that, of course, is going to be branding. The other part of it is going to be continue to deliver on a broader product portfolio and getting meaningful adoption across both enterprises as well as neo clouds. And in terms of the traction and being able to show you proof points like for example, what we saw this quarter, right, we had a pretty large AI win where the primary use case was for this customer to run AI workloads and deliver that to all their constituents.

So want to see more of that. And that's what going to [ph] meet the need. (00:56:58) Now, what I will say is ahead of the broader branding, every time we, today go into a conversation with a CIO and talk about, we're called into talk about a VMware conversion, right? But then every time we go there, we have a conversation around how we can help them get to cloud-native, how we can help them get to AI. And especially at the CIO level, that actually opens the door much wider and makes us much more strategic in terms of the way they look at us, beyond just, hey, we're a VMware placement.

Jason Ader
Analyst, William Blair & Co. LLC

Q

Okay. Appreciate the answers. Thanks.

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.

A

Thanks, Jason.

Operator: Thank you. One moment for the next question. Our next question will be coming from the line of Matthew Calitri of Needham and Company. Please go ahead, Matthew.

Matthew Calitri
Research Associate, Needham & Co. LLC

Q

Great. This is Matt Calitri over at Needham. Thank you for taking our questions. And Rajiv I know not quite done yet, but we'd like to echo our congrats and best wishes. Wanted to dig into the collaboration you guys announced this quarter with Netris and just ask about like exactly does this partnership bring that was missing from their offering, especially like in the context of like this broader AI strategy that you guys are bringing? And how is like overall traction with that neo cloud market?

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

A

Yeah, I'll talk broadly about neo cloud and don't have much more to say about Netris, which is, it's basically delivering a multitenancy platform for AI operators, right. But AI cloud operators in particular, neo clouds are a very important route to market for us. We have our first partnership that we talked about publicly with ChronoScale, but we have others that we are working with as well across multiple countries. And there's also a need for sovereignty when it comes to neo clouds.

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But the opportunity for neo clouds and working for us to work with neo clouds, is this right? A lot of the neo clouds today are focused on, let's call it wholesaling. Okay. They're focused on a handful of very large customers. Many of them tend to be frontier model companies, or let's say AI native companies. But there's a large opportunity in enterprise customers. But their consumption is going to be smaller, right? They're not going to consume at the level of one of these frontier model companies by any means. Right.

So there is a need to deliver multi-tenant AI inferencing as a service and using our software stack combined with GPU and data centers capacity availability from neo clouds enables our enterprise customers to be able to consume AI easily. So that's the nature of the relationship that we have with ChronoScale, for example, and with the other neo clouds that we are working with.

Matthew Calitri
Research Associate, Needham & Co. LLC

Q

Very helpful. And I guess sort of on that point with that market, you were discussing like, what are you seeing overall on enterprise behavior as far as like if they're building out AI capabilities on premise versus with neo clouds or something like that? Like I know you mentioned like you're starting to see more open-weight model adoption.

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

A

Yes.

Matthew Calitri
Research Associate, Needham & Co. LLC

Q

Which obviously like reduces cost and then you also mentioned that there are less, you were, like positively surprised with the amount of orders with future start dates, which would suggest that maybe they're starting to see some, lessening up on the supply side. But just curious overall how you're seeing enterprises attack that opportunity?

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

A

Yeah, I'll talk about that. Rukmini, you can talk about FSD later. But on the enterprise side of this, what we find is sort of the first and immediate thing that enterprises care about right now is putting some governance and control around their usage of AI. So, a lot of interest in the gateway capability that we bring to market, although that is a fairly covered space with many different forms of gateways available but the idea is to be able to route models – route agents or applications to the right models and understand who is consuming what and regulate the use of that.

So that's the first use case. But then the second is exactly what you said, which is really now starting to think about, okay, I've got this bill that's growing bigger and bigger in terms of my AI consumption. How do I optimize that? And that's certainly, the larger that bill start becoming, the more they start exploring alternatives into how to reduce that. And that's where open-weight models come in. That's where instead of starting to pay on a per token basis, they realize that they can either have their own infrastructure, which may be a CapEx model or move to an OpEx model, where they can rent GPUs as a service from neo clouds and put our stack on it and run the models that they like.

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And so that I would say is emerging. What we see is interest on that front from the larger consumers. These are people who sometimes are spending over $100 million a year on their AI spend with frontier models. And they're now trying to see how they can get a better handle on that and how they can reduce it. A good internal example is what we did ourselves inside our company at Nutanix for our software development use case, which is by far our biggest use case for generative AI, is everything in the software development process from front end designing, and to coding to unit testing to QA to even documentation, the entire cycle.

And there's widespread use of AI tools, all using initially frontier models at very attractive price points initially because they were API-based prices, and that as everything switched over to tokens, our cost started to explode. And so we invested earlier this year about $20 million worth of GPU spend to bring our own in-house GPU clusters and run open-weight models on those clusters to serve our internal needs. And as this progresses, we expect to be able to meet about 80% of our internal requirements using these clusters and open-weight models and the remaining 20% would be frontier model spend. So I think we'll see more people starting to do that kind of stuff as their usage grows.

Matthew Calitri
Research Associate, Needham & Co. LLC
Q

[indiscernible] (01:03:28)

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

Rukmini, do you want to take FSD question? Yeah, there was also a question on FSD. I don't think this particular dynamic did not have anything to do with the FSDs in the quarter.

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.
A

That's correct. Yeah, I think that's correct, Rajiv.

Matthew Calitri
Research Associate, Needham & Co. LLC
Q

Great. Appreciate it.

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.
A

Thank you, Matt.

Operator: Thank you so much. This does conclude today's Q&A session as well as the call has ended. And thank you for joining the program. You may now disconnect.

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