

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended April 30, 2020

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-37883

**NUTANIX, INC.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

27-0989767  
(I.R.S. Employer  
Identification No.)

1740 Technology Drive, Suite 150  
San Jose, CA 95110  
(Address of principal executive offices, including zip code)

(408) 216-8360  
(Registrant's telephone number, including area code)

**Securities registered pursuant to Section 12(b) of the Act:**

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Class A Common Stock, \$0.000025 par value per share	NTNX	Nasdaq Global Select Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	<input checked="" type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-accelerated Filer	<input type="checkbox"/>	Smaller Reporting Company	<input type="checkbox"/>
		Emerging Growth Company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of May 31, 2020, the registrant had 184,459,787 shares of Class A common stock, \$0.000025 par value per share, and 15,103,994 shares of Class B common stock, \$0.000025 par value per share, outstanding.

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## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended ("Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended ("Exchange Act"), which statements involve substantial risks and uncertainties. Other than statements of historical fact, all statements contained in this Quarterly Report on Form 10-Q, including statements regarding our future results of operations and financial position, our business strategy and plans and our objectives for future operations, are forward-looking statements. The words "believe," "may," "will," "potentially," "estimate," "continue," "anticipate," "plan," "intend," "could," "would," "expect," or words or expressions of similar substance or the negative thereof, that convey uncertainty of future events or outcomes are intended to identify forward-looking statements. Forward-looking statements included in this Quarterly Report on Form 10-Q include, but are not limited to, statements regarding:

- our future billings, revenue, cost of revenue and operating expenses, as well as changes in the cost of product revenue, component costs, product gross margins and support, entitlements and other services revenue and changes in research and development, sales and marketing and general and administrative expenses;
- our business plans, initiatives and objectives, our ability to execute such plans, initiatives and objectives in a timely manner, and the impact of such plans, initiatives and objectives on our business, operations, and financial results;
- our plans for, and the timing of, changes to our business model, including our ongoing transition to a subscription-based business model, our ability to manage, complete or realize the benefits of such transitions successfully and in a timely manner, and the short-term and long-term impacts of such transitions on our business, operations and financial results;
- the timing and potential impact of the COVID-19 pandemic and the actions taken in response, including our own, on our business, operations and financial results;
- the benefits and capabilities of our platform, products, services and technology;
- our growth strategy, our ability to effectively achieve and manage our growth, and the amount, timing and impact of any investments to grow our business, including plans to increase demand generation and marketing spending, and plans to invest in our global engineering, research and development and sales and marketing teams;
- anticipated trends, growth rates and challenges in our business and in the markets in which we operate, including the segmentation and productivity of our sales team;
- our ability to develop new solutions, product features and technology and bring them to market in a timely manner, as well as the impact of including additional solutions in our product portfolio;
- market acceptance of new technology and recently introduced solutions;
- the interoperability and availability of our solutions with and on third-party hardware platforms;
- our ability to increase sales of our solutions, particularly to large enterprise customers;
- our ability to attract new end customers and retain and grow sales from our existing end customers;
- our ability to maintain and strengthen our relationships with our channel partners and OEMs, and the impact of any changes to such relationships on our business, operations and financial results;
- the effects of seasonal trends on our results of operations;
- our expectations concerning relationships with third parties, including our ability to compress and stabilize sales cycles;
- our ability to maintain, protect and enhance our intellectual property;
- our exposure to and ability to guard against cyber attacks and other actual or perceived security breaches;
- our ability to continue to expand internationally;
- the effects of increased competition in our market and our ability to compete effectively;
- anticipated capital expenditures;

- future acquisitions or investments in complementary companies, products, services or technologies and the ability to successfully integrate completed acquisitions;
- our ability to stay in compliance with laws and regulations that currently apply or become applicable to our business both in the United States and internationally, including recent changes in global tax laws;
- macroeconomic and industry trends, projected growth or trend analysis;
- the impact of events that may be outside of our control, such as political and social unrest, terrorist attacks, hostilities, malicious human acts, climate change, natural disasters (including extreme weather), pandemics or other major public health concerns, and other similar events;
- our ability to attract and retain qualified employees and key personnel; and
- the sufficiency of cash balances to meet cash needs for at least the next 12 months.

We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives and financial needs in light of the information currently available to us. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in Part II, Item 1A, "Risk Factors" in this Quarterly Report on Form 10-Q. Moreover, we operate in a very competitive and rapidly changing environment and new risks emerge from time to time. It is not possible for us to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained or implied in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the forward-looking events and trends discussed in this Quarterly Report on Form 10-Q may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that the future results, performance, or events and circumstances reflected in the forward-looking statements will be achieved or will occur. The forward-looking statements in this Quarterly Report on Form 10-Q relate only to events as of the date on which the statements are made. We undertake no obligation, and expressly disclaim any obligation, to update, alter or otherwise revise or publicly release the results of any revision to these forward-looking statements to reflect new information or the occurrence of unanticipated or subsequent events, except as required by law. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements.

## PART I. FINANCIAL INFORMATION

### Item 1. Financial Statements (Unaudited)

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**NUTANIX, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(Unaudited)**

	As of	
	July 31, 2019	April 30, 2020
(in thousands, except per share data)		
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 396,678	\$ 262,331
Short-term investments	512,156	469,806
Accounts receivable, net	245,475	236,690
Deferred commissions—current	46,238	63,177
Prepaid expenses and other current assets	74,665	63,189
Total current assets	1,275,212	1,095,193
Property and equipment, net	136,962	149,688
Operating lease right-of-use assets <sup>(1)</sup>	—	132,519
Deferred commissions—non-current	107,474	137,598
Intangible assets, net	66,773	53,738
Goodwill	185,180	185,260
Other assets—non-current	14,441	19,345
Total assets	\$ 1,786,042	\$ 1,773,341
<b>Liabilities and Stockholders' Equity (Deficit)</b>		
Current liabilities:		
Accounts payable	\$ 74,047	\$ 68,232
Accrued compensation and benefits	99,804	85,641
Accrued expenses and other current liabilities <sup>(1)</sup>	28,797	21,829
Deferred revenue—current	396,667	503,311
Operating lease liabilities—current <sup>(1)</sup>	—	34,371
Total current liabilities	599,315	713,384
Deferred revenue—non-current	513,377	618,749
Operating lease liabilities—non-current <sup>(1)</sup>	—	123,470
Convertible senior notes, net	458,910	482,199
Other liabilities—non-current <sup>(1)</sup>	27,547	19,578
Total liabilities	1,599,149	1,957,380
Commitments and contingencies (Note 7)		
Stockholders' equity (deficit):		
Preferred stock, par value of \$0.000025 per share—200,000 shares authorized as of July 31, 2019 and April 30, 2020; no shares issued and outstanding as of July 31, 2019 and April 30, 2020	—	—
Common stock, par value of \$0.000025 per share—1,200,000 (1,000,000 Class A, 200,000 Class B) shares authorized as of July 31, 2019 and April 30, 2020; 188,595 (168,155 Class A and 20,440 Class B) and 199,526 (184,447 Class A and 15,079 Class B) shares issued and outstanding as of July 31, 2019 and April 30, 2020	5	5
Additional paid-in capital	1,835,528	2,151,175
Accumulated other comprehensive income	669	1,625
Accumulated deficit	(1,649,309)	(2,336,844)
Total stockholders' equity (deficit)	186,893	(184,039)
Total liabilities and stockholders' equity (deficit)	\$ 1,786,042	\$ 1,773,341

(1) During the first quarter of fiscal 2020, we adopted Accounting Standards Update ("ASU") No. 2016-02 using the modified retrospective method and elected the transition option that allowed us not to restate the comparative periods in our condensed consolidated financial statements in the year of adoption. For additional details, refer to Note 1.

See the accompanying notes to condensed consolidated financial statements.

**NUTANIX, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(Unaudited)**

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2019	2020	2019	2020
	(in thousands, except per share data)			
Revenue:				
Product	\$ 184,794	\$ 180,756	\$ 646,072	\$ 586,747
Support, entitlements and other services	102,830	137,517	290,195	393,061
Total revenue	287,624	318,273	936,267	979,808
Cost of revenue:				
Product	29,528	15,990	114,755	57,899
Support, entitlements and other services	45,549	56,304	120,410	161,819
Total cost of revenue	75,077	72,294	235,165	219,718
Gross profit	212,547	245,979	701,102	760,090
Operating expenses:				
Sales and marketing	245,703	299,162	655,907	895,936
Research and development	137,982	141,346	371,550	418,640
General and administrative	33,040	35,644	89,167	103,083
Total operating expenses	416,725	476,152	1,116,624	1,417,659
Loss from operations	(204,178)	(230,173)	(415,522)	(657,569)
Other expense, net	(3,212)	(5,640)	(10,314)	(16,543)
Loss before provision for income taxes	(207,390)	(235,813)	(425,836)	(674,112)
Provision for income taxes	2,423	4,858	1,005	13,423
Net loss	\$ (209,813)	\$ (240,671)	\$ (426,841)	\$ (687,535)
Net loss per share attributable to Class A and Class B common stockholders—basic and diluted	\$ (1.15)	\$ (1.23)	\$ (2.38)	\$ (3.56)
Weighted average shares used in computing net loss per share attributable to Class A and Class B common stockholders—basic and diluted	182,963	196,366	179,235	192,896

See the accompanying notes to condensed consolidated financial statements.



**NUTANIX, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
**(Unaudited)**

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2019	2020	2019	2020
	(in thousands)			
Net loss	\$ (209,813)	\$ (240,671)	\$ (426,841)	\$ (687,535)
Other comprehensive loss, net of tax:				
Change in unrealized gain on available-for-sale securities, net of tax	478	487	1,331	956
Comprehensive loss	<u>\$ (209,335)</u>	<u>\$ (240,184)</u>	<u>\$ (425,510)</u>	<u>\$ (686,579)</u>

See the accompanying notes to condensed consolidated financial statements.

**NUTANIX, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)**  
**(Unaudited)**

	Nine Months Ended April 30, 2019					
	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
	(in thousands)					
Balance - July 31, 2018	172,858	\$ 4	\$ 1,355,907	\$ (1,002)	\$ (1,028,130)	\$ 326,779
Issuance of common stock through employee equity incentive plans	2,629	—	3,680	—	—	3,680
Issuance of common stock from ESPP purchase	1,128	—	26,318	—	—	26,318
Issuance of common stock in connection with an acquisition	2,451	—	102,978	—	—	102,978
Stock-based compensation	—	—	65,925	—	—	65,925
Vesting of early exercised stock options	—	—	70	—	—	70
Other comprehensive loss	—	—	—	(166)	—	(166)
Net loss	—	—	—	—	(94,265)	(94,265)
Balance - October 31, 2018	179,066	4	1,554,878	(1,168)	(1,122,395)	431,319
Issuance of common stock through employee equity incentive plans	2,968	—	3,341	—	—	3,341
Stock-based compensation	—	—	72,565	—	—	72,565
Vesting of early exercised stock options	—	—	50	—	—	50
Other comprehensive income	—	—	—	1,019	—	1,019
Net loss	—	—	—	—	(122,763)	(122,763)
Balance - January 31, 2019	182,034	4	1,630,834	(149)	(1,245,158)	385,531
Issuance of common stock through employee equity incentive plans	2,980	—	3,154	—	—	3,154
Issuance of common stock from ESPP purchase	880	1	30,899	—	—	30,900
Issuance of common stock in connection with an acquisition	6	—	327	—	—	327
Stock-based compensation	—	—	94,832	—	—	94,832
Vesting of early exercised stock options	—	—	37	—	—	37
Other comprehensive income	—	—	—	478	—	478
Net loss	—	—	—	—	(209,813)	(209,813)
Balance - April 30, 2019	185,900	\$ 5	\$ 1,760,083	\$ 329	\$ (1,454,971)	\$ 305,446

**Nine Months Ended April 30, 2020**

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount				
(in thousands)						
Balance - July 31, 2019	188,595	\$ 5	\$ 1,835,528	\$ 669	\$ (1,649,309)	\$ 186,893
Issuance of common stock through employee equity incentive plans	2,620	—	2,608	—	—	2,608
Issuance of common stock from ESPP purchase	959	—	21,337	—	—	21,337
Stock-based compensation	—	—	81,426	—	—	81,426
Other comprehensive income	—	—	—	565	—	565
Net loss	—	—	—	—	(229,300)	(229,300)
Balance - October 31, 2019	192,174	5	1,940,899	1,234	(1,878,609)	63,529
Issuance of common stock through employee equity incentive plans	2,480	—	2,414	—	—	2,414
Stock-based compensation	—	—	85,615	—	—	85,615
Other comprehensive loss	—	—	—	(96)	—	(96)
Net loss	—	—	—	—	(217,564)	(217,564)
Balance - January 31, 2020	194,654	5	2,028,928	1,138	(2,096,173)	(66,102)
Issuance of common stock through employee equity incentive plans	2,512	—	858	—	—	858
Issuance of common stock from ESPP purchase	2,360	—	29,293	—	—	29,293
Stock-based compensation	—	—	92,096	—	—	92,096
Other comprehensive income	—	—	—	487	—	487
Net loss	—	—	—	—	(240,671)	(240,671)
Balance - April 30, 2020	199,526	\$ 5	\$ 2,151,175	\$ 1,625	\$ (2,336,844)	\$ (184,039)

See the accompanying notes to condensed consolidated financial statements.

**NUTANIX, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**

	Nine Months Ended April 30,	
	2019	2020
(in thousands)		
<b>Cash flows from operating activities:</b>		
Net loss	\$ (426,841)	\$ (687,535)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	55,740	69,715
Stock-based compensation	233,322	259,137
Change in fair value of contingent consideration	(832)	—
Amortization of debt discount and issuance costs	21,802	23,290
Operating lease cost, net of accretion	—	22,340
Impairment of lease-related assets	—	3,002
Other	(1,837)	(33)
Changes in operating assets and liabilities:		
Accounts receivable, net	16,734	9,027
Deferred commissions	(24,819)	(47,063)
Prepaid expenses and other assets	(5,095)	12,371
Accounts payable	18,461	(5,675)
Accrued compensation and benefits	(10,366)	(11,456)
Accrued expenses and other liabilities	(31,180)	(1,333)
Operating leases, net	—	(21,076)
Deferred revenue	206,735	211,774
Net cash provided by (used in) operating activities	51,824	(163,515)
<b>Cash flows from investing activities:</b>		
Maturities of investments	460,563	498,611
Purchases of investments	(324,581)	(524,568)
Sales of investments	—	70,878
Purchases of property and equipment	(94,815)	(72,073)
Payments for business combinations, net of cash and restricted cash acquired	(19,017)	—
Net cash provided by (used in) investing activities	22,150	(27,152)
<b>Cash flows from financing activities:</b>		
Proceeds from sales of shares through employee equity incentive plans, net of repurchases	67,277	56,515
Payment of contingent consideration associated with a business combination	(1,040)	—
Payment of debt in conjunction with business combinations	(991)	—
Payment of issuance costs related to convertible senior notes	(75)	—
Net cash provided by financing activities	65,171	56,515
Net increase (decrease) in cash, cash equivalents and restricted cash	\$ 139,145	\$ (134,152)
Cash, cash equivalents and restricted cash—beginning of period	307,098	399,520
Cash, cash equivalents and restricted cash—end of period	\$ 446,243	\$ 265,368
Restricted cash <sup>(1)</sup>	1,124	3,037
Cash and cash equivalents—end of period	\$ 445,119	\$ 262,331
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid for income taxes	\$ 26,731	\$ 14,658
<b>Supplemental disclosures of non-cash investing and financing information:</b>		
Issuance of common stock in connection with business combinations	\$ 103,305	\$ —
Purchases of property and equipment included in accounts payable and accrued liabilities	\$ 11,671	\$ 7,934
Vesting of early exercised stock options	\$ 157	\$ —

(1) Included within other assets—non-current in the condensed consolidated balance sheets.

See the accompanying notes to condensed consolidated financial statements.

**NUTANIX, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**NOTE 1. OVERVIEW AND BASIS OF PRESENTATION****Organization and Description of Business**

Nutanix, Inc. was incorporated in the state of Delaware in September 2009. Nutanix, Inc. is headquartered in San Jose, California, and together with its wholly-owned subsidiaries (collectively, "we," "us," "our" or "Nutanix") has operations throughout North America, Europe, Asia Pacific, the Middle East, Latin America and Africa.

We provide a leading enterprise cloud platform that consists of software solutions that power many of the world's business applications by digitizing the traditional silos of enterprise computing. We seek to provide an enterprise cloud platform that empowers our customers to unify various clouds - private, public, distributed - into one seamless cloud, allowing enterprises to choose the right cloud for each application. Our enterprise cloud platform natively converges compute, virtualization, storage, networking, desktop and security services into one integrated, simple-to-consume solution, which allows enterprises to simplify the complexities of a multi-cloud environment with automation, cost governance and compliance. Our solutions are primarily sold through channel partners, including distributors, resellers and original equipment manufacturers ("OEMs") (collectively, "Partners"), and delivered directly to our end customers.

**Principles of Consolidation and Significant Accounting Policies**

The accompanying condensed consolidated financial statements, which include the accounts of Nutanix, Inc. and its wholly-owned subsidiaries, have been prepared in conformity with accounting principles generally accepted in the United States ("U.S. GAAP") and are consistent in all material respects with those included in our Annual Report on Form 10-K for the fiscal year ended July 31, 2019, filed with the Securities and Exchange Commission ("SEC") on September 24, 2019. All intercompany accounts and transactions have been eliminated in consolidation. The condensed consolidated financial statements are unaudited, but include all adjustments of a normal recurring nature necessary for a fair presentation of our quarterly results. The condensed consolidated balance sheet as of July 31, 2019 is derived from audited financial statements, however, it does not include all of the information and footnotes required by U.S. GAAP for complete financial statements. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes in our Annual Report on Form 10-K for the fiscal year ended July 31, 2019, which was filed with the SEC on September 24, 2019.

**Use of Estimates**

The preparation of interim condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Such management estimates and assumptions include, but are not limited to, the best estimate of selling prices for products and related support; useful lives and recoverability of intangible assets and property and equipment; allowance for doubtful accounts; determination of fair value of stock-based awards; accounting for income taxes, including the valuation allowance on deferred tax assets and uncertain tax positions; warranty liability; purchase commitment liabilities to our contract manufacturers and OEMs; sales commissions expense and the period of benefit for deferred commissions; whether an arrangement is or contains a lease; the incremental borrowing rate to measure the present value of operating right-of-use assets and lease liabilities; and contingencies and litigation. Management evaluates these estimates and assumptions on an ongoing basis using historical experience and other factors and makes adjustments when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could materially differ from those estimates and assumptions.

In response to the ongoing and rapidly evolving global outbreak of a respiratory illness caused by a novel strain of the coronavirus that was identified in late 2019 and subsequently named in February 2020 by the World Health Organization as COVID-19 (collectively with any future mutations or related strains thereof, "COVID-19"), we considered the impact of the estimated economic implications on our critical and significant accounting estimates, including assessment of collectibility of customer contracts, valuation of accounts receivable, provision for purchase commitments to our contract manufacturers and OEMs and impairment of long-lived assets, right-of-use assets, and deferred commissions.

**NUTANIX, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

**Concentration of Risk**

*Concentration of revenue and accounts receivable*—We sell our products primarily through our Partners and occasionally directly to end customers. For the three and nine months ended April 30, 2019 and 2020, no end customer accounted for more than 10% of total revenue or accounts receivable.

For each significant Partner, revenue as a percentage of total revenue and accounts receivable as a percentage of total accounts receivable, net are as follows:

Partners	Revenue				Accounts Receivable as of	
	Three Months Ended April 30,		Nine Months Ended April 30,		July 31, 2019	April 30, 2020
	2019	2020	2019	2020		
Partner A	26 %	29 %	23 %	29 %	27 %	26 %
Partner B	13 %	14 %	12 %	14 %	18 %	13 %
Partner C	(1)	(1)	(1)	(1)	(1)	10 %
Partner D	(1)	(1)	10 %	(1)	(1)	(1)
Partner E	10 %	(1)	11 %	(1)	(1)	(1)

(1) Less than 10%

**Summary of Significant Accounting Policies**

Except for the accounting policy related to operating lease right-of-use ("ROU") assets and lease liabilities discussed in the "Recently Adopted Accounting Pronouncements" section below, there have been no changes to our significant accounting policies described in our Annual Report on Form 10-K for the fiscal year ended July 31, 2019, filed with the SEC on September 24, 2019, that have had a material impact on our condensed consolidated financial statements.

**Recently Adopted Accounting Pronouncements**

In February 2016, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2016-02, Leases ("ASC 842"), which requires the recognition of ROU assets and lease liabilities on the condensed consolidated balance sheets and additional disclosures around key information about leasing arrangements. We adopted the standard effective August 1, 2019, using a modified retrospective transition method. As a result, our consolidated balance sheet as of July 31, 2019 was not restated and continues to be reported under the previous lease standard ("ASC 840"), and is therefore not comparative. We elected the package of practical expedients permitted under the transition guidance, which allowed us to not reassess whether existing arrangements contain leases, not reassess lease classification and not reassess initial direct costs. The standard had a material impact on our condensed consolidated balance sheet, but did not have an impact on our condensed consolidated statement of operations or cash flows. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases. We recognized ROU assets and lease liabilities of \$120.2 million and \$142.1 million, respectively, on our condensed consolidated balance sheet on August 1, 2019, which included reclassifying lease incentives, prepaid rent and deferred rent as components of the ROU asset. Refer to Note 6 for additional details.

We determine if an arrangement is or contains a lease at inception by evaluating various factors, including whether a vendor's right to substitute an identified asset is substantive. Lease classification is determined at the lease commencement date when the leased assets are made available for our use. Operating leases are included in operating lease right-of-use assets, operating lease liabilities—current and operating lease liabilities—non-current in our condensed consolidated balance sheet as of April 30, 2020. We did not have any material financing leases in the periods presented.

**NUTANIX, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The difference between the total ROU assets and total lease liabilities recorded as of August 1, 2019 is due primarily to the derecognition of deferred rent liabilities that were included in accrued expenses and other current liabilities and other liabilities—non-current in our consolidated balance sheet as of July 31, 2019. The operating lease ROU asset also includes any lease payments made prior to commencement date and excludes lease incentives. Lease payments consist primarily of fixed payments under the arrangement, less any lease incentives, such as rent holidays. Variable lease payments not dependent on an index or a rate are expensed as incurred and are not included within the ROU asset and lease liability calculation. Variable lease payments primarily include reimbursements of costs incurred by lessors for common area maintenance, property taxes and utilities. We use an estimate of our incremental borrowing rate ("IBR") based on the information available at the lease commencement date in determining the present value of lease payments, unless the implicit rate is readily determinable. In determining the appropriate IBR, we consider information including, but not limited to, our credit rating, the lease term and the currency in which the arrangement is denominated. For leases which commenced prior to our adoption of ASC 842, we used the IBR as of August 1, 2019. Our lease terms may include renewal options, which are not included in the lease terms for calculating our lease liability, as we are not reasonably certain that we will exercise these renewal options at the time of the lease commencement. Lease costs are recognized on a straight-line basis as operating expenses within our condensed consolidated statements of operations. We present lease payments within cash flows from operations within the condensed consolidated statements of cash flows.

For our operating leases, we elected to account for lease and non-lease components as a single lease component. Additionally, we do not record leases on the condensed consolidated balance sheet that have a lease term of 12 months or less at the lease commencement date.

In February 2018, the FASB issued ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which provides companies with an option to reclassify stranded tax effects resulting from the enactment of the Tax Cuts and Jobs Act ("TCJA") from accumulated other comprehensive income to retained earnings. We adopted the new standard effective August 1, 2019 and the adoption had no impact on our condensed consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes, which simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740 and clarify and amend existing guidance. The new standard is effective for fiscal years beginning after December 15, 2020, with early adoption permitted, including interim reporting periods within those fiscal years. We early adopted the new standard effective November 1, 2019 and the adoption had no impact in our condensed consolidated financial statements.

#### **Recently Issued and Not Yet Adopted Accounting Pronouncements**

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which requires the measurement and recognition of expected credit losses for financial assets held at amortized cost, including trade receivables. ASU 2016-13 replaces the existing incurred loss impairment model with an expected loss model that requires the use of forward-looking information to calculate credit loss estimates. It also eliminates the concept of other-than-temporary impairment and requires credit losses related to available-for-sale debt securities to be recorded through an allowance for credit losses rather than as a reduction in the amortized cost basis of the securities. The new standard is effective for fiscal years beginning after December 15, 2019, with early adoption permitted, including interim reporting periods within those fiscal years. ASU 2016-13 is effective for us in the first quarter of fiscal 2021. We do not expect the adoption of this new standard to have a material impact on our consolidated financial statements and related disclosures.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement, which eliminates, adds and modifies certain disclosure requirements for fair value measurements as part of the FASB's disclosure framework project. The new standard is effective for fiscal years beginning after December 15, 2019, with early adoption permitted, including interim reporting periods within those fiscal years. ASU 2018-13 is effective for us in the first quarter of fiscal 2021. We do not expect the adoption of this new standard to have a material impact on our quarterly or annual disclosures.

**NUTANIX, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

**NOTE 2. REVENUE, DEFERRED REVENUE AND DEFERRED COMMISSIONS**

**Disaggregation of Revenue and Revenue Recognition**

We generate revenue primarily from the sale of our enterprise cloud platform, which can be delivered pre-installed on an appliance that is configured to order or delivered separately to be utilized on a variety of certified hardware platforms. Software can be delivered separately or on a configured-to-order appliance. When the software is not portable to other appliances, it generally has a term equal to the life of the associated appliance, while subscription term-based licenses typically have a term of one to five years. Configured-to-order appliances, including our Nutanix-branded NX hardware line, are typically sold through Partners and can be purchased from one of our OEMs or directly from Nutanix. Our enterprise cloud platform is typically purchased with one or more years of support and entitlements, which includes the right to software upgrades and enhancements as well as technical support. A substantial portion of sales are made through channel partners and OEM relationships.

The following table depicts the disaggregation of revenue by revenue type, consistent with how we evaluate our financial performance:

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2019	2020	2019	2020
	(in thousands)			
Subscription	\$ 168,447	\$ 260,963	\$ 452,779	\$ 745,403
Non-portable software	88,719	41,917	366,910	178,619
Hardware	21,853	3,786	92,319	22,052
Professional services	8,605	11,607	24,259	33,734
Total revenue	<u>\$ 287,624</u>	<u>\$ 318,273</u>	<u>\$ 936,267</u>	<u>\$ 979,808</u>

*Subscription revenue* — Subscription revenue includes any performance obligation which has a defined term, and is generated from the sales of software entitlement and support subscriptions, subscription software licenses and cloud-based software as a service ("SaaS") offerings.

- *Ratable* — We recognize revenue from software entitlement and support subscriptions and SaaS offerings ratably over the contractual service period, the substantial majority of which relate to software entitlement and support subscriptions. These offerings represented approximately \$96.1 million and \$269.7 million of our subscription revenue for the three and nine months ended April 30, 2019 and approximately \$129.2 million and \$367.9 million of our subscription revenue for the three and nine months ended April 30, 2020, respectively.
- *Upfront* — Revenue from our subscription software licenses is generally recognized upfront upon transfer of control to the customer, which happens when we make the software available to the customer. These subscription software licenses represented approximately \$72.3 million and \$183.1 million of our subscription revenue for the three and nine months ended April 30, 2019 and approximately \$131.8 million and \$377.5 million of our subscription revenue for the three and nine months ended April 30, 2020, respectively.

*Non-portable software revenue* — Non-portable software revenue includes sales of our enterprise cloud platform when delivered on a configured-to-order appliance by us or one of our OEM partners. The software licenses associated with these sales are typically non-portable and have a term equal to the life of the appliance on which the software is delivered. Revenue from our non-portable software products is generally recognized upon transfer of control to the customer.

*Hardware revenue* — In transactions where we deliver the hardware appliance, we consider ourselves to be the principal in the transaction and we record revenue and costs of goods sold on a gross basis. We consider the amount allocated to hardware revenue to be equivalent to the cost of the hardware procured. Hardware revenue is generally recognized upon transfer of control to the customer.

*Professional services revenue* — We also sell professional services with our products. We recognize revenue related to professional services as they are performed.



**NUTANIX, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

*Contracts with multiple performance obligations* — Some of our contracts with customers contain multiple performance obligations. For these contracts, we account for individual performance obligations separately if they are distinct. The transaction price is allocated to the separate performance obligations on a relative standalone selling price ("SSP") basis. For deliverables that we routinely sell separately, such as software entitlement and support subscriptions on our core offerings, we determine SSP by evaluating the standalone sales over the trailing 12 months. For those that are not sold routinely, we determine SSP based on our overall pricing trends and objectives, taking into consideration market conditions and other factors, including the value of our contracts, the products sold and geographic locations.

*Contract balances* — The timing of revenue recognition may differ from the timing of invoicing to customers. Accounts receivable are recorded at the invoiced amount, net of an allowance for doubtful accounts. A receivable is recognized in the period we deliver goods or provide services, or when our right to consideration is unconditional. In situations where revenue recognition occurs before invoicing, an unbilled receivable is created, which represents a contract asset. Unbilled accounts receivable, included in accounts receivable, net on the condensed consolidated balance sheets, was not material for any of the periods presented.

Payment terms on invoiced amounts are typically 30-45 days. The balance of accounts receivable, net of allowance for doubtful accounts, as of July 31, 2019 and April 30, 2020 is presented in the accompanying condensed consolidated balance sheets.

*Costs to obtain and fulfill a contract* — We capitalize commissions paid to sales personnel and the related payroll taxes when customer contracts are signed. These costs are recorded as deferred commissions in the condensed consolidated balance sheets, current and non-current. We determine whether costs should be deferred based on our sales compensation plans, if the commissions are incremental and would not have been incurred absent the execution of the customer contract. Commissions paid upon the initial acquisition of a contract are amortized over the estimated period of benefit, which may exceed the term of the initial contract if the commissions expected to be paid upon renewal are not commensurate with that of the original contract. Accordingly, the amortization of deferred costs is recognized on a systematic basis that is consistent with the pattern of revenue recognition allocated to each performance obligation and included in sales and marketing expense in the condensed consolidated statements of operations. We determine the estimated period of benefit by evaluating the expected renewals of customer contracts, the duration of relationships with our customers, customer retention data, our technology development lifecycle and other factors. Deferred costs are periodically reviewed for impairment.

Taxes assessed by a government authority that are both imposed on and concurrent with specific revenue transactions between us and our customers are presented on a net basis in our condensed consolidated statements of operations.

*Deferred revenue* — Deferred revenue primarily consists of amounts that have been invoiced but not yet recognized as revenue and primarily pertain to software entitlement and support subscriptions and professional services. The current portion of deferred revenue represents the amounts that are expected to be recognized as revenue within one year of the condensed consolidated balance sheet date.

Significant changes in the balance of deferred revenue (contract liability) and deferred commissions (contract asset) for the periods presented are as follows:

	<u>Deferred Revenue</u>	<u>Deferred Commissions</u>
	(in thousands)	
Balance as of July 31, 2019	\$ 910,044	\$ 153,712
Additions	187,554	57,846
Revenue/commissions recognized	(122,324)	(39,533)
Balance as of October 31, 2019	975,274	172,025
Additions	214,530	62,790
Revenue/commissions recognized	(133,220)	(45,681)
Balance as of January 31, 2020	1,056,584	189,134
Additions	202,993	54,214
Revenue/commissions recognized	(137,517)	(42,573)
Balance as of April 30, 2020	<u>\$ 1,122,060</u>	<u>\$ 200,775</u>

**NUTANIX, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

During the three and nine months ended April 30, 2019, we recognized revenue of approximately \$89.8 million and \$216.3 million pertaining to amounts deferred as of January 31, 2019 and July 31, 2018, respectively. During the three and nine months ended April 30, 2020, we recognized revenue of approximately \$125.1 million and \$293.4 million pertaining to amounts deferred as of January 31, 2020 and July 31, 2019, respectively.

The majority of our contracted but not invoiced performance obligations are subject to cancellation terms. Revenue allocated to remaining performance obligations represents contracted revenue that has not yet been recognized ("contracted not recognized"), which includes deferred revenue and non-cancelable amounts that will be invoiced and recognized as revenue in future periods and excludes performance obligations that are subject to cancellation terms. Contracted not recognized revenue was approximately \$1,133.6 million as of April 30, 2020, of which we expect to recognize approximately 45% over the next 12 months, and the remainder thereafter.

**NOTE 3. FAIR VALUE MEASUREMENTS**

The fair value of our financial assets and liabilities measured on a recurring basis is as follows:

	As of July 31, 2019			Total
	Level I	Level II	Level III	
(in thousands)				
<b>Financial Assets:</b>				
Cash equivalents:				
Money market funds	\$ 33,156	\$ —	\$ —	\$ 33,156
Commercial paper	—	103,029	—	103,029
U.S. government securities	—	119,933	—	119,933
Corporate bonds	—	9,996	—	9,996
Short-term investments:				
Corporate bonds	—	354,549	—	354,549
Commercial paper	—	92,851	—	92,851
U.S. government securities	—	64,756	—	64,756
Total measured at fair value	<u>\$ 33,156</u>	<u>\$ 745,114</u>	<u>\$ —</u>	<u>\$ 778,270</u>
Cash				130,564
Total cash, cash equivalents and short-term investments				<u>\$ 908,834</u>

**NUTANIX, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

	As of April 30, 2020			
	Level I	Level II	Level III	Total
	(in thousands)			
<b>Financial Assets:</b>				
Cash equivalents:				
Money market funds	\$ 100,550	\$ —	\$ —	\$ 100,550
Commercial paper	—	10,992	—	10,992
Short-term investments:				
Corporate bonds	—	370,210	—	370,210
Commercial paper	—	46,375	—	46,375
U.S. government securities	—	53,221	—	53,221
Total measured at fair value	\$ 100,550	\$ 480,798	\$ —	\$ 581,348
Cash				150,789
Total cash, cash equivalents and short-term investments				\$ 732,137

***Financial Instruments Not Recorded at Fair Value on a Recurring Basis***

We report our financial instruments at fair value, with the exception of the 0% Convertible Senior Notes, due in January 2023 (the "Notes"). Financial instruments that are not recorded at fair value on a recurring basis are measured at fair value on a quarterly basis for disclosure purposes. The carrying values and estimated fair values of financial instruments not recorded at fair value are as follows:

	As of July 31, 2019		As of April 30, 2020	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
	(in thousands)			
Convertible senior notes, net	\$ 458,910	\$ 527,275	\$ 482,200	\$ 495,938

The carrying value of the Notes as of April 30, 2020 was net of the unamortized debt discount of \$87.9 million and unamortized debt issuance costs of \$4.9 million.

The total estimated fair value of the Notes was determined based on the closing trading price per \$100 of the Notes as of the last day of trading for the period. We consider the fair value of the Notes to be a Level 2 measurement due to the limited trading activity.

**NOTE 4. BALANCE SHEET COMPONENTS**

**Short-Term Investments**

The amortized cost of our short-term investments approximates their fair value. As of July 31, 2019 and April 30, 2020, unrealized gains and losses from our short-term investments were not material. As of July 31, 2019 and April 30, 2020, unrealized losses from securities that were in an unrealized loss position for more than 12 months were not material. Unrealized losses related to our short-term investments are due to interest rate fluctuations, as opposed to credit quality. As a result, at July 31, 2019 and April 30, 2020, there were no other-than-temporary impairments for these investments.

**NUTANIX, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

The following table summarizes the estimated fair value of our investments in marketable debt securities by their contractual maturity dates:

	<b>As of April 30, 2020</b>
	<b>(in thousands)</b>
Due within one year	\$ 332,705
Due in one to two years	137,101
<b>Total</b>	<b>\$ 469,806</b>

**Prepaid Expenses and Other Current Assets**

Prepaid expenses and other current assets consists of the following:

	<b>As of</b>	
	<b>July 31, 2019</b>	<b>April 30, 2020</b>
	<b>(in thousands)</b>	
Prepaid operating expenses	\$ 37,864	\$ 32,355
VAT receivables	5,068	8,181
Tenant improvement allowance receivables	—	8,056
Prepaid income taxes	19,690	1,477
Other current assets	12,043	13,120
<b>Total prepaid expenses and other current assets</b>	<b>\$ 74,665</b>	<b>\$ 63,189</b>

The decrease in prepaid expenses and other current assets from July 31, 2019 to April 30, 2020 was due primarily to the receipt of an \$18.0 million corporate income tax refund in the first quarter of fiscal 2020, partially offset by the addition of \$8.1 million of tenant improvement allowances, which are recorded within prepaid expenses and other current assets on the condensed consolidated balance sheet as of April 30, 2020 as a result of our adoption of ASC 842 during the first quarter of fiscal 2020.

**Property and Equipment, Net**

Property and equipment, net consists of the following:

	<b>Estimated Useful Life</b>	<b>As of</b>	
		<b>July 31, 2019</b>	<b>April 30, 2020</b>
	<b>(in months)</b>	<b>(in thousands)</b>	
Computer, production, engineering and other equipment	36	\$ 200,762	\$ 235,429
Demonstration units	12	59,981	66,149
Leasehold improvements	(1)	46,520	65,056
Furniture and fixtures	60	12,868	16,386
<b>Total property and equipment, gross</b>		<b>320,131</b>	<b>383,020</b>
Less: accumulated depreciation <sup>(2)</sup>		(183,169)	(233,332)
<b>Total property and equipment, net</b>		<b>\$ 136,962</b>	<b>\$ 149,688</b>

(1) Leasehold improvements are amortized over the shorter of the estimated useful lives of the improvements or the remaining lease term.

(2) Includes a \$1.2 million write-off related to the impairment of certain leasehold improvements for the fiscal quarter ended January 31, 2020. For additional information on this lease-related impairment, refer to Note 6.

Depreciation expense related to our property and equipment was \$16.4 million and \$43.3 million for the three and nine months ended April 30, 2019 and \$19.8 million and \$56.7 million for the three and nine months ended April 30, 2020, respectively.

**NUTANIX, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

**Goodwill and Intangible Assets, Net**

The change in the carrying value of goodwill during the nine months ended April 30, 2020 was not material.

Intangible assets, net consists of the following:

	As of	
	July 31, 2019	April 30, 2020
(in thousands)		
Developed technology	\$ 79,300	\$ 79,300
Customer relationships	8,860	8,860
Trade name	4,170	4,170
Total intangible assets, gross	92,330	92,330
Less:		
Accumulated amortization of developed technology	(21,210)	(32,293)
Accumulated amortization of customer relationships	(3,392)	(4,562)
Accumulated amortization of trade name	(955)	(1,737)
Total accumulated amortization	(25,557)	(38,592)
Total intangible assets, net	\$ 66,773	\$ 53,738

Amortization expense related to our intangible assets is being recognized in the condensed consolidated statements of operations within product cost of revenue for developed technology and sales and marketing expense for customer relationships and trade name.

The estimated future amortization expense of our intangible assets is as follows:

<b><u>Fiscal Year Ending July 31:</u></b>	<b>Amount</b>
	(in thousands)
2020 (remaining three months)	\$ 4,345
2021	17,380
2022	16,183
2023	10,856
2024	3,210
Thereafter	1,764
Total	\$ 53,738

**Accrued Compensation and Benefits**

Accrued compensation and benefits consists of the following:

	As of	
	July 31, 2019	April 30, 2020
(in thousands)		
Accrued commissions	\$ 31,703	\$ 28,603
Accrued vacation	15,475	21,424
Payroll taxes payable	8,504	9,490
Contributions to ESPP withheld	20,778	6,608
Accrued bonus	11,413	3,435
Other	11,931	16,081
Total accrued compensation and benefits	\$ 99,804	\$ 85,641



**NUTANIX, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

**NOTE 5. CONVERTIBLE SENIOR NOTES**

In January 2018, we issued Convertible Senior Notes with a 0% interest rate for an aggregate principal amount of \$575.0 million, due in 2023 (the "Notes"), in a private placement to qualified institutional buyers pursuant to Rule144A under the Securities Act. This included \$75.0 million in aggregate principal amount of the Notes that we issued resulting from initial purchasers fully exercising their option to purchase additional notes. There are no required principal payments prior to the maturity of the Notes. The total net proceeds from the Notes are as follows:

	<b>Amount</b>
	<b>(in thousands)</b>
Principal amount	\$ 575,000
Less: initial purchasers' discount	(10,781)
Less: cost of the bond hedges	(143,175)
Add: proceeds from the sale of warrants	87,975
Less: other issuance costs	(707)
Net proceeds	<u>\$ 508,312</u>

The Notes do not bear any interest and will mature on January 15, 2023, unless earlier converted or repurchased in accordance with their terms. The Notes are unsecured and do not contain any financial covenants or any restrictions on the payment of dividends, or the issuance or repurchase of securities by us.

Each \$1,000 of principal of the Notes will initially be convertible into 20.4705 shares of our Class A common stock, which is equivalent to an initial conversion price of approximately \$48.85 per share, subject to adjustment upon the occurrence of specified events. Holders of these Notes may convert their Notes at their option at any time prior to the close of the business day immediately preceding October 15, 2022, only under the following circumstances:

- 1) during any fiscal quarter commencing after the fiscal quarter ending on April 30, 2018 (and only during such fiscal quarter), if the last reported sale price of our Class A common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding fiscal quarter, is greater than or equal to 130% of the conversion price on each applicable trading day;
- 2) during the five business day period after any five consecutive trading day period (the "measurement period") in which the trading price per \$1,000 principal amount of Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of our Class A common stock and the conversion rate for the Notes on each such trading day; or
- 3) upon the occurrence of certain specified corporate events.

Based on the closing price of our Class A common stock of \$20.49 on April 30, 2020, the if-converted value of the Notes was lower than the principal amount. The price of our Class A common stock was not greater than or equal to 130% of the conversion price for 20 or more trading days during the 30 consecutive trading days ending on the last trading day of the quarter ended April 30, 2020. As such, the Notes are not convertible for the fiscal quarter commencing after April 30, 2020.

On or after October 15, 2022, holders may convert all or any portion of their Notes at any time prior to the close of business on the second scheduled trading day immediately preceding the maturity date, regardless of the foregoing conditions.

Upon conversion of the Notes, we will pay or deliver, as the case may be, cash, shares of our Class A common stock or a combination of cash and shares of Class A common stock, at our election. We intend to settle the principal of the Notes in cash.

The conversion rate will be subject to adjustment in some events, but will not be adjusted for any accrued or unpaid interest. A holder who converts their Notes in connection with certain corporate events that constitute a "make-whole fundamental change" per the indenture governing the Notes are, under certain circumstances, entitled to an increase in the conversion rate. In addition, if we undergo a fundamental change prior to the maturity date, holders may require us to repurchase for cash all or a portion of their Notes at a repurchase price equal to 100% of the principal amount of the repurchased Notes, plus accrued and unpaid interest.

**NUTANIX, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

We may not redeem the Notes prior to the maturity date, and no sinking fund is provided for the Notes.

In accounting for the issuance of the Notes, we separated the Notes into liability and equity components. The carrying amount of the liability component of approximately \$423.4 million was calculated by measuring the fair value of a similar liability that does not have an associated convertible feature. The carrying amount of the equity component of approximately \$151.6 million, representing the conversion option, was determined by deducting the fair value of the liability component from the par value of the Notes. The difference between the principal amount of the Notes and the liability component (the "debt discount") is amortized to interest expense using the effective interest method over the term of the Notes. The equity component of the Notes is included in additional paid-in capital in the condensed consolidated balance sheets and is not remeasured as long as it continues to meet the conditions for equity classification.

We incurred transaction costs related to the issuance of the Notes of approximately \$11.5 million, consisting of an initial purchasers' discount of \$10.8 million and other issuance costs of approximately \$0.7 million. In accounting for the transaction costs, we allocated the total amount incurred to the liability and equity components using the same proportions as the proceeds from the Notes. Transaction costs attributable to the liability component were approximately \$8.5 million, recorded as debt issuance costs (presented as contra debt in the condensed consolidated balance sheets), and are being amortized to interest expense over the term of the Notes. The transaction costs attributable to the equity component were approximately \$3.0 million and were net with the equity component within stockholders' equity.

The Notes consisted of the following:

	As of	
	July 31, 2019	April 30, 2020
	(in thousands)	
Principal amounts:		
Principal	\$ 575,000	\$ 575,000
Unamortized debt discount <sup>(1)</sup>	(109,956)	(87,897)
Unamortized debt issuance costs <sup>(1)</sup>	(6,134)	(4,903)
Net carrying amount	\$ 458,910	\$ 482,200
Carrying amount of equity component <sup>(2)</sup>	\$ 148,598	\$ 148,598

(1) Included in the condensed consolidated balance sheets within convertible senior notes, net and amortized over the remaining life of the Notes using the effective interest rate method. The effective interest rate is 6.62%.

(2) Included in the condensed consolidated balance sheets within additional paid-in capital, net of \$3.0 million in equity issuance costs.

As of April 30, 2020, the remaining life of the Notes was approximately 32 months.

The following table sets forth the total interest expense recognized related to the Notes:

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2019	2020	2019	2020
	(in thousands)			
Interest expense related to amortization of debt discount	\$ 6,997	\$ 7,475	\$ 20,650	\$ 22,059
Interest expense related to amortization of debt issuance costs	390	417	1,152	1,231
Total interest expense	\$ 7,387	\$ 7,892	\$ 21,802	\$ 23,290



**NUTANIX, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

**Note Hedges and Warrants**

Concurrently with the offering of the Notes in January 2018, we entered into convertible note hedge transactions with certain bank counterparties, whereby we have the initial option to purchase a total of approximately 11.8 million shares of our Class A common stock at a conversion price of approximately \$48.85 per share, subject to adjustment for certain specified events. The total cost of the convertible note hedge transactions was approximately \$143.2 million. In addition, we sold warrants to certain bank counterparties, whereby the holders of the warrants have the initial option to purchase a total of approximately 11.8 million shares of our Class A common stock at a price of \$73.46 per share, subject to adjustment for certain specified events. We received approximately \$88.0 million in cash proceeds from the sale of these warrants.

Taken together, the purchase of the convertible note hedges and the sale of warrants are intended to offset any actual dilution from the conversion of the Notes and to effectively increase the overall conversion price from \$48.85 to \$73.46 per share. As these transactions meet certain accounting criteria, the convertible note hedges and warrants are recorded within stockholders' equity and are not accounted for as derivatives. The net cost incurred in connection with the convertible note hedge and warrant transactions of approximately \$55.2 million was recorded as a reduction to additional paid-in capital in the condensed consolidated balance sheets as of July 31, 2019 and April 30, 2020. The fair value of the note hedges and warrants are not remeasured each reporting period. The amounts paid for the note hedges were tax deductible expenses, while the proceeds received from the warrants were not taxable.

**Impact to Earnings per Share**

The Notes will have no impact to diluted earnings per share ("EPS") until they meet the criteria for conversion, as discussed above, as we intend to settle the principal amount of the Notes in cash upon conversion. Under the treasury stock method, in periods when we report net income, we are required to include the effect of additional shares that may be issued under the Notes when the price of our Class A common stock exceeds the conversion price. Under this method, the cumulative dilutive effect of the Notes would be approximately 3.9 million shares if the average price of our Class A common stock was \$73.46. However, upon conversion, there will be no economic dilution from the Notes, as exercise of the note hedges eliminate any dilution that would have otherwise occurred. The note hedges are required to be excluded from the calculation of diluted earnings per share, as they would be antidilutive under the treasury stock method.

The warrants will have a dilutive effect when the average share price exceeds the warrant strike price of \$73.46 per share. As the price of our Class A common stock continues to increase above the warrant strike price, additional dilution would occur at a declining rate so that a \$10 increase from the warrant strike price would yield a cumulative dilution of approximately 4.9 million diluted shares for EPS purposes. However, upon conversion, the note hedges would neutralize the dilution from the Notes so that there would only be dilution from the warrants, which would result in an actual dilution of approximately 1.4 million shares at a common stock price of \$83.46.

**NOTE 6. LEASES**

We have operating leases for offices, research and development facilities and datacenters. Our leases have remaining lease terms of one year to approximately nine years, some of which include options to renew or terminate. We do not include renewal options in the lease terms for calculating our lease liability, as we are not reasonably certain that we will exercise these renewal options at the time of the lease commencement. Our lease agreements do not contain any residual value guarantees or restrictive covenants.

Total operating lease cost was \$10.0 million and \$28.9 million for the three and nine months ended April 30, 2020, respectively, excluding short-term lease costs, variable lease costs and sublease income, each of which were not material. Variable lease costs primarily include common area maintenance charges. Total lease expense recognized prior to our adoption of ASC 842 was \$9.4 million and \$25.0 million for the three and nine months ended April 30, 2019, respectively.

During the second quarter of fiscal 2020, we ceased using certain office spaces in Bangalore, India. As the carrying value of the related right-of-use assets exceeded fair value, we recorded a \$3.0 million impairment in our condensed consolidated statements of operations for the nine months ended April 30, 2020. Of the \$3.0 million impairment, approximately \$1.8 million relates to the impairment of the operating lease right-of-use assets and approximately \$1.2 million relates to the impairment of leasehold improvements. Additional charges related to asset impairments may be recorded in the future.

**NUTANIX, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

Supplemental balance sheet information related to leases is as follows:

	<b>As of April 30, 2020</b>
	<b>(in thousands)</b>
<b>Operating leases:</b>	
Operating lease right-of-use assets, gross	\$ 154,689
Accumulated amortization	(22,170)
Operating lease right-of-use assets, net	\$ 132,519
Operating lease liabilities—current	\$ 34,371
Operating lease liabilities—non-current	123,470
Total operating lease liabilities	\$ 157,841
Weighted average remaining lease term (in years):	4.0
Weighted average discount rate:	5.3 %

Supplemental cash flow and other information related to leases is as follows:

	<b>Nine Months Ended April 30, 2020</b>
	<b>(in thousands)</b>
<b>Cash paid for amounts included in the measurement of lease liabilities:</b>	
Operating cash flows from operating leases	\$ 30,593
<b>Lease liabilities arising from obtaining right-of-use assets:</b>	
Operating leases	\$ 41,888

The undiscounted cash flows for our operating lease liabilities as of April 30, 2020 were as follows:

<b><u>Fiscal Year Ending July 31:</u></b>	<b>Amount</b>
	<b>(in thousands)</b>
2020 (remaining three months)	\$ 9,713
2021	44,225
2022	43,801
2023	41,987
2024	29,952
Thereafter	7,931
Total lease payments	177,609
Less: imputed interest	(19,768)
Total lease obligation	157,841
Less: current lease obligations	(34,371)
Long-term lease obligations	\$ 123,470

As of April 30, 2020, we have additional operating lease commitments of approximately \$3.5 million on an undiscounted basis for certain office leases that have not yet commenced. These operating leases will commence during the remainder of fiscal 2020, fiscal 2021 and fiscal 2022, with lease terms of two to five years.

**NUTANIX, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

As previously disclosed in our Annual Report on Form 10-K for the fiscal year ended July 31, 2019, the following table summarizes the future minimum payments due under our operating leases as of July 31, 2019, reported under ASC 840:

<b><u>Fiscal Year Ending July 31:</u></b>	<b>Amount</b>
	<b>(in thousands)</b>
2020	\$ 39,540
2021	41,909
2022	41,332
2023	40,695
2024	30,240
Thereafter	3,511
Total	<u>\$ 197,227</u>

## **NOTE 7. COMMITMENTS AND CONTINGENCIES**

### **Purchase Commitments**

In the normal course of business, we make commitments with our contract manufacturers and OEMs to ensure them a minimum level of financial consideration for their investment in our joint solutions. These commitments are based on revenue targets or on-hand inventory and non-cancelable purchase orders for non-standard components. We record a charge related to these items when we determine that it is probable a loss will be incurred and we are able to estimate the amount of the loss. Our historical charges have not been material. As of April 30, 2020, we had up to approximately \$76.9 million of non-cancelable purchase obligations and other commitments pertaining to our daily business operations, and up to approximately \$121.5 million in the form of guarantees to certain of our contract manufacturers and OEMs.

### **Legal Proceedings**

Beginning on March 29, 2019, several purported securities class actions were filed in the United States District Court for the Northern District of California against us and two of our officers. The initial complaints generally alleged that the defendants made false and misleading statements in violation of Sections 10(b) and 20(a) of the Exchange Act and SEC Rule 10b-5. In July 2019, the court consolidated the actions into a single action, and appointed a lead plaintiff, who then filed a consolidated amended complaint (the "Original Complaint"). The action was brought on behalf of those who purchased or otherwise acquired our stock between November 30, 2017 and May 30, 2019, inclusive. The defendants subsequently filed a motion to dismiss the Original Complaint, and the court granted that motion on March 9, 2020, while providing the lead plaintiff leave to amend. On April 17, 2020, the lead plaintiff filed a second amended complaint (the "Current Complaint"), again naming us and two of our officers as defendants. The Current Complaint alleges the same class period, includes many of the same factual allegations as the Original Complaint, and again alleges that the defendants violated Sections 10(b) and 20(a) of the Exchange Act, as well as SEC Rule 10b-5. The Current Complaint seeks monetary damages in an unspecified amount. The defendants filed a motion to dismiss the Current Complaint on May 22, 2020, and a hearing before the court has been scheduled for August 12, 2020, during which the parties will argue their positions on the motion. This case is in the very early stages and we are not able to determine what, if any, liabilities will attach to the Current Complaint.

**NUTANIX, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

Beginning on July 1, 2019, several shareholder derivative complaints were filed in each of the U.S. District Court for the Northern District of California, the Superior Court of California for the County of San Mateo and the Superior Court of California for the County of Santa Clara, naming (i) fourteen of Nutanix's current and former officers and directors as defendants and (ii) the Company as a nominal defendant. The complaints generally alleged claims for breach of fiduciary duty, waste of corporate assets and unjust enrichment, all based on the same general underlying allegations that are contained in the securities class actions described above. The Superior Court complaints additionally alleged insider trading and violation of California Corporations Code Section 25402, and the Santa Clara County Superior Court complaints further included additional claims for "abuse of control" and "gross mismanagement." On January 7, 2020, the U.S. District Court for the North District of California consolidated the federal actions and, on March 6, 2020, the plaintiffs filed a stipulation designating a lead plaintiff and deeming the lead plaintiff's original complaint as the operative complaint in the matter (the "Operative Complaint"). On April 22, 2020, (i) the individual defendants filed a motion to dismiss the Operative Complaint on the grounds that it fails to state a claim, and (ii) we filed a motion to dismiss the Operative Complaint on the grounds that the plaintiffs failed to make a demand on our Board of Directors before filing the Operative Complaint. On May 22, 2020, the plaintiffs proposed to the defendants that they file an amended complaint rather than an opposition to the motions to dismiss, and the defendants agreed to that. The parties will submit a proposed schedule to the court for the filing of an amended complaint and the defendants' response to it. In August 2019, the Superior Court of California for the County of Santa Clara consolidated the Santa Clara derivative actions into a single action and, in January 2020, the court stayed the consolidated Santa Clara action in deference to the federal derivative actions described above. On September 17, 2019, the Superior Court of California for the County of San Mateo granted the plaintiff's request for voluntary dismissal without prejudice. The remaining derivative cases are in the very early stages and we are not able to determine what, if any, liabilities will attach to those complaints.

We are not currently a party to any other legal proceedings that we believe to be material to our business or financial condition. From time to time, we may become party to various litigation matters and subject to claims that arise in the ordinary course of business.

#### **NOTE 8. STOCKHOLDERS' EQUITY**

We have two classes of authorized common stock, Class A common stock and Class B common stock. As of April 30, 2020, we had one billion shares of Class A common stock authorized, with a par value of \$0.000025 per share, and 200 million shares of Class B common stock authorized, with a par value of \$0.000025 per share. As of April 30, 2020, we had 184.4 million shares of Class A common stock issued and outstanding and 15.1 million shares of Class B common stock issued and outstanding.

Holders of Class A common stock are entitled to one vote for each share of Class A common stock held on all matters submitted to a vote of stockholders. Holders of Class B common stock are entitled to 10 votes for each share of Class B common stock held on all matters submitted to a vote of stockholders. Except with respect to voting, the rights of the holders of Class A and Class B common stock are identical. Shares of Class B common stock are voluntarily convertible into shares of Class A common stock at the option of the holder and are generally automatically converted into shares of our Class A common stock upon a sale or transfer. Shares issued in connection with exercises of stock options, vesting of restricted stock units, or shares purchased under the employee stock purchase plan are generally automatically converted into shares of our Class A common stock. Shares issued in connection with an exercise of common stock warrants are converted into shares of our Class B common stock.

#### **NOTE 9. EQUITY INCENTIVE PLANS**

##### **Stock Plans**

We have three equity incentive plans, the 2010 Stock Plan ("2010 Plan"), 2011 Stock Plan ("2011 Plan") and 2016 Equity Incentive Plan ("2016 Plan"). Our stockholders approved the 2016 Plan in March 2016 and it became effective in connection with our initial public offering ("IPO"). As a result, at the time of the IPO, we ceased granting additional stock awards under the 2010 Plan and 2011 Plan and both plans were terminated. Any outstanding stock awards under the 2010 Plan and 2011 Plan will remain outstanding, subject to the terms of the applicable plan and award agreements, until such shares are issued under those stock awards, by exercise of stock options or settlement of restricted stock units ("RSUs"), or until those stock awards become vested or expired by their terms.

**NUTANIX, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

Under the 2016 Plan, we may grant incentive stock options, non-statutory stock options, restricted stock, RSUs and stock appreciation rights to employees, directors and consultants. We initially reserved 22.4 million shares of our Class A common stock for issuance under the 2016 Plan. The number of shares of Class A common stock available for issuance under the 2016 Plan will also include an annual increase on the first day of each fiscal year, beginning in fiscal 2018, equal to the lesser of: 18.0 million shares, 5% of the outstanding shares of all classes of common stock as of the last day of our immediately preceding fiscal year, or such other amount as may be determined by the Board. Accordingly, on August 1, 2019, the number of shares of Class A common stock available for issuance under the 2016 Plan increased by 9.4 million shares pursuant to these provisions. As of April 30, 2020, we had reserved a total of 45.3 million shares for the issuance of equity awards under the Stock Plans, of which 12.8 million shares were still available for grant.

### **Restricted Stock Units**

*Performance RSUs* — We have granted RSUs that have both service and performance conditions to our executives and employees ("Performance RSUs"). Vesting of Performance RSUs is subject to continuous service and the satisfaction of certain performance targets. While we recognize cumulative stock-based compensation expense for the portion of the awards for which both the service condition has been satisfied and it is probable that the performance conditions will be met, the actual vesting and settlement of Performance RSUs are subject to the performance conditions actually being met.

*Market Stock Units* — In October 2018, the Compensation Committee of our Board of Directors approved the grant of 100,000 RSUs subject to certain market conditions ("MSUs") to our Chief Executive Officer, with a weighted average grant date fair value per unit of \$25.16. The MSUs will vest based upon the achievement of an average stock price of \$80 over a performance period of approximately 4.5 years (the "Performance Period"), subject to his continuous service on each vesting date. The average stock price is calculated based on the average closing price of one share of our Class A common stock, as reported on the Nasdaq Stock Market during the 180-day period ending on the last trading day prior to each measurement date (as applicable, the "Average Stock Price"). The Average Stock Price is measured once per quarter during the Performance Period, and:

- If the Average Stock Price on any given quarterly measurement date does not equal or exceed \$80, then none of the MSUs will vest that quarter, and any unvested MSUs will carry over to the next quarter (the "Carryover MSUs");
- If the Average Stock Price on any given quarterly measurement date equals or exceeds \$80, then 1/18th of the MSUs plus the applicable Carryover MSUs, if any, would vest; and/or
- If the Average Stock Price never equals or exceeds \$80 during the Performance Period, the MSUs would terminate at the end of the Performance Period.

In December 2019, the Compensation Committee of our Board of Directors approved the grant of 200,000 additional MSUs to our Chief Executive Officer, with a weighted average grant date fair value per unit of \$20.80. The MSUs will vest based upon the achievement of an average stock price of \$65 over a performance period of approximately 4.5 years (the "Second Performance Period"), subject to his continuous service on each vesting date.

In February 2020, the Compensation Committee of our Board of Directors approved the grant of 75,000 MSUs to our Executive Vice President of Worldwide Sales, with a weighted average grant date fair value per unit of \$20.80. The MSUs will vest based upon the achievement of an average stock price of \$65 over a performance period of approximately 3.9 years (the "Second Performance Period"), subject to his continuous service on each vesting date.

The average stock price is calculated based on the average closing price of one share of our Class A common stock, as reported on the Nasdaq Stock Market during the 180-day period ending on the last trading day prior to each measurement date (as applicable, the "Second Average Stock Price"). The Second Average Stock Price is measured once per quarter during the Second Performance Period, and:

- If the Second Average Stock Price on any given quarterly measurement date does not equal or exceed \$65, then none of the MSUs will vest that quarter, and any unvested MSUs will carry over to the next quarter (the "Carryover MSUs");
- If the Second Average Stock Price on any given quarterly measurement date equals or exceeds \$65, then 1/18th of the MSUs plus the applicable Carryover MSUs, if any, would vest; and/or
- If the Second Average Stock Price never equals or exceeds \$65 during the Second Performance Period, the MSUs would terminate at the end of the Second Performance Period.

**NUTANIX, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

We used Monte Carlo simulations to calculate the fair value of these awards on the grant date. A Monte Carlo simulation requires the use of various assumptions, including the stock price volatility and risk-free interest rate as of the valuation date corresponding to the length of time remaining in the performance period and expected dividend yield. We recognize stock-based compensation expense related to these MSUs using the graded vesting attribution method over the Performance Period or Second Performance Period, as applicable. As of April 30, 2020, 375,000 MSUs remained outstanding.

Below is a summary of RSU activity, including MSUs, under the Stock Plans:

	<b>Number of Shares</b>	<b>Grant Date Fair Value per Share</b>
	<b>(in thousands)</b>	
Outstanding at July 31, 2019	22,136	\$ 36.72
Granted	12,598	\$ 27.66
Released	(6,578)	\$ 33.94
Forfeited	(3,337)	\$ 34.63
Outstanding at April 30, 2020	<u>24,819</u>	<u>\$ 33.26</u>

### Stock Options

We did not grant any stock options during the nine months ended April 30, 2020. A total of 1.0 million stock options were exercised during the nine months ended April 30, 2020, with an average exercise price per share of \$5.62. As of April 30, 2020, 7.7 million stock options, with a weighted average exercise price of \$5.14 per share, a weighted average remaining contractual life of 3.9 years and an aggregate intrinsic value of \$118.3 million, remained outstanding.

### Employee Stock Purchase Plan

In December 2015, the Board adopted the 2016 Employee Stock Purchase Plan, which was subsequently amended in January 2016 and September 2016 and approved by our stockholders in March 2016 ("Original 2016 ESPP"). The Original 2016 ESPP became effective in connection with our IPO. On December 13, 2019, during our 2019 Annual Meeting of Stockholders, our stockholders approved certain amendments to the Original 2016 ESPP. Under the amended and restated Original 2016 ESPP ("2016 ESPP"), the maximum number of shares of Class A common stock available for sale is 11.5 million shares, representing an increase of 9.2 million shares.

The 2016 ESPP allows eligible employees to purchase shares of our Class A common stock at a discount through payroll deductions of up to 15% of eligible compensation, subject to caps of \$25,000 in any calendar year and 1,000 shares on any purchase date. The 2016 ESPP provides for 12-month offering periods, generally beginning in March and September of each year, and each offering period consists of two six-month purchase periods.

On each purchase date, participating employees will purchase Class A common stock at a price per share equal to 85% of the lesser of the fair market value of our Class A common stock on (i) the first trading day of the applicable offering period or (ii) the last trading day of each purchase period in the applicable offering period. If the stock price of our Class A common stock on any purchase date in an offering period is lower than the stock price on the enrollment date of that offering period, the offering period will immediately reset after the purchase of shares on such purchase date and automatically roll into a new offering period.

During the nine months ended April 30, 2020, 3.3 million shares of common stock were purchased under the 2016 ESPP for an aggregate amount of \$50.6 million. As of April 30, 2020, 9.2 million shares, which includes the 9.2 million additional shares approved by our stockholders, were available for future issuance under the 2016 ESPP.

**NUTANIX, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

We use the Black-Scholes option pricing model to determine the fair value of shares purchased under the 2016 ESPP with the following weighted average assumptions on the date of grant:

	Nine Months Ended April 30,	
	2019	2020
Expected term (in years)	0.84	0.92
Risk-free interest rate	2.5 %	0.1 %
Volatility	69.0 %	73.4 %
Dividend yield	— %	— %

### Stock-Based Compensation

Total stock-based compensation expense recognized in the condensed consolidated statements of operations is as follows:

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2019	2020	2019	2020
(in thousands)				
Cost of revenue:				
Product	\$ 953	\$ 1,367	\$ 2,523	\$ 3,937
Support, entitlements and other services	4,542	5,959	11,072	15,850
Sales and marketing	35,257	33,177	81,325	92,137
Research and development	42,265	39,462	107,953	113,484
General and administrative	11,815	12,131	30,449	33,729
Total stock-based compensation expense	<u>\$ 94,832</u>	<u>\$ 92,096</u>	<u>\$ 233,322</u>	<u>\$ 259,137</u>

As of April 30, 2020, unrecognized stock-based compensation expense related to outstanding stock awards was approximately \$793.2 million and is expected to be recognized over a weighted average period of approximately 2.6 years.

### NOTE 10. INCOME TAXES

The income tax provisions of \$2.4 million and \$1.0 million for the three and nine months ended April 30, 2019, respectively, primarily consisted of foreign taxes on our international operations and U.S. state income taxes. The income tax provision for the nine months ended April 30, 2019 was partially offset by a \$5.8 million U.S. valuation allowance release in connection with an acquisition and a tax benefit related to the change in tax law. The net deferred tax liability recorded in connection with this acquisition provided an additional source of taxable income to support the realizability of the pre-existing deferred tax assets and as a result, we released a portion of our U.S. valuation allowance.

The income tax provisions of \$4.9 million and \$13.4 million for the three and nine months ended April 30, 2020, respectively, primarily consisted of foreign taxes on our international operations and U.S. state income taxes. We continue to maintain a valuation allowance for our U.S. Federal and state deferred tax assets.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was enacted by the United States government. We will continue to evaluate the effects of the CARES Act in the United States, as well as other global tax developments, however the CARES Act did not have a material impact on our provision for income taxes for the fiscal quarter ended April 30, 2020.

**NUTANIX, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

**NOTE 11. NET LOSS PER SHARE**

Basic net income (loss) per share is computed using the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is computed by giving effect to potentially dilutive common stock equivalents outstanding during the period, as their effect would be dilutive. Potentially dilutive common shares include participating securities and shares issuable upon the exercise of stock options, the exercise of common stock warrants, the exercise of convertible preferred stock warrants, the vesting of RSUs and each purchase under the 2016 ESPP, under the treasury stock method.

In loss periods, basic net loss per share and diluted net loss per share are the same, as the effect of potential common shares is antidilutive and therefore excluded.

The rights, including the liquidation and dividend rights, of the holders of our Class A and Class B common stock are identical, except with respect to voting. As the liquidation and dividend rights are identical, our undistributed earnings or losses are allocated on a proportionate basis among the holders of both Class A and Class B common stock. As a result, the net income (loss) per share attributed to common stockholders will, therefore, be the same for both Class A and Class B common stock on an individual or combined basis.

The computation of basic and diluted net loss per share attributable to Class A and Class B common stockholders is as follows:

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2019	2020	2019	2020
	(in thousands, except per share data)			
Numerator:				
Net loss	\$ (209,813)	\$ (240,671)	\$ (426,841)	\$ (687,535)
Denominator:				
Weighted average shares—basic and diluted	182,963	196,366	179,235	192,896
Net loss per share attributable to common stockholders—basic and diluted	\$ (1.15)	\$ (1.23)	\$ (2.38)	\$ (3.56)

The potential shares of common stock that were excluded from the computation of diluted net loss per share attributable to common stockholders for the periods presented because including them would have been antidilutive are as follows:

	Three and Nine Months Ended April 30,	
	2019	2020
	(in thousands)	
Outstanding stock options and RSUs	32,338	32,525
Employee stock purchase plan	1,657	4,472
Contingently issuable shares pursuant to business combinations	748	506
Common stock subject to repurchase	6	—
Common stock warrants	34	34
Total	34,783	37,537



**NUTANIX, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

**NOTE 12. SEGMENT INFORMATION**

Our chief operating decision maker is a group which is comprised of our Chief Executive Officer and Chief Financial Officer. This group reviews financial information presented on a consolidated basis for purposes of allocating resources and evaluating financial performance. Accordingly, we have a single reportable segment.

The following table sets forth revenue by geographic location based on bill-to location:

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2019	2020	2019	2020
	(in thousands)			
U.S.	\$ 158,263	\$ 166,780	\$ 519,923	\$ 533,919
Asia Pacific	66,105	65,726	205,115	196,851
Europe, the Middle East and Africa	52,853	71,907	177,260	204,301
Other Americas	10,403	13,860	33,969	44,737
Total revenue	<u>\$ 287,624</u>	<u>\$ 318,273</u>	<u>\$ 936,267</u>	<u>\$ 979,808</u>

As of July 31, 2019 and April 30, 2020, \$161.9 million and \$146.8 million, respectively, of our long-lived assets, net were located in the United States.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

*The following discussion and analysis of our financial condition, results of operations and cash flows should be read in conjunction with (1) the unaudited condensed consolidated financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q and (2) the audited consolidated financial statements and notes thereto and management's discussion and analysis of financial condition and results of operations for the fiscal year ended July 31, 2019 included in our Annual Report on Form 10-K filed on September 24, 2019. The last day of our fiscal year is July 31. Our fiscal quarters end on October 31, January 31, April 30 and July 31. This discussion contains forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" in Part II, Item 1A of this Form 10-Q. See also "Special Note Regarding Forward-Looking Statements" above.*

### Overview

Nutanix, Inc. ("we," "us," "our" or "Nutanix") provides a leading enterprise cloud platform that consists of software solutions that power many of the world's business applications by digitizing the traditional silos of enterprise computing. We seek to provide an enterprise cloud platform that empowers our customers to unify various clouds - private, public, distributed - into one seamless cloud, allowing enterprises to choose the right cloud for each application. Our enterprise cloud platform natively converges compute, virtualization, storage, networking, desktop and security services into one integrated, simple to consume solution, which allows enterprises to simplify the complexities of a multi-cloud environment with automation, cost governance and compliance.

Our enterprise cloud platform can be deployed on a variety of qualified hardware platforms or, in the case of our cloud-based software and software as a service ("SaaS") offerings, via hosted service or delivered pre-installed on an appliance that is configured to order. Non-portable software is delivered or sold alongside configured-to-order appliances with a license term equal to the life of the associated appliance. Our subscription term-based licenses are sold separately, or can be sold alongside configured-to-order appliances. Configured-to-order appliances, including our Nutanix-branded NX hardware line, can be purchased from one of our channel partners, original equipment manufacturers ("OEMs") or directly from Nutanix. Our enterprise cloud platform is typically purchased with one or more years of support and entitlements, which includes the right to software upgrades and enhancements as well as technical support.

Product revenue is generated primarily from the licensing of our solutions. Support, entitlements and other services revenue is primarily derived from the related support and maintenance contracts. Prior to fiscal 2019, we delivered most of our solutions on an appliance, thus our revenue included the revenue associated with the appliance and the included non-portable software, which lasts for the life of the associated appliance. However, starting in fiscal 2018, as a result of our business model transition toward software-only sales, more of our customers began buying appliances directly from our OEMs while separately buying licenses for our software solutions from us or one of our channel partners. In addition, starting in fiscal 2019, as a result of our transition towards a subscription-based business model, more of our customers began purchasing separately sold subscription term-based licenses that could be deployed on a variety of hardware platforms. As we continue our transition to a subscription-based business model, we expect a greater portion of our products to be delivered through subscription term-based licenses or cloud-based SaaS subscriptions.

We had a broad and diverse base of approximately 16,580 end customers as of April 30, 2020, including approximately 905 Global 2000 enterprises. We define the number of end customers as the number of end customers for which we have received an order by the last day of the period, excluding partners to which we have sold products for their own demonstration purposes. A single organization or customer may represent multiple end customers for separate divisions, segments or subsidiaries. Since shipping our first product in fiscal 2012, our end customer base has grown rapidly. The number of end customers grew from approximately 13,190 as of April 30, 2019 to approximately 16,580 as of April 30, 2020.

Our solutions are primarily sold through channel partners, including distributors, resellers and OEMs, and delivered directly to our end customers. Our solutions serve a broad range of workloads, including enterprise applications, databases, virtual desktop infrastructure, unified communications and big data analytics, and we support both virtualized and container-based applications. We have end customers across a broad range of industries, such as automotive, consumer goods, education, energy, financial services, healthcare, manufacturing, media, public sector, retail, technology and telecommunications. We also sell to service providers, who utilize our enterprise cloud platform to provide a variety of cloud-based services to their customers.

We continue to invest in the growth of our business, including the development of our solutions, hiring for critical roles in our global teams, projects to increase the demand for our solutions and other sales and marketing initiatives. The number of our full-time employees increased from approximately 4,930 as of April 30, 2019 to approximately 6,230 as of April 30, 2020. We have an engineering team focused on distributed systems and IT infrastructure technologies at our San Jose, California headquarters and at our research and development centers in India, North Carolina, Washington, Serbia and Germany. We have in the past also expanded our international sales and marketing presence by continuing to build out our global teams and continuing to invest in sales and marketing initiatives, such as additional demand generation spending to increase pipeline growth. We plan to, in the long term, invest in our global engineering team to enhance the functionality of our enterprise cloud platform, including our newer subscription-based products, introduce new products and features to build upon our technology leadership, as well as expand our global sales and marketing teams in the long term. However, as discussed further in the "Impact of the COVID-19 Pandemic" and "Factors Affecting Our Performance" sections below, in response to the ongoing and rapidly evolving global outbreak of a respiratory illness caused by a novel strain of the coronavirus that was identified in late 2019 and subsequently named in February 2020 by the World Health Organization as COVID-19 (collectively with any future mutations or related strains thereof, "COVID-19"), we have proactively taken steps to manage our expenses. As a result, our overall spending on such efforts will fluctuate, and may decline, from quarter to quarter in the near-term.

Our total revenue was \$936.3 million and \$979.8 million for the nine months ended April 30, 2019 and 2020, respectively, an increase of 4.7%. Our software and support revenue, which we also refer to as total contract value ("TCV") revenue, was \$843.9 million and \$957.8 million for the nine months ended April 30, 2019 and 2020, respectively, an increase of 13.5%. Our subscription revenue was \$452.8 million and \$745.4 million for the nine months ended April 30, 2019 and 2020, respectively, an increase of 64.6%.

Our net loss was \$426.8 million and \$687.5 million for the nine months ended April 30, 2019 and 2020, respectively. Net cash provided by operating activities was \$51.8 million and net cash used in operating activities was \$163.5 million for the nine months ended April 30, 2019 and 2020, respectively. Free cash flow, which is calculated as net cash provided by (used in) operating activities less purchases of property and equipment, was a use of \$43.0 million and use of \$235.6 million for the nine months ended April 30, 2019 and 2020, respectively. As of April 30, 2020, we had an accumulated deficit of \$2.3 billion.

### **Impact of the COVID-19 Pandemic**

The ongoing and rapidly evolving COVID-19 pandemic has significantly curtailed the movement of people, goods and services worldwide, imposed unprecedented strains on governments, health care systems, educational institutions, businesses and individuals around the world, including in nearly all of the regions in which we operate, and has resulted in significant volatility and uncertainty in the global economy. In response to the pandemic, authorities, businesses, and individuals have implemented numerous unprecedented measures, including travel bans and restrictions, quarantines, shelter-in-place, stay-at-home, remote work and social distancing orders, and shutdowns, which have impacted and will continue to impact our workforce and operations, as well as those of our customers, vendors, suppliers, and partners.

In response to the COVID-19 pandemic, we have also been required – or have deemed it necessary – to take a number of actions to protect and assist our employees, customers, and partners, including: temporarily closing all of our offices (including our California headquarters) around the world through at least August 2020; requiring our employees to work remotely; implementing travel restrictions that prohibit all non-essential business travel; and postponing, cancelling, withdrawing from, or converting to virtual-only experiences (where possible and appropriate) our in-person customer, industry, analyst, investor, and employee events, including our 2020 .NEXT customer and partner events, our 2020 Investor Day, and our fiscal 2021 sales kick off; and offering extended payment terms of up to 60 days to certain partners through at least June 2020. As a result of such actions, as well as the general effects of the COVID-19 pandemic, our business and operations have experienced and may continue to experience numerous negative impacts, including: curtailed demand for certain of our solutions; reduced IT spending; delays in or abandonment of planned or future purchases; lengthened payment terms; lengthened sales cycles, particularly with new customers and partners who do not have prior experience with our solutions; supply chain disruptions; and voluntary and involuntary delays in the ability to ship, and the ability of our end customers to accept delivery of, the hardware platforms on which our software solutions run. We also expect the reduced manufacturing capacity caused by the pandemic to result in increases in the prices of certain components used to manufacture such hardware platforms, which may increase the price of those hardware platforms for our end customers. The travel bans, shutdowns, social distancing restrictions and remote work policies have also made it difficult or impossible to deliver on-site services to our partners and end customers, and to meet with our current and potential end customers in person. We have also seen positive impacts, including increased demand for our virtual desktop, desktop-as-a-service, and end-user computing solutions as a result of our end customers enabling their employees to work remotely.

We have also quickly adapted to the new work environment, leveraging digital, video, and other collaborative tools to enable our teams to stay connected with each other, and our sales, marketing and support teams to continue to engage with and remain responsive to our partners and end customers. Furthermore, we have taken, and expect to continue to take, a number of proactive actions to manage our operating expenses in light of the uncertainty caused by the COVID-19 pandemic, including: effecting a global hiring pause outside of a small number of critical roles; implementing a 10% reduction in executive salaries, effective April 2020; pausing all merit salary increases and bonus payments; and implementing two, non-consecutive, mandatory one-week furloughs for our employees in the U.S., along with two, non-consecutive, voluntary one-week unpaid leave periods for our employees outside the U.S. Although the impact of these actions is uncertain, they have resulted in a reduction in our operating expenses, including sales and marketing expenses. See the section titled "Risk Factors" in Part II, Item 1A of this Form 10-Q for further discussion of the possible impact of these actions on our business and financial performance.

The duration, scope and ultimate impact of the COVID-19 pandemic on the global economy and our business remain highly fluid and cannot be predicted with certainty, and the full effect of the pandemic and the actions we have taken in response may not be fully reflected in our results of operations and financial performance until future periods. Our management team is focused on guiding our company through the emerging challenges presented by COVID-19, and remains committed to driving positive business outcomes. Although we do not currently expect the pandemic to affect our financial reporting systems, internal control over financial reporting or disclosure controls and procedures, the continued impact of the pandemic on our business and financial performance will be highly dependent upon numerous factors, many of which are beyond our control. See the section titled "Risk Factors" in Part II, Item 1A of this Form 10-Q for further discussion of the possible impact of the COVID-19 pandemic, as well as the actions we have taken in response, on our business and financial performance.

### Key Financial and Performance Metrics

We monitor the following key financial and performance metrics:

	As of and for the			
	Three Months Ended April 30,		Nine Months Ended April 30,	
	2019	2020	2019	2020
	(in thousands, except percentages)			
Total revenue	\$ 287,624	\$ 318,273	\$ 936,267	\$ 979,808
Year-over-year percentage (decrease) increase	(0.6) %	10.7 %	9.9 %	4.7 %
Subscription revenue	\$ 168,447	\$ 260,963	\$ 452,779	\$ 745,403
Software and support revenue (TCV revenue)	\$ 265,771	\$ 314,487	\$ 843,948	\$ 957,756
Total billings	\$ 346,027	\$ 383,507	\$ 1,143,002	\$ 1,191,582
Subscription billings	\$ 224,312	\$ 321,100	\$ 652,692	\$ 935,780
Software and support billings (TCV billings)	\$ 324,174	\$ 379,721	\$ 1,050,683	\$ 1,169,530
Gross profit	\$ 212,547	\$ 245,979	\$ 701,102	\$ 760,090
Adjusted gross profit	\$ 221,736	\$ 256,999	\$ 725,414	\$ 791,496
Gross margin	73.9 %	77.3 %	74.9 %	77.6 %
Adjusted gross margin	77.1 %	80.7 %	77.5 %	80.8 %
Total deferred revenue	\$ 838,262	\$ 1,122,060	\$ 838,262	\$ 1,122,060
Net cash (used in) provided by operating activities	\$ (36,490)	\$ (84,861)	\$ 51,824	\$ (163,515)
Free cash flow	\$ (58,922)	\$ (117,483)	\$ (42,991)	\$ (235,588)
Non-GAAP operating expenses	\$ 326,516	\$ 390,259	\$ 895,083	\$ 1,172,912
Total end customers	13,190	16,580	13,190	16,580

**Disaggregation of Revenue and Billings**

The following table depicts the disaggregation of revenue and billings by type, consistent with how we evaluate our financial performance:

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2019	2020	2019	2020
(in thousands)				
<b>Disaggregation of revenue:</b>				
Subscription revenue	\$ 168,447	\$ 260,963	\$ 452,779	\$ 745,403
Non-portable software revenue	88,719	41,917	366,910	178,619
Hardware revenue	21,853	3,786	92,319	22,052
Professional services revenue	8,605	11,607	24,259	33,734
Total revenue	<u>\$ 287,624</u>	<u>\$ 318,273</u>	<u>\$ 936,267</u>	<u>\$ 979,808</u>
<b>Disaggregation of billings:</b>				
Subscription billings	\$ 224,312	\$ 321,100	\$ 652,692	\$ 935,780
Non-portable software billings	88,719	41,917	366,910	178,619
Hardware billings	21,853	3,786	92,319	22,052
Professional services billings	11,143	16,704	31,081	55,131
Total billings	<u>\$ 346,027</u>	<u>\$ 383,507</u>	<u>\$ 1,143,002</u>	<u>\$ 1,191,582</u>

*Subscription revenue* — Subscription revenue includes any performance obligation which has a defined term, and is generated from the sales of software entitlement and support subscriptions, subscription software licenses and cloud-based software as a service ("SaaS") offerings.

- *Ratable* — We recognize revenue from software entitlement and support subscriptions and SaaS offerings ratably over the contractual service period, the substantial majority of which relate to software entitlement and support subscriptions. These offerings represented approximately \$96.1 million and \$269.7 million of our subscription revenue for the three and nine months ended April 30, 2019 and approximately \$129.2 million and \$367.9 million of our subscription revenue for the three and nine months ended April 30, 2020, respectively.
- *Upfront* — Revenue from our subscription software licenses is generally recognized upfront upon transfer of control to the customer, which happens when we make the software available to the customer. These subscription software licenses represented approximately \$72.3 million and \$183.1 million of our subscription revenue for the three and nine months ended April 30, 2019 and approximately \$131.8 million and \$377.5 million of our subscription revenue for the three and nine months ended April 30, 2020, respectively.

*Non-portable software revenue* — Non-portable software revenue includes sales of our enterprise cloud platform when delivered on a configured-to-order appliance by us or one of our OEM partners. The software licenses associated with these sales are typically non-portable and have a term equal to the life of the appliance on which the software is delivered. Revenue from our non-portable software products is generally recognized upon transfer of control to the customer.

*Hardware revenue* — In transactions where we deliver the hardware appliance, we consider ourselves to be the principal in the transaction and we record revenue and costs of goods sold on a gross basis. We consider the amount allocated to hardware revenue to be equivalent to the cost of the hardware procured. Hardware revenue is generally recognized upon transfer of control to the customer.

*Professional services revenue* — We also sell professional services with our products. We recognize revenue related to professional services as they are performed.

## Non-GAAP Financial Measures and Key Performance Measures

We regularly monitor total billings, subscription billings, professional services billings, software and support billings (TCV billings), adjusted gross profit, adjusted gross margin, free cash flow and non-GAAP operating expenses, which are non-GAAP financial measures and key performance measures, to help us evaluate our growth and operational efficiencies, measure our performance, identify trends in our sales activity and establish our budgets. We evaluate these measures because they:

- are used by management and the Board of Directors to understand and evaluate our performance and trends, as well as to provide a useful measure for period-to-period comparisons of our core business;
- are widely used as a measure of financial performance to understand and evaluate companies in our industry; and
- are used by management to prepare and approve our annual budget and to develop short-term and long-term operational and compensation plans, as well as to assess our actual performance against our goals.

Total billings, subscription billings, professional services billings and software and support billings (TCV billings) are performance measures which management believes provide useful information to investors, as they represent the dollar value under binding purchase orders received and billed during a given period. Free cash flow is a performance measure that provides useful information to management and investors about the amount of cash used in or generated by the business after necessary capital expenditures. Adjusted gross profit, adjusted gross margin and non-GAAP operating expenses are performance measures which management believes provide useful information to investors, as they provide meaningful supplemental information regarding our performance and liquidity by excluding certain expenses and expenditures, such as stock-based compensation expense, that may not be indicative of our ongoing core business operating results. We use these non-GAAP financial and key performance measures for financial and operational decision-making and as a means to evaluate period-to-period comparisons.

Total billings, subscription billings, professional services billings, software and support billings (TCV billings), adjusted gross profit, adjusted gross margin, free cash flow and non-GAAP operating expenses have limitations as analytical tools and they should not be considered in isolation or as substitutes for analysis of our results as reported under generally accepted accounting principles in the United States. Total billings, subscription billings, professional services billings, software and support billings (TCV billings), adjusted gross profit, adjusted gross margin, free cash flow and non-GAAP operating expenses are not substitutes for total revenue, subscription revenue, professional services revenue, software and support revenue (TCV revenue), gross profit, gross margin, cash provided by (used in) operating activities, or GAAP operating expenses, respectively. In addition, other companies, including companies in our industry, may calculate non-GAAP financial measures and key performance measures differently or may use other measures to evaluate their performance, all of which could reduce the usefulness of our non-GAAP financial measures and key performance measures as tools for comparison. We urge you to review the reconciliation of our non-GAAP financial measures and key performance measures to the most directly comparable GAAP financial measures included below and not to rely on any single financial measure to evaluate our business.

We calculate our non-GAAP measures as follows:

**Total billings** — We calculate total billings by adding the change in deferred revenue, net of acquisitions, between the start and end of the period to total revenue recognized in the same period.

**Subscription billings**— We calculate subscription billings by adding the change in subscription deferred revenue, net of acquisitions, between the start and end of the period to subscription revenue recognized in the same period.

**Professional services billings**— We calculate professional services billings by adding the change in professional services deferred revenue, net of acquisitions, between the start and end of the period to professional services revenue recognized in the same period.

**Software and support billings (TCV billings)**— We calculate software and support billings, also referred to as TCV billings, by adding the change in software and support deferred revenue (TCV deferred revenue), net of acquisitions, between the start and end of the period to software and support revenue (TCV revenue), recognized in the same period. Software and support revenue and billings (TCV revenue and billings) include software and support, entitlements and other services revenue and billings.

**Adjusted gross profit and adjusted gross margin** — We calculate adjusted gross margin as adjusted gross profit divided by total revenue. We define adjusted gross profit as gross profit adjusted to exclude stock-based compensation expense and the amortization of acquired intangible assets. Our presentation of adjusted gross profit should not be construed as implying that our future results will not be affected by any recurring expenses or any unusual or non-recurring items that we exclude from our calculation of this non-GAAP financial measure.

**Free cash flow** — We calculate free cash flow as net cash provided by (used in) operating activities less purchases of property and equipment, which measures our ability to generate cash from our business operations after our capital expenditures.

**Non-GAAP operating expenses** — We define non-GAAP operating expenses as total operating expenses adjusted to exclude stock-based compensation expense, costs associated with business combinations, such as amortization of acquired intangible assets, revaluation of contingent consideration and other acquisition-related costs and costs associated with other non-recurring transactions. Our presentation of non-GAAP operating expenses should not be construed as implying that our future results will not be affected by any recurring expenses or any unusual or non-recurring items that we exclude from our calculation of this non-GAAP financial measure.

The following table presents a reconciliation of total billings, adjusted gross profit, adjusted gross margin, free cash flow and non-GAAP operating expenses to the most directly comparable GAAP financial measures, for each of the periods indicated:

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2019	2020	2019	2020
	(in thousands, except percentages)			
Total revenue	\$ 287,624	\$ 318,273	\$ 936,267	\$ 979,808
Change in deferred revenue, net of acquisitions	58,403	65,234	206,735	211,774
Total billings (non-GAAP)	<u>\$ 346,027</u>	<u>\$ 383,507</u>	<u>\$ 1,143,002</u>	<u>\$ 1,191,582</u>
Gross profit	\$ 212,547	\$ 245,979	\$ 701,102	\$ 760,090
Stock-based compensation	5,495	7,326	13,595	19,787
Amortization of intangible assets	3,694	3,694	10,554	11,082
Impairment of lease-related assets	—	—	—	537
Other	—	—	163	—
Adjusted gross profit (non-GAAP)	<u>\$ 221,736</u>	<u>\$ 256,999</u>	<u>\$ 725,414</u>	<u>\$ 791,496</u>
Gross margin	73.9 %	77.3 %	74.9 %	77.6 %
Stock-based compensation	1.9 %	2.3 %	1.5 %	2.0 %
Amortization of intangible assets	1.3 %	1.1 %	1.1 %	1.1 %
Impairment of lease-related assets	— %	— %	— %	0.1 %
Adjusted gross margin (non-GAAP)	<u>77.1 %</u>	<u>80.7 %</u>	<u>77.5 %</u>	<u>80.8 %</u>
Operating expenses	\$ 416,725	\$ 476,152	\$ 1,116,624	\$ 1,417,659
Stock-based compensation	(89,337)	(84,770)	(219,727)	(239,350)
Amortization of intangible assets	(661)	(651)	(1,877)	(1,953)
Impairment of lease-related assets	—	—	—	(2,465)
Other	(211)	(472)	63	(979)
Operating expenses (non-GAAP)	<u>\$ 326,516</u>	<u>\$ 390,259</u>	<u>\$ 895,083</u>	<u>\$ 1,172,912</u>
Net cash (used in) provided by operating activities	\$ (36,490)	\$ (84,861)	\$ 51,824	\$ (163,515)
Purchases of property and equipment	(22,432)	(32,622)	(94,815)	(72,073)
Free cash flow (non-GAAP)	<u>\$ (58,922)</u>	<u>\$ (117,483)</u>	<u>\$ (42,991)</u>	<u>\$ (235,588)</u>

The following table presents a reconciliation of subscription billings, professional services billings and software and support billings (TCV billings) to the most directly comparable GAAP financial measures, for each of the periods indicated:

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2019	2020	2019	2020
	(in thousands)			
Subscription revenue	\$ 168,447	\$ 260,963	\$ 452,779	\$ 745,403
Change in subscription deferred revenue, net of acquisitions	55,865	60,137	199,913	190,377
Subscription billings	\$ 224,312	\$ 321,100	\$ 652,692	\$ 935,780
Professional services revenue	\$ 8,605	\$ 11,607	\$ 24,259	\$ 33,734
Change in professional services deferred revenue	2,538	5,097	6,822	21,397
Professional services billings	\$ 11,143	\$ 16,704	\$ 31,081	\$ 55,131
Software revenue	\$ 162,941	\$ 176,970	\$ 553,753	\$ 564,695
Hardware revenue	21,853	3,786	92,319	22,052
Product revenue	184,794	180,756	646,072	586,747
Support, entitlements and other services revenue	102,830	137,517	290,195	393,061
Total revenue	\$ 287,624	\$ 318,273	\$ 936,267	\$ 979,808
Software and support revenue (TCV revenue) <sup>(1)</sup>	\$ 265,771	\$ 314,487	\$ 843,948	\$ 957,756
Change in software and support deferred revenue (TCV deferred revenue), net of acquisitions	58,403	65,234	206,735	211,774
Software and support billings (TCV billings) <sup>(1)</sup>	\$ 324,174	\$ 379,721	\$ 1,050,683	\$ 1,169,530

(1) Software and support revenue and billings (TCV revenue and billings) include software and support, entitlements and other services revenue and billings.

### Factors Affecting Our Performance

We believe that our future success will depend on many factors, including those described below. While these areas present significant opportunity, they also present risks that we must manage to achieve successful results. See the section titled "Risk Factors" for details. If we are unable to address these challenges, our business and operating results could be materially and adversely affected.

### Investment in Growth

We plan to, in the long term, invest in sales and marketing so that we can capitalize on our market opportunity, including growing our sales and marketing teams, continuing our focus on opportunities with major accounts and large deals, which we define as transactions over \$500,000, expanding our focus on opportunities in commercial accounts, as well as other sales and marketing initiatives, such as demand generation spending to increase our pipeline growth. Historically, we have significantly increased our sales and marketing personnel, which grew by approximately 34% from April 30, 2019 to April 30, 2020. However, as discussed above in the section titled "Impact of the COVID-19 Pandemic," in response to the COVID-19 pandemic we have proactively taken steps to reduce our expenses and, as a result, our overall investments in growth and the size of our sales and marketing teams will fluctuate, and may decline, in the near term. We estimate, based on past experience, that our average sales team members typically become fully ramped up around the start of their fourth quarter of employment with us, and as our newer employees ramp up, we expect their increased productivity to contribute to our revenue growth. As of April 30, 2020, we considered approximately 56% of our global sales team members to be fully ramped, while the remaining approximately 44% of our global sales team members are in the process of ramping up. As we continue to focus some of our newer and existing sales team members on major accounts and large deals, and as we continue our transition toward a subscription-based business model, it may take longer, potentially significantly, for these sales team members to become fully productive, and there may also be an impact to the overall productivity of our sales team. Furthermore, the effects of the COVID-19 pandemic and the measures we have implemented in response, including postponing, cancelling or making virtual-only certain in-person corporate events at which our sales team members have historically received in-person sales enablement and related trainings, may further increase, potentially significantly, the time it takes for our sales team members to become fully productive. We are focused on actively managing these realignments and potential effects.



We also intend, in the long term, to grow our global research and development and engineering teams to enhance our solutions, including our newer subscription-based products, improve integration with new and existing ecosystem partners and broaden the range of technologies and features available through our platform. However, as discussed above in the section titled "Impact of the COVID-19 Pandemic," in response to the COVID-19 pandemic we have effected a global hiring pause outside of a small number of critical roles and, as a result, the overall growth in our global research and development and engineering teams will fluctuate, and may decline, from quarter to quarter in the near-term.

We believe that these investments will contribute to our long-term growth, although they may adversely affect our profitability in the near term.

### ***Transition to Subscription***

Starting in fiscal 2019, as a result of our transition towards a subscription-based business model, more of our customers began purchasing separately sold subscription term-based licenses that could be deployed on a variety of hardware platforms. As we continue our transition to a subscription-based business model, we expect a greater portion of our products to be delivered through subscription term-based licenses or cloud-based SaaS subscriptions. Shifts in the mix of whether our solutions are sold on a subscription basis have and could continue to result in fluctuations in our billings and revenue. Subscription sales consist of subscription term-based licenses and offerings with ongoing performance obligations, including software entitlement and support subscriptions and cloud-based SaaS offerings. Since revenue is recognized as performance obligations are delivered, sales with ongoing performance obligations may reflect lower revenue in a given period. In addition, other factors relating to our shift to selling more subscription term-based licenses may impact our billings, revenue and cash flow. For example, our term-based licenses generally have an average term of less than four years and thus result in lower billings and revenue in a given period when compared to our historical life of device license sales, which have a duration equal to the life of the associated appliance, which we estimate to be approximately five years. Furthermore, our customers may, including in response to the uncertainty caused by the COVID-19 pandemic, decide to purchase our software solutions on shorter subscription terms than they have historically, and/or request to only pay for the initial year of a multi-year subscription term upfront, which could negatively impact our billings, revenue and cash flow in a given period when compared to historical life-of-device or multiple-year term-based license sales.

Revenue for our solutions, whether or not sold as a subscription term-based license, is generally recognized upon transfer of control to the customer. For additional information on revenue recognition, see Note 2 of Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

### ***Market Adoption of Our Products***

The public cloud and, more recently, hybrid cloud paradigms, have changed IT buyer expectations about the simplicity, agility, scalability, portability and pay-as-you-grow economics of IT resources, which represent a major architectural shift and business model evolution. A key focus of our sales and marketing efforts is creating market awareness about the benefits of our enterprise cloud platform, including our newer products outside of our core hyperconverged infrastructure ("HCI") offering, both as compared to traditional datacenter architectures as well as the public cloud, particularly as we continue to pursue large enterprises and mission critical workloads and transition toward a subscription-based business model. The broad nature of the technology shift that our enterprise cloud platform represents, the relationships our end customers have with existing IT vendors and our transition toward a subscription-based business model sometimes lead to unpredictable sales cycles, which we hope to compress and stabilize as market adoption increases, as we gain leverage with our channel partners, as we continue to educate the market about our subscription-based business model and as our sales and marketing efforts evolve. Our business and operating results will be significantly affected by the degree to and speed with which organizations adopt our enterprise cloud platform.

### ***Leveraging Channel Partners and OEMs***

We plan to continue to strengthen and expand our network of channel partners and OEMs to increase sales to both new and existing end customers. We believe that increasing channel leverage, particularly as we expand our focus on opportunities in commercial accounts, by investing, in the long term, in sales enablement and co-marketing with our partners and OEMs will extend and improve our engagement with a broad set of end customers. Our business and results of operations will be significantly affected by our success in leveraging and expanding our network of channel partners and OEMs.

## **Customer Retention and Expansion**

Our end customers typically deploy our technology for a specific workload initially. After a new end customer's initial order, which includes the product and associated software entitlement and support subscription and services, we focus on expanding our footprint by serving more workloads. We also generate recurring revenue from our software entitlement and support subscription renewals. We view continued purchases and upgrades as critical drivers of our success, as the sales cycles are typically shorter as compared to new end customer deployments, and selling efforts are typically less. As of April 30, 2020, approximately 67% of our end customers who have been with us for 18 months or longer have made a repeat purchase, which is defined as any purchase activity, including renewals of term-based licenses or software entitlement and support subscription renewals, after the initial purchase. Additionally, end customers who have been with us for 18 months or longer have total lifetime orders, including the initial order, in an amount that is more than 4.1x greater, or 4.5x greater excluding the value of hardware purchases, on average, than their initial order. This number increases to approximately 11.7x, or 13.2x excluding hardware, on average, for Global 2000 end customers who have been with us for 18 months or longer as of April 30, 2020. These multiples exclude the effect of one end customer who had a very large and irregular purchase pattern that we believe is not representative of the purchase patterns of all of our other end customers.

Our business and operating results will depend on our ability to retain and sell additional products to our existing and future base of end customers. Our ability to obtain new and retain existing customers will in turn depend in part on our ability to effectively maintain existing and future customer relationships, continue to innovate by adding new functionality and improving usability of our solutions in a manner that addresses our end customers' needs and requirements, and optimally price our solutions in light of marketplace conditions, competition, our costs and customer demand. Furthermore, our ongoing transition to a subscription-based business model may cause concerns among our customer base, including concerns regarding changes to pricing over time, and may also result in confusion among new and existing end customers, for example, regarding our pricing models. Such concerns and/or confusion can slow adoption and renewal rates among our current and future customer base. Therefore, as we continue our transition, we may need to enhance our efforts to educate our end customers and as a result incur higher sales and marketing costs.

## **Components of Our Results of Operations**

### **Revenue**

We generate revenue primarily from the sale of our enterprise cloud platform, which can be deployed on a variety of qualified hardware platforms or, in the case of our cloud-based SaaS offerings, via hosted service or delivered pre-installed on an appliance that is configured to order. Non-portable software is delivered or sold alongside configured-to-order appliances with a license term equal to the life of the associated appliance.

Our subscription term-based licenses are sold separately, or can be sold alongside configured-to-order appliances. Our subscription term-based licenses typically have a term of one to five years. Our cloud-based SaaS subscriptions have terms extending up to five years.

Configured-to-order appliances, including our Nutanix-branded NX hardware line, can be purchased from one of our channel partners, OEMs or directly from Nutanix. Our enterprise cloud platform is typically purchased with one or more years of support and entitlements, which includes the right to software upgrades and enhancements as well as technical support. Our platform is primarily sold through channel partners, including distributors, resellers and OEMs.

**Product revenue** — Product revenue consists of software and hardware revenue. A majority of our product revenue is generated from the sale of our enterprise cloud operating system. We also sell renewals of previously purchased software licenses and SaaS offerings. Revenue from our software products is generally recognized upon transfer of control to the customer, which is typically upon shipment for sales including a hardware appliance, upon making the software available to the customer when not sold with an appliance or as services are performed with SaaS offerings. In transactions where we deliver the hardware appliance, we consider ourselves to be the principal in the transaction and we record revenue and costs of goods sold on a gross basis. We consider the amount allocated to hardware revenue to be equivalent to the cost of the hardware procured. Hardware revenue is generally recognized upon transfer of control to the customer.

**Support, entitlements and other services revenue** — We generate our support, entitlements and other services revenue primarily from software entitlement and support subscriptions, which include the right to software upgrades and enhancements as well as technical support. The majority of our product sales are sold in conjunction with software entitlement and support subscriptions, with terms ranging from one to five years. Occasionally, we also sell professional services with our products. We recognize revenue from software entitlement and support contracts ratably over the contractual service period. The service period typically commences upon transfer of control of the corresponding products to the customer. We recognize revenue related to professional services as they are performed.

## **Cost of Revenue**

**Cost of product revenue** — Cost of product revenue consists of costs paid to third-party contract manufacturers, hardware costs, personnel costs associated with our operations function, consisting of salaries, benefits, bonuses and stock-based compensation, cloud-based costs associated with our SaaS offerings, and allocated costs, consisting of certain facilities, depreciation and amortization, recruiting and information technology costs allocated based on headcount.

**Cost of support, entitlements and other services revenue** — Cost of support, entitlements and other services revenue includes personnel and operating costs associated with our global customer support organization, as well as allocated costs. We expect our cost of support, entitlements and other services revenue to increase in absolute dollars as our support, entitlements and other services revenue increases.

## **Operating Expenses**

Our operating expenses consist of sales and marketing, research and development and general and administrative expenses. The largest component of our operating expenses is personnel costs. Personnel costs consist of wages, benefits, bonuses and, with respect to sales and marketing expenses, sales commissions.

**Sales and marketing** — Sales and marketing expense consists primarily of personnel costs. Sales and marketing expense also includes sales commissions, costs for promotional activities and other marketing costs, travel costs and costs associated with demonstration units, including depreciation and allocated costs. Commissions are deferred and recognized as we recognize the associated revenue. We expect sales and marketing expense to continue, in the long term, to increase in absolute dollars as part of our long-term plans to increase the size of our global sales and marketing organizations. However, as discussed above in the section titled "Impact of the COVID-19 Pandemic," in response to the COVID-19 pandemic we have proactively taken steps to reduce our expenses, including (i) effecting a global hiring pause outside of a small number of critical roles; (ii) implementing travel restrictions prohibiting all non-essential business travel; and (iii) postponing, cancelling, withdrawing from, or converting to virtual-only experiences (where possible and appropriate) our in-person sales and marketing events, including our 2020 .NEXT customer and partner events and our fiscal 2021 sales kick off. As a result, our sales and marketing expense will fluctuate, and may decline, in the near-term. Additionally, as we continue our transition to a subscription-based business model, we anticipate needing to adjust the compensation structure of our sales force, which may lead to fluctuations in our commissions expense and overall sales and marketing expense as a percentage of revenue and on an absolute basis.

**Research and development** — Research and development ("R&D") expense consists primarily of personnel costs, as well as other direct and allocated costs. We have devoted our product development efforts primarily to enhancing the functionality and expanding the capabilities of our solutions. R&D costs are expensed as incurred. We expect R&D expense, in the long term, to increase in absolute dollars as part of our long-term plans to invest in our future products and services, including our newer subscription-based products, although R&D expense may fluctuate as a percentage of total revenue and, on an absolute basis, from quarter to quarter. In addition, as discussed above in the section titled "Impact of the COVID-19 Pandemic," in response to the COVID-19 pandemic we have effected a global hiring pause outside of a small number of critical roles and, as a result, our R&D expense will fluctuate, and may decline, from quarter to quarter in the near-term.

**General and administrative** — General and administrative ("G&A") expense consists primarily of personnel costs, which include our executive, finance, human resources and legal organizations. G&A expense also includes outside professional services, which consists primarily of legal, accounting and other consulting costs, as well as insurance and other costs associated with being a public company and allocated costs. We expect G&A expense, in the long term, to increase in absolute dollars, particularly due to additional legal, accounting, insurance and other costs associated with our growth, although G&A expense may fluctuate as a percentage of total revenue and, on an absolute basis, from quarter to quarter. In addition, as discussed above in the section titled "Impact of the COVID-19 Pandemic," in response to the COVID-19 pandemic we have effected a global hiring pause outside of a small number of critical roles and, as a result, our G&A expense will fluctuate, and may decline, from quarter to quarter in the near-term.

## **Other Income (Expense), Net**

Other income (expense), net consists primarily of interest income and expense, which includes the amortization of the debt discount and issuance costs associated with our 0% Convertible Senior Notes, due in 2023 (the "Notes"), interest income related to our short-term investments and foreign currency exchange gains or losses. During the three and nine months ended April 30, 2019, we recognized \$7.4 million and \$21.8 million, respectively, of interest expense related to the amortization of the debt discount and issuance costs associated with the Notes. During the three and nine months ended April 30, 2020, we recognized \$7.9 million and \$23.3 million, respectively, of interest expense related to the amortization of the debt discount and issuance costs associated with the Notes.

### Provision for Income Taxes

Provision for income taxes consists primarily of income taxes for certain foreign jurisdictions in which we conduct business and state income taxes in the United States. We have recorded a full valuation allowance related to our federal and state net operating losses and other net deferred tax assets and a partial valuation allowance related to our foreign net deferred tax assets due to the uncertainty of the ultimate realization of the future benefits of those assets.

### Results of Operations

The following tables set forth our condensed consolidated results of operations in dollars and as a percentage of total revenue for the periods presented. The period-to-period comparison of results is not necessarily indicative of results for future periods.

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2019	2020	2019	2020
	(in thousands)			
Revenue:				
Product	\$ 184,794	\$ 180,756	\$ 646,072	\$ 586,747
Support, entitlements and other services	102,830	137,517	290,195	393,061
Total revenue	287,624	318,273	936,267	979,808
Cost of revenue:				
Product <sup>(1)(2)</sup>	29,528	15,990	114,755	57,899
Support, entitlements and other services <sup>(1)</sup>	45,549	56,304	120,410	161,819
Total cost of revenue	75,077	72,294	235,165	219,718
Gross profit	212,547	245,979	701,102	760,090
Operating expenses:				
Sales and marketing <sup>(1)(2)</sup>	245,703	299,162	655,907	895,936
Research and development <sup>(1)</sup>	137,982	141,346	371,550	418,640
General and administrative <sup>(1)</sup>	33,040	35,644	89,167	103,083
Total operating expenses	416,725	476,152	1,116,624	1,417,659
Loss from operations	(204,178)	(230,173)	(415,522)	(657,569)
Other expense, net	(3,212)	(5,640)	(10,314)	(16,543)
Loss before provision for income taxes	(207,390)	(235,813)	(425,836)	(674,112)
Provision for income taxes	2,423	4,858	1,005	13,423
Net loss	\$ (209,813)	\$ (240,671)	\$ (426,841)	\$ (687,535)
<sup>(1)</sup> Includes stock-based compensation expense as follows:				
Product cost of revenue	\$ 953	\$ 1,367	\$ 2,523	\$ 3,937
Support, entitlements and other services cost of revenue	4,542	5,959	11,072	15,850
Sales and marketing	35,257	33,177	81,325	92,137
Research and development	42,265	39,462	107,953	113,484
General and administrative	11,815	12,131	30,449	33,729
Total stock-based compensation expense	\$ 94,832	\$ 92,096	\$ 233,322	\$ 259,137
<sup>(2)</sup> Includes amortization of intangible assets as follows:				
Product cost of revenue	\$ 3,694	\$ 3,694	\$ 10,554	\$ 11,082
Sales and marketing	661	651	1,877	1,953
Total amortization of intangible assets	\$ 4,355	\$ 4,345	\$ 12,431	\$ 13,035

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2019	2020	2019	2020
	(as a percentage of total revenue)			
Revenue:				
Product	64.2 %	56.8 %	69.0 %	59.9 %
Support, entitlements and other services	35.8 %	43.2 %	31.0 %	40.1 %
Total revenue	100.0 %	100.0 %	100.0 %	100.0 %
Cost of revenue:				
Product	10.3 %	5.0 %	12.2 %	5.9 %
Support, entitlements and other services	15.8 %	17.7 %	12.9 %	16.5 %
Total cost of revenue	26.1 %	22.7 %	25.1 %	22.4 %
Gross profit	73.9 %	77.3 %	74.9 %	77.6 %
Operating expenses:				
Sales and marketing	85.4 %	94.0 %	70.1 %	91.4 %
Research and development	48.0 %	44.4 %	39.7 %	42.7 %
General and administrative	11.5 %	11.2 %	9.5 %	10.5 %
Total operating expenses	144.9 %	149.6 %	119.3 %	144.6 %
Loss from operations	(71.0)%	(72.3)%	(44.4)%	(67.0)%
Other expense, net	(1.1)%	(1.8)%	(1.1)%	(1.7)%
Loss before provision for income taxes	(72.1)%	(74.1)%	(45.5)%	(68.7)%
Provision for income taxes	0.8 %	1.5 %	0.1 %	1.4 %
Net loss	(72.9)%	(75.6)%	(45.6)%	(70.1)%

**Comparison of the Three Months Ended April 30, 2019 and 2020**
**Revenue**

	Three Months Ended April 30,		Change		Nine Months Ended April 30,		Change	
	2019	2020	\$	%	2019	2020	\$	%
(in thousands, except percentages)								
Product	\$ 184,794	\$ 180,756	\$ (4,038)	(2)%	\$ 646,072	\$ 586,747	\$ (59,325)	(9)%
Support, entitlements and other services	102,830	137,517	34,687	34 %	290,195	393,061	102,866	35 %
<b>Total revenue</b>	<b>\$ 287,624</b>	<b>\$ 318,273</b>	<b>\$ 30,649</b>	<b>11 %</b>	<b>\$ 936,267</b>	<b>\$ 979,808</b>	<b>\$ 43,541</b>	<b>5 %</b>

	Three Months Ended April 30,		Change		Nine Months Ended April 30,		Change	
	2019	2020	\$	%	2019	2020	\$	%
(in thousands, except percentages)								
U.S.	\$ 158,263	\$ 166,780	\$ 8,517	5 %	\$ 519,923	\$ 533,919	\$ 13,996	3 %
Asia Pacific	66,105	65,726	(379)	(1)%	205,115	196,851	(8,264)	(4)%
Europe, the Middle East and Africa	52,853	71,907	19,054	36 %	177,260	204,301	27,041	15 %
Other Americas	10,403	13,860	3,457	33 %	33,969	44,737	10,768	32 %
<b>Total revenue</b>	<b>\$ 287,624</b>	<b>\$ 318,273</b>	<b>\$ 30,649</b>	<b>11 %</b>	<b>\$ 936,267</b>	<b>\$ 979,808</b>	<b>\$ 43,541</b>	<b>5 %</b>

The decrease in product revenue for the three and nine months ended April 30, 2020 was due primarily to the decrease in hardware revenue, as more and more customers are purchasing hardware directly from our OEMs. In addition, our product revenue has been impacted by our continued transition to selling subscription term-based licenses, as these licenses generally have an average term of approximately four years, while those with a duration equal to the life of the associated appliance have an estimated life of approximately five years. For both the three and nine months ended April 30, 2019, the total average contract term was approximately 4.1 years. For both the three and nine months ended April 30, 2020, the total average contract term was approximately 3.9 years. Total average contract term represents the dollar-weighted term across all subscription and life-of-device contracts executed during the quarter, using an assumed term of five years for life-of-device licenses.

Support, entitlements and other services revenue increased for the three and nine months ended April 30, 2020, as compared to the prior year periods, in conjunction with the growth of our end customer base and the related software entitlement and support subscription contracts.

## Cost of Revenue and Gross Margin

	Three Months Ended April 30,		Change		Nine Months Ended April 30,		Change	
	2019	2020	\$	%	2019	2020	\$	%
(in thousands, except percentages)								
Cost of product revenue	\$ 29,528	\$ 15,990	\$ (13,538)	(46)%	\$ 114,755	\$ 57,899	\$ (56,856)	(50)%
<i>Product gross margin</i>	84.0 %	91.2 %			82.2 %	90.1 %		
Cost of support, entitlements and other services revenue	\$ 45,549	\$ 56,304	\$ 10,755	24 %	\$ 120,410	\$ 161,819	\$ 41,409	34 %
<i>Support, entitlements and other services gross margin</i>	55.7 %	59.1 %			58.5 %	58.8 %		
<i>Total gross margin</i>	73.9 %	77.3 %			74.9 %	77.6 %		

### Cost of product revenue

Cost of product revenue decreased for the three and nine months ended April 30, 2020, as compared to the prior year periods, due primarily to the decreases in hardware revenue, as more and more customers are purchasing hardware directly from our OEMs.

Product gross margin increased by 7.2 and 7.9 percentage points for the three and nine months ended April 30, 2020, respectively, as compared to the prior year periods. The gross margin increases were due primarily to a higher mix of software revenue as we continue to focus more on software-only transactions.

### Cost of support, entitlements and other services revenue

Cost of support, entitlements and other services revenue increased for the three and nine months ended April 30, 2020, as compared to the prior year periods, due primarily to higher personnel costs, relating to growth in our global customer support organization. The increase in personnel costs was driven primarily by a 30% increase in our customer support, entitlements and other services headcount from April 30, 2019 to April 30, 2020.

Support, entitlements and other services gross margin increased by 3.4 and 0.3 percentage points for the three and nine months ended April 30, 2020, respectively, as compared to the prior year periods, due primarily to personnel-related costs growing at a slower rate than support, entitlements and other services revenue.

## Operating Expenses

### Sales and marketing

	Three Months Ended April 30,		Change		Nine Months Ended April 30,		Change	
	2019	2020	\$	%	2019	2020	\$	%
(in thousands, except percentages)								
Sales and marketing	\$ 245,703	\$ 299,162	\$ 53,459	22 %	\$ 655,907	\$ 895,936	\$ 240,029	37 %
<i>Percent of total revenue</i>	85.4 %	94.0 %			70.1 %	91.4 %		

Sales and marketing expense increased for the three and nine months ended April 30, 2020 as compared to the prior year periods. The increase was due primarily to higher personnel-related costs, as our sales and marketing headcount increased by 34% from April 30, 2019 to April 30, 2020, as well as increased sales and marketing activities related to lead generation, brand awareness, promotions, trade shows and partner programs as part of our efforts to penetrate and expand in global markets.

### Research and development

	Three Months Ended April 30,		Change		Nine Months Ended April 30,		Change	
	2019	2020	\$	%	2019	2020	\$	%

(in thousands, except percentages)

Research and development	\$ 137,982	\$ 141,346	\$ 3,364	2 %	\$ 371,550	\$ 418,640	\$ 47,090	13 %
Percent of total revenue	48.0 %	44.4 %			39.7 %	42.7 %		

R&D expense increased for the three and nine months ended April 30, 2020 as compared to the prior year periods due primarily to higher personnel-related costs, as R&D headcount increased by 15% from April 30, 2019 to April 30, 2020 in an effort to continue the expansion of our product development activities, including new products.

### General and administrative

	Three Months Ended April 30,		Change		Nine Months Ended April 30,		Change	
	2019	2020	\$	%	2019	2020	\$	%

(in thousands, except percentages)

General and administrative	\$ 33,040	\$ 35,644	\$ 2,604	8 %	\$ 89,167	\$ 103,083	\$ 13,916	16 %
Percent of total revenue	11.5 %	11.2 %			9.5 %	10.5 %		

G&A expense increased for the three and nine months ended April 30, 2020 as compared to the prior year periods. The increase was due primarily to higher personnel-related costs, as G&A headcount increased by 15% from April 30, 2019 to April 30, 2020 in order to support our growing business. The increase in G&A expense was also impacted by higher depreciation and legal and outside services costs, in line with the general growth of the business.

### Other Expense, Net

	Three Months Ended April 30,		Change		Nine Months Ended April 30,		Change	
	2019	2020	\$	%	2019	2020	\$	%

(in thousands, except percentages)

Other expense, net	\$ (3,212)	\$ (5,640)	\$ 2,428	76 %	\$ (10,314)	\$ (16,543)	\$ 6,229	60 %
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Other expense, net for the three and nine months ended April 30, 2019 and 2020 was primarily related to interest expense associated with the amortization of the debt discount and issuance costs for the Notes, partially offset by interest earned on short-term investments. Other expense, net for the three and nine months ended April 30, 2020 was also impacted by higher foreign currency losses, primarily related to intercompany balances denominated in foreign currencies, as well as our increasing foreign business.

### Provision for Income Taxes

	Three Months Ended April 30,		Change		Nine Months Ended April 30,		Change	
	2019	2020	\$	%	2019	2020	\$	%

(in thousands, except percentages)

Provision for income taxes	\$ 2,423	\$ 4,858	\$ 2,435	100 %	\$ 1,005	\$ 13,423	\$ 12,418	1,236 %
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The increase in the income tax provision for the three and nine months ended April 30, 2020, as compared to the prior year periods, was due primarily to a one-time U.S. valuation allowance release in the first quarter of fiscal 2019 related to a business combination and a one-time tax benefit in the second quarter of fiscal 2019 related to the change in tax law, as well as an increase in foreign taxes, as we continued our global expansion.



## Liquidity and Capital Resources

As of April 30, 2020, we had \$262.3 million of cash and cash equivalents, \$3.0 million of restricted cash and \$469.8 million of short-term investments, which were held for general corporate purposes. Our cash, cash equivalents and short-term investments primarily consist of bank deposits, money market accounts and highly rated debt instruments of the U.S. government and its agencies and debt instruments of highly rated corporations. We do not anticipate that we will need funds generated from foreign operations to fund our domestic operations.

In January 2018, we issued Convertible Senior Notes with a 0% interest rate for an aggregate principal amount of \$575.0 million. There are no required principal payments prior to the maturity of the Notes. For additional information, see Note 5 of Part I, Item 1 of this Quarterly Report on Form 10-Q.

Due to investments in our business as well as the potential cash flow impacts resulting from our continued transition to a subscription-based business model, we expect our operating and free cash flow to continue to be negative during the next 12 months. Notwithstanding that fact, we believe that our cash and cash equivalents and short-term investments will be sufficient to meet our anticipated cash needs for working capital and capital expenditures for at least the next 12 months. Our future capital requirements will depend on many factors, including our growth rate, the timing and extent of spending to support development efforts, the expansion of sales and marketing activities, the introduction of new and enhanced product and service offerings, the continuing market acceptance of our products, the impact of COVID-19 pandemic on our business, our end customers and partners, and the economy, and the timing of and extent to which our customers transition to shorter-term contracts or request to only pay for the initial term of multi-year contracts as a result of our transition to a subscription-based business model. In the event that additional financing is required from outside sources, we may not be able to raise such financing on terms favorable or acceptable to us or at all. If we are unable to raise additional capital when desired, our business, operating results and financial condition would be adversely affected.

## Cash Flows

The following table summarizes our cash flows for the periods presented:

	Nine Months Ended April 30,	
	2019	2020
	(in thousands)	
Net cash provided by (used in) operating activities	\$ 51,824	\$ (163,515)
Net cash provided by (used in) investing activities	22,150	(27,152)
Net cash provided by financing activities	65,171	56,515
Net increase (decrease) in cash, cash equivalents and restricted cash	<u>\$ 139,145</u>	<u>\$ (134,152)</u>

### ***Cash Flows from Operating Activities***

Net cash used in operating activities was \$163.5 million for the nine months ended April 30, 2020, compared to cash provided by operating activities of \$51.8 million for the nine months ended April 30, 2019. The decrease in cash provided by operating activities for the nine months ended April 30, 2020 was due primarily to our higher net loss from operations.

### ***Cash Flows from Investing Activities***

Net cash provided by investing activities of \$22.2 million for the nine months ended April 30, 2019 included \$460.6 million of maturities of short-term investments, partially offset by \$324.6 million of short-term investment purchases, \$94.8 million of purchases of property and equipment and a \$19.0 million payment for an acquisition, net of cash and restricted cash acquired.

Net cash used in investing activities of \$27.2 million for the nine months ended April 30, 2020 included \$524.6 million of short-term investment purchases and \$72.1 million of purchases of property and equipment, partially offset by \$498.6 million of maturities of short-term investments and \$70.9 million of sales of short-term investments.

### ***Cash Flows from Financing Activities***

Net cash provided by financing activities of \$65.2 million for the nine months ended April 30, 2019 primarily consisted of \$67.3 million of net proceeds from the sale of shares through employee equity incentive plans, partially offset by a \$1.0 million payment of an acquisition-related contingent consideration and a \$1.0 million payment of debt in conjunction with an acquisition.

Net cash provided by financing activities of \$56.5 million for the nine months ended April 30, 2020 consisted of proceeds from the sale of shares through employee equity incentive plans.

## Contractual Obligations

The following table summarizes our contractual obligations as of April 30, 2020:

	Payments Due by Period				
	Total	Less than 1 Year	1 Year to 3 Years	3 to 5 Years	More than 5 Years
(in thousands)					
Principal amount payable on convertible senior notes <sup>(1)</sup>	\$ 575,000	\$ —	\$ 575,000	\$ —	\$ —
Operating leases (undiscounted basis) <sup>(2)</sup>	181,078	41,352	87,973	47,341	4,412
Other commitments <sup>(3)</sup>	76,906	67,981	8,917	8	—
Guarantees with contract manufacturers and OEMs	121,511	91,511	30,000	—	—
<b>Total</b>	<b>\$ 954,495</b>	<b>\$ 200,844</b>	<b>\$ 701,890</b>	<b>\$ 47,349</b>	<b>\$ 4,412</b>

(1) For additional information regarding our convertible senior notes, refer to Note 5 of Part I, Item 1 of this Quarterly Report on Form 10-Q.

(2) For additional information regarding our operating leases, refer to Note 6 of Part I, Item 1 of this Quarterly Report on Form 10-Q.

(3) Purchase obligations and other commitments pertaining to our daily business operations.

From time to time, in the normal course of business, we make commitments with our contract manufacturers and OEMs to ensure them a minimum level of financial consideration for their investment in our joint solutions. These commitments are based on revenue targets or on-hand inventory and non-cancelable purchase orders for non-standard components. We record a charge related to these items when we determine that it is probable a loss will be incurred and we are able to estimate the amount of the loss. Our historical charges have not been material.

As of April 30, 2020, we had accrued liabilities related to uncertain tax positions, which are reflected on our condensed consolidated balance sheet. These accrued liabilities are not reflected in the contractual obligations disclosed in the table above, as it is uncertain if or when such amounts will ultimately be settled.

### Off-Balance Sheet Arrangements

As of April 30, 2020, we did not have any relationships with unconsolidated organizations or financial partnerships, such as structured finance or special purpose entities that would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

### Critical Accounting Policies and Estimates

Our condensed consolidated financial statements are prepared in accordance with U.S. GAAP. The preparation of these condensed consolidated financial statements requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the applicable periods. We evaluate our estimates, assumptions and judgments on an ongoing basis. Our estimates, assumptions and judgments are based on historical experience and various other factors that we believe to be reasonable under the circumstances. Different assumptions and judgments would change the estimates used in the preparation of our condensed consolidated financial statements, which, in turn, could change the results from those reported.

There have been no material changes to our critical accounting policies and estimates as compared to those described in our Annual Report on Form 10-K for the fiscal year ended July 31, 2019, except for the changes as a result of our adoption of ASC 842.

### Recent Accounting Pronouncements

See Note 1 of Part I, Item 1 of this Quarterly Report on Form 10-Q for a full description of recent accounting pronouncements.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We have operations both within the United States and internationally and we are exposed to market risk in the ordinary course of business. Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily a result of fluctuations in foreign currency exchange rates and interest rates.

#### ***Foreign Currency Risk***

Our condensed consolidated results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates. Historically, our revenue contracts have been denominated in U.S. dollars. Our expenses are generally denominated in the currencies in which our operations are located. To date, we have not entered into any hedging arrangements with respect to foreign currency risk or other derivative instruments. In the event our foreign sales and expenses increase, our operating results may be more significantly affected by foreign currency exchange rate fluctuations, which can affect our operating income or loss. The effect of a hypothetical 10% change in foreign currency exchange rates on our non-U.S. dollar monetary assets and liabilities would not have had a material impact on our historical condensed consolidated financial statements. Foreign currency transaction gains and losses and exchange rate fluctuations have not been material to our condensed consolidated financial statements.

A hypothetical 10% decrease in the U.S. dollar against other currencies would result in an increase in our operating loss of approximately \$30.6 million and \$33.5 million for the nine months ended April 30, 2019 and 2020, respectively. The increase in this hypothetical change is due to an increase in our expenses denominated in foreign currencies due to our continued global expansion. This analysis disregards the possibilities that rates can move in opposite directions and that losses from one geographic area may be offset by gains from another geographic area.

#### ***Interest Rate Risk***

Our investment objective is to conserve capital and maintain liquidity to support our operations; therefore, we generally invest in highly liquid securities, consisting primarily of bank deposits, money market funds, commercial paper, U.S. government securities and corporate bonds. Such fixed and floating interest-earning instruments carry a degree of interest rate risk. The fair market value of fixed income securities may be adversely impacted by a rise in interest rates, while floating rate securities may produce less income than predicted if interest rates fall. Due to the short-term nature of our investment portfolio, we do not believe an immediate 10% increase or decrease in interest rates would have a material effect on the fair market value of our portfolio. Therefore, we do not expect our operating results or cash flows to be materially affected by a sudden change in interest rates.

### **Item 4. Controls and Procedures**

#### ***Evaluation of Disclosure Controls and Procedures***

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of the end of the period covered by this report. Based on management's evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective at a reasonable assurance level.

In designing and evaluating our disclosure controls and procedures, management recognizes that any disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

#### ***Changes in Internal Control over Financial Reporting***

Except for the implementation of certain internal controls related to the adoption of ASC 842, there were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the nine months ended April 30, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We implemented certain internal controls to ensure we adequately evaluated our lease agreements and properly assessed the impact of the new lease standard on our financial statements to facilitate its adoption effective August 1, 2019. In addition, we have made some changes to certain internal controls to reflect new processes that were implemented as a result of the adoption of ASC 842.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

The information set forth under the "Legal Proceedings" subheading in Note 7 of Part I, Item 1 of this Quarterly Report on Form 10-Q is incorporated herein by reference.

### **Item 1A. Risk Factors**

*You should carefully consider the risks and uncertainties described below, together with all of the other information contained in this Quarterly Report on Form 10-Q, including our condensed consolidated financial statements and related notes, before making a decision to invest in our Class A common stock. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may also become important factors that affect our business. If any of the following risks occur, our business, financial condition, operating results and prospects could be materially harmed. In that event, the price of our Class A common stock could decline, and you could lose part or all of your investment. In addition, the impact of the COVID-19 pandemic and any worsening of the economic environment may exacerbate the risks described below, any of which could have a material impact on us. The situation is changing rapidly, and additional impacts may arise that we are not currently aware of.*

#### **Risks Related to Our Business and Industry**

***The effects of the COVID-19 pandemic and the actions taken in response, including our own, have materially affected, and will continue to materially affect, how we and our customers and partners are operating our businesses, and the extent to which the effects of the pandemic and such actions will impact our business, financial performance, results of operations and stock price remain highly uncertain and difficult to predict.***

The ongoing and rapidly evolving global outbreak of a respiratory illness caused by a novel strain of the coronavirus that was identified in late 2019 and subsequently named in February 2020 by the World Health Organization as COVID-19 (collectively with any future mutations or related strains thereof, "COVID-19") is causing significant disruptions to the flow of the economy and is putting unprecedented strains on governments, health care systems, educational institutions, businesses and individuals around the world, including in nearly all of the regions in which we operate, and has resulted in significant volatility and uncertainty in the global economy. In response to the pandemic, authorities, businesses, and individuals have implemented numerous unprecedented measures, including travel bans and restrictions, quarantines, shelter-in-place, stay-at-home, remote work and social distancing orders, and shutdowns, which are impacting our workforce and operations, as well as those of our customers, vendors, suppliers, and partners, and which may result in a prolonged recession or depression that could further materially and adversely affect the global economy and our business.

In response to the COVID-19 pandemic, we have taken steps to protect and assist our employees, customers, vendors, suppliers, and partners, including by: temporarily closing all of our offices (including our California headquarters) around the world; encouraging our employees to work remotely; implementing travel restrictions that prohibit all non-essential business travel; postponing, cancelling, withdrawing from, or converting to virtual-only experiences (where possible and appropriate) our in-person customer, industry, analyst, investor, and employee events, including our 2020 .NEXT customer and partner events, our 2020 Investor Day, and our fiscal 2021 sales kick off; and offering extended payment terms of up to 60 days to certain partners through at least June 2020. Such measures may have a significant negative impact on a number of areas of our business, including but not limited to: the productivity of our workforce, and in particular our sales and services teams; our ability to ramp newer sales teams in a fast and effective manner; our ability to obtain new and retain existing customers and partners; our win and renewal rates; our ability to collect payments from our partners in a timely manner; the efficiency of our demand generation activities; and/or our ability to maintain or increase our pipeline of potential opportunities. For example, our ability to close transactions with customers and partners, particularly new customers and partners who do not have prior experience with our solutions, may be negatively impacted, potentially significantly, as a result of such measures. Furthermore, we have taken, and expect to continue to take, additional actions to manage our operating expenses in response to the COVID-19 pandemic, including, but not limited to: implementing a 10% reduction in executive salaries, effective April 2020; pausing all merit salary increases and bonus payments; and implementing two, non-consecutive, mandatory one-week furloughs for our employees in the U.S., along with two, non-consecutive, voluntary one-week unpaid leave periods for our employees outside the U.S. We cannot predict whether such measures will be sufficient or effective at reducing our operating expenses in any given period, or whether additional actions will be required. In addition, such measures may have a material adverse impact on our business, financial performance, results of operations and the price of our Class A common stock. For instance, as a result of the current hiring pause, it may be hard for us to return to or accelerate growth in the future. Additionally, even if we decide to end the current hiring pause, it may be more difficult to effectively hire, ramp and retain a sufficient number of key employees, especially if formal or informal travel and other restrictions remain in place even after the COVID-19 pandemic has ended.

The COVID-19 pandemic and the measures taken in response to the pandemic, including our own, have already caused, and may continue to cause, various adverse effects on the global economy and our business. Those effects include, but are not limited to:

- Decisions by our customers and potential customers, particularly in industries most impacted by the COVID-19 pandemic including transportation, hospitality, retail, and energy, to reduce IT spending or delay or abandon their planned or future purchases, which may reduce the demand for our solutions and/or result in extended sales cycles;
- Decisions by our customers to purchase our software solutions on shorter subscription terms than they have historically, and/or request to only pay for the initial year of a multi-year subscription term upfront, which could negatively impact our financial performance, and our cash flow in particular, when compared to historical periods;
- Our customers and partners experiencing liquidity issues or entering bankruptcy or similar proceedings, which would impact our ability to collect payments in a timely manner, if at all;
- Potential shifts in industry trends, for example, towards large public cloud providers, which may reduce the demand for our solutions;
- An inability to meet in person or otherwise effectively communicate with our current or potential customers, vendors, suppliers, and partners, which may negatively affect our current and future relationships with such customers, vendors, suppliers, and partners and our ability to generate demand for our solutions;
- Additional delays, cancellations, or changes to user and industry conferences and other marketing events relating to our solutions, including our own customer and partner events, which may negatively impact our ability to obtain new and retain existing customers, and effectively market our solutions;
- Delays or disruptions in our or our partners' supply chains and data center operations, including delays or disruptions in procuring and shipping, or an inability to procure or ship, the hardware appliances on which our software solutions run, including our Nutanix-branded NX hardware line, which may negatively affect our ability to close transactions with our customers and partners and/or to recognize the revenue from those transactions;
- Delays or disruptions in procuring the hardware platforms on which our Xi Cloud Services solutions run, which may negatively affect our ability to provide our current and/or planned Xi Cloud Services;

- An inability to provide 24x7 worldwide support and/or replacement parts to our end customers;
- Delays or disruptions to our product roadmap, and our ability to deliver new products, features, or enhancements in a timely manner or at all;
- Increased cyberattacks and security challenges as our global employee base works remotely;
- Adoption of new laws or regulations, or changes to existing laws or regulations, including any restrictions or health and safety requirements that may be imposed if and when we start re-opening our global offices and any new or additional restrictions against immigration and travel (such as restrictions on the availability of visas or delays in the issuance of visas), which may create additional regulatory uncertainty and cause us to incur additional expenses in order to comply with, or due to delays or changes caused or mandated by, such laws or regulations and/or materially impair our ability to hire and retain skilled professionals;
- Difficulties or delays in ramping, training, and retaining new sales teams in an effective manner due in part to the inability to provide in-person trainings;
- Negative health impacts on, and resulting unavailability or reduced productivity of, our key executives or other employees as a result of such employees or their family members contracting the virus, being placed in quarantine or self-isolation, or being in jurisdictions where travel or other activities remain restricted;
- A significant and/or prolonged decline in, or increase in volatility relating to, the global financial and other capital markets, including significant and prolonged volatilities in stock prices, interest rates and exchange rates, and/or a potential global recession or depression, which would adversely affect, potentially materially, our business and stock price, as well as our ability to access capital markets on terms favorable or acceptable to us, if at all;
- An inability to execute our business continuity plans and/or maintain our critical business processes; and
- An inability to forecast, or difficulties or delays in forecasting, our financial performance or results of operations.

The duration, scope and ultimate impact of the COVID-19 pandemic and the actions taken in response on the global economy and our business remain highly fluid, cannot be predicted with any degree of certainty, and will be highly dependent upon numerous factors, many of which are beyond our control, including the actions of governments, businesses and other enterprises in response to the pandemic and the extent and effectiveness of those actions. If we are not able to effectively respond to and manage the impact of the COVID-19 pandemic, our business, financial performance, results of operations, and the price of our Class A common stock will be negatively affected, potentially materially.

***We have a history of losses and we may not be able to achieve or maintain profitability in the future.***

We have incurred net losses in all periods since our inception, and we expect that we will continue to incur net losses for the foreseeable future. We experienced net losses of \$297.2 million, \$621.2 million and \$687.5 million for fiscal 2018, fiscal 2019 and the nine months ended April 30, 2020, respectively. As of April 30, 2020, we had an accumulated deficit of \$2.3 billion. In addition to the investments we expect to continue to make to grow our business, we also incur and expect to continue incurring significant additional legal, accounting and other expenses as a public company. If we fail to increase our revenue and manage our expenses, we may not achieve or sustain profitability in the future.

***Our transition to a subscription-based business model has resulted in, and may continue to result in, a compression to our topline results, and if we fail to successfully manage the transition, our business, operating results and free cash flow may be adversely affected.***

We are currently transitioning to a subscription-based business model and may undergo additional business model changes in the future in order to adapt to changing market demands. Such business model changes, including the current transition to a subscription-based business model, entail significant known and unknown risks and uncertainties, and we cannot assure you that we will be able to complete the transition to a subscription-based business model, or manage the transition successfully and in a timely manner. If we do not complete the transition, or if we fail to manage the transition successfully and in a timely manner, our revenues, business and operating results may be adversely affected. Moreover, we may not realize all of the anticipated benefits of the subscription transition, even if we successfully complete the transition. The transition to a subscription-based business model also means that our historical results, especially those achieved before we began the transition, may not be indicative of our future results.

Regardless of how we manage the transition, our total billings and revenue have been and will continue to be adversely impacted by the transition, particularly when compared to historical periods, due primarily to two factors. First, and most important, subscription-based sales, including sales of term-based licenses where revenue is currently recognized upfront, may in some instances have a lower total dollar value than sales of licenses for the life of the device because they may be of a shorter term than the actual or assumed life of the device. If we are unable to increase the volume of our subscription-based sales in any given period to make up for the lower total dollar value of certain subscription-based sales, our total billings and revenue for such period will be negatively impacted. Second, and of lesser significance, the revenue associated with certain SaaS subscription purchases, such as Nutanix Xi Cloud Services, will be recognized ratably over the term of the subscription, resulting in less upfront revenue as compared to our term-based licenses and historical life-of-device licenses. These factors may also make it difficult to increase our revenue in a given period through additional sales in the same period.

In addition, due to the generally shorter terms of subscription-based licenses as compared to our historical life-of-device licenses, maintaining our historically high customer renewal rates will become increasingly important. Our subscription customers have no obligation to renew their subscriptions for our solutions after the expiration of the subscription term, and may decide not to renew their subscriptions, or to renew only for a portion of our solutions or on pricing terms that are less favorable to us. Our customers' renewal rates may decline or fluctuate as a result of a number of factors, including their level of satisfaction with our solutions, their ability to continue their operations and spending levels, the pricing of our solutions and the availability of competing solutions. We anticipate that our subscription-based model will require us to dedicate additional resources toward educating our existing and potential customers as to the benefits of the subscription model and our solutions generally and to re-train our seasoned sales employees, who have historically focused on appliance sales and selling software licenses for the life of the device, on selling subscription-based licenses in order to maintain and increase their productivity. As a result, our sales and marketing costs may increase. In addition, we anticipate needing to adjust our go-to-market cost structure, particularly as it relates to how we structure, effect, and compensate our sales teams, including for renewal transactions, to become more efficient as we transition to the subscription-based business model. In particular, to align with the new subscription-based business model, we plan to adjust our sales compensation structure, which is currently based primarily on total contract value, to one that is based primarily on annual contract value, which will likely cause our average contract term lengths to decline and could negatively impact our operating and free cash flows, potentially significantly. Those adjustments may negatively affect the productivity of our sales teams, cause our sales teams to prioritize shorter-term transactions, and cause our renewal rates to fluctuate or decline, and there is no assurance that we will be able to successfully implement the adjustments in a timely or cost-effective manner, or that we will be able to realize all or any of the expected benefits from such adjustments. If our customers do not renew their subscriptions for our solutions, demand pricing or other concessions prior to renewal, or if our renewal rates fluctuate or decline, our total billings and revenue will fluctuate or decline, and our business and financial results will be negatively affected.

Additional risks associated with our transition to a subscription-based business model include, but are not limited to:

- if current or prospective end customers prefer our historical life-of-device licenses, adoption of our subscription-based model may not meet our expectations, or may take longer to achieve than anticipated;
- potential confusion of or creation of concerns among current or prospective end customers and channel partners, including concerns regarding changes to our pricing models;
- we may be unsuccessful in implementing or maintaining subscription-based pricing models, or we may select a pricing model that is not optimal and could negatively affect adoption, renewal rates and our business results;
- our end customers may shift purchases to our lower priced subscription offerings, which could negatively affect our overall financial results;
- when purchasing multi-year term-based subscription licenses, or as a result of our anticipated sales compensation model change to one that is based primarily on annual contract value, we may see an increase in the number of customers who choose to pay for only the first year of the applicable term upfront, instead of the full term as we have seen historically, which would negatively impact our operating and free cash flows, potentially significantly, and as a result we may need to raise additional capital which we may not be able to do on terms favorable or acceptable to us, or at all;
- our relationships with existing channel partners that are accustomed to selling life-of-device licenses may be damaged, and we may be required to dedicate additional time and resources to educate our channel partners about our transition, each of which may negatively affect our business and financial results;
- if we are unsuccessful in adjusting our go-to-market cost structure, or in doing so in a timely or cost-effective manner, we may incur sales compensation costs at a higher than forecasted rate, particularly if the pace of

our subscription transition is faster than anticipated;

- we may face additional and/or different financial reporting obligations, or we may choose to report our financial results using new or different metrics, either of which could increase the costs associated with our financial reporting and investor relations activities; and
- investors, industry and financial analysts may have difficulty understanding the shift in our business model, resulting in changes in financial estimates or failure to meet investor expectations.

Finally, our transition to a subscription-based business model as an IT infrastructure and platform company has few, if any, precedents, and there are many risks or uncertainties that may remain unknown to us until we have gathered more information as part of the transition. If we fail to anticipate these unknowns, whether due to a lack of information, precedent, or otherwise, or if we fail to properly manage expected risks and/or execute on our transition to a subscription-based business model, our business and operating results, and our ability to accurately forecast our future operating results, may be adversely affected.

***The markets in which we compete are rapidly evolving, which make it difficult to forecast end customer adoption rates and demand for our solutions.***

The markets in which we compete are rapidly evolving. Accordingly, our future financial performance will depend in large part on the allocation of spending in traditional IT markets and on our ability to adapt to new market demands. Currently, sales of our solutions are dependent in large part upon replacement of spending in traditional markets, including x86 servers, storage systems and virtualization software. In addition, as we continue to develop new solutions designed to address new market demands, such as Nutanix Xi Cloud Services, sales of our solutions will in part depend on capturing new spending in these markets, including hybrid cloud services. If these markets experience a shift in customer demand, or if customers in these markets focus their new spending on, or shift their existing spending to, public cloud solutions or other solutions that do not interoperate with our solutions more quickly or more extensively than expected, our solutions may not compete as effectively, if at all. It is also difficult to predict end customer demand or adoption rates for our solutions or the future growth of our market.

***If end customers do not adopt our solutions, our ability to grow our business and operating results may be adversely affected.***

Traditional IT infrastructure architecture is entrenched in the datacenters of many of our end customers because of their historical financial investment in existing IT infrastructure architecture and the existing knowledge base and skillsets of their IT administrators. As a result, our sales and marketing efforts often involve extensive efforts to educate our end customers as to the benefits and capabilities of our solutions, particularly as we introduce new products and continue to pursue large organizations as end customers. If we fail to achieve market acceptance of our solutions, our ability to grow our business and our operating results will be adversely affected.

***A shift in our relationships with our OEMs could adversely affect our results of operations.***

Our relationships with our original equipment manufacturers (collectively, "OEMs" and, each, an "OEM") continue to shift as industry dynamics change, and our OEMs may be less willing to partner with us as an OEM or otherwise, or may begin to prioritize their own products over our solutions, as such shifts occur. For example, Dell is not just an OEM, but also a competitor of ours, and accounted for 8%, 6% and 2% of our total billings in fiscal 2018, fiscal 2019 and the nine months ended April 30, 2020, respectively. Dell owns EMC Corporation ("EMC"), as well as a majority of outstanding voting power in VMware and has and could continue to combine the Dell, EMC and VMware product portfolios into unified offerings optimized for their platforms, which would compete directly with our core solutions. Also, Dell may be more likely to promote and sell its own solutions, including those from EMC's complementary product portfolio, over our products, or cease selling or promoting our products entirely. If Dell decides to sell its own solutions over our products, that could adversely impact our OEM sales and harm our business, operating results and prospects, and the price of our Class A common stock could decline, potentially significantly. Further, since OEM sales, including sales made by Dell, are generally recognized upon delivery, any reduction in OEM sales by any of our OEMs will have an increased impact on our reported revenue and gross margins in future periods, potentially making it more difficult for us to forecast revenue and gross margins in future quarters. Revenue from Dell accounted for approximately 9%, 7% and 4% of our total revenue in fiscal 2018, fiscal 2019 and the nine months ended April 30, 2020, respectively. Furthermore, in the normal course of business, we make commitments, which are based on revenue targets or on-hand inventory and non-cancelable purchase orders for non-standard components, with certain of our OEMs to ensure them a minimum level of financial consideration for their investment in our joint solutions. Shifts in our relationships with our OEMs may negatively impact our ability to satisfy such commitments and may result in us owing additional sums to the applicable OEMs.



***Our historical financial performance, including revenue growth, may not be indicative of our future performance.***

Our historical financial performance, including revenue growth, may not be indicative of our future performance. For example, while we have historically experienced significant revenue growth, our total revenue growth slowed in recent periods, due in large part to our transitions from hardware to software-only sales, and from life-of-device to a subscription license model. As a result, you should not consider such historical revenue growth as indicative of our future performance and we may not achieve similar or any revenue growth in future periods. Similarly, while we saw improvements in our pipeline generation in recent periods as a result of our additional investments in sales and marketing activities, including increased demand generation spending, and the hiring of additional sales people, those improvements may not continue, and the returns on these initiatives may not be as high or may take longer to realize than expected, and may impact our revenue growth and profitability in the near future.

In addition, as a result of our transition toward a subscription-based model, our revenue may continue to be impacted in the short term. The revenue associated with certain subscription purchases, such as with Nutanix Xi Cloud Services, will be recognized ratably over the term of the subscription, resulting in less upfront revenue as compared to our historical life-of-device and term-based software-only transactions. Also, the revenue we recognize from subscription sales, even if recognized upfront, may in some instances have a lower total dollar value than those associated with licenses for the life of the device because they may be of a shorter term than the life of the device. This may also make it difficult to rapidly increase our revenue in any period through additional sales.

Following our transition to software-only sales and due to the ongoing transition toward a subscription-based model, our success will also depend heavily on the ability of our sales team to adjust their strategy to focus on software-only and subscription-based sales effectively and in a timely manner. Furthermore, our customers may not understand these changes to our product sales, and investors, industry and financial analysts may have difficulty understanding the changes to our business model, resulting in changes in financial estimates or failure to meet investor expectations. As our business changes, the transitions may make it more difficult to accurately project our operating results or plan for future growth. Accordingly, you should not rely on our revenue growth for any prior periods as an indication of our future revenue or revenue growth.

***We have experienced rapid growth in prior periods and we may not be able to sustain or manage any future growth effectively.***

We have expanded our overall business and operations significantly in prior periods. Our employee headcount increased significantly since our inception, and we may have significant headcount increases in the future. We anticipate that our operating expenses will increase in the long term as we scale our business, including in developing and improving our new and existing solutions, expanding our sales and marketing capabilities and global coverage, and in providing general and administrative resources to support our growth. However, as discussed above in the section titled "Impact of the COVID-19 Pandemic," in response to the COVID-19 pandemic we have proactively taken steps to reduce our expenses and, as a result, our operating expenses may fluctuate from quarter to quarter in the near-term. In addition, as we continue to grow our business in the long-term, we must effectively train, integrate, develop, motivate and retain a large number of new employees, as well as existing employees who are promoted or moved into new roles, while maintaining the effectiveness of our business execution. The failure to manage these changes could significantly delay the achievement of our strategic objectives. In particular, our success depends heavily on our ability to ramp new sales teams in a fast and effective manner and retain those sales teams. We must also continue to improve and expand our IT and financial infrastructure, management systems and product management and sales processes. We expect that our future growth will continue to place a significant strain on our management, operational and financial resources, and we may not be able to sustain or manage any future growth effectively. We may incur costs associated with future growth prior to or without realizing the anticipated benefits, and the return on these investments may be lower, if any, or may develop more slowly than we expect. For example, in February 2019 we announced initiatives to increase pipeline growth through additional investments in sales and marketing activities, including increased demand generation spending, and the hiring of additional sales people. While we saw improvements in these areas in recent quarters, those improvements may not continue, including as a result of the actions we have taken to reduce expenses as a result of the COVID-19 pandemic, and the returns on these initiatives may not be as high or may take longer to realize than expected, and may impact our revenue growth and profitability in the near future.

If we are unable to sustain or manage our growth effectively, we may not be able to take advantage of market opportunities. We also may fail to satisfy end customers' requirements, maintain product quality, execute on our business plan or respond to competitive pressures, any of which could adversely affect our business, operating results, financial condition and prospects.

***We believe our long-term value as a company will be greater if we focus on growth, which may negatively impact our profitability in the near term.***

Part of our business strategy is to primarily focus on our long-term growth. As a result, our profitability may be lower in the near term than it would be if our strategy was to maximize short-term profitability. Expenditures related to expanding our research and development efforts, sales and marketing efforts, our transition to a subscription-based business model, infrastructure and other such investments may not ultimately grow our business or cause long-term profitability. If we are ultimately unable to achieve profitability at the level anticipated by analysts and our stockholders, the price of our Class A common stock may decline, potentially significantly.

***The enterprise IT market is rapidly changing and expanding, and we expect competition to continue to intensify in the future from both established competitors and new market entrants.***

We operate in the intensely competitive enterprise infrastructure market and compete primarily with companies that sell software to build and operate enterprise clouds, integrated systems and standalone storage and servers, as well as providers of public cloud infrastructure solutions. These markets are characterized by constant change and rapid innovation. Our main competitors fall into the following categories:

- software providers, such as VMware, that offer a broad range of virtualization, infrastructure and management products to build and operate enterprise and hybrid clouds;
- traditional IT systems vendors, such as Cisco, Dell, HPE, Hitachi, IBM and Lenovo, that offer integrated systems that include bundles of servers, storage and networking solutions, as well as a broad range of standalone server and storage products;
- traditional storage array vendors, such as Dell, Hitachi and NetApp, which typically sell centralized storage products; and
- providers of public cloud infrastructure and SaaS-based offerings, such as Amazon, Google Inc. and Microsoft Corporation.

In addition, we compete against vendors of hyperconverged infrastructure and software-defined storage products, such as Cisco, HPE, Dell, VMware and many smaller emerging companies. As our market grows, we expect it will continue to attract new companies as well as existing larger vendors. Some of our competitors may also expand their product offerings, acquire competing businesses, sell at lower prices, bundle with other products, provide closed technology platforms, partner with other companies to develop joint solutions, or otherwise attempt to gain a competitive advantage. Furthermore, as we expand our product offerings, we may expand into new markets and we may encounter additional competitors in such markets. Additionally, as companies increasingly offer competing solutions, they may be less willing to cooperate with us as an OEM or otherwise. For example, IBM recently acquired Red Hat and they may begin to prioritize selling Red Hat products instead of our products in its global consulting business. In addition, Dell owns a majority of the outstanding voting power of VMware, and a joint Dell and VMware offering has competed and will likely continue to compete directly with our solutions. As a result, Dell is and will continue to be incentivized to sell its own solutions over our products.

Many of our existing competitors have, and some of our potential competitors may have, competitive advantages over us, such as longer operating histories, significantly greater financial, technical, marketing or other resources, stronger brand awareness and name recognition, larger intellectual property portfolios and broader global presence and distribution networks. Moreover, our current or potential competitors may be acquired by third parties with greater available resources and the ability to initiate or withstand substantial price competition. Furthermore, some of our competitors have access to larger customer bases and supply a wide variety of products to, and have well-established relationships with, our current and prospective end customers. Some of these competitors have in the past and may in the future take advantage of their existing relationships with end customers, distributors or resellers to provide incentives to such current or prospective end customers that make their products more economically attractive or to interfere with our ability to offer our solutions to our end customers. Our competitors may also be able to offer products or functionality similar to ours at a more attractive price, such as by integrating or bundling their solutions with their other product offerings or those of technology partners or establishing cooperative relationships with other competitors, technology partners or other third parties. Potential end customers may prefer to purchase from their existing suppliers rather than a new supplier, especially given the significant investments that they have historically made in their legacy infrastructures. Some of our competitors may also have stronger or broader relationships with technology partners than we do, which could make their products more attractive than ours. As a result, we cannot assure you that our solutions will compete favorably, and any failure to do so could adversely affect our business, operating results and prospects.

***Our relatively limited operating history makes it difficult to evaluate our current business and prospects, and may increase the risk of your investment.***

We began selling our products in October 2011. We have relatively limited historical financial data, and we operate in a rapidly evolving market. Our relatively limited operating history makes it difficult to evaluate our current business and our future prospects, including our ability to plan for and model future growth. Furthermore, we have transitioned our business to focus on more software-only transactions, and are in the process of shifting to a subscription-based business model in the longer-term, which may make it more difficult to project our business growth and margins. In addition, the rapidly evolving nature of the enterprise IT infrastructure market, as well as other factors beyond our control, reduces our ability to accurately forecast quarterly or annual performance. Our solutions may never reach widespread adoption, and changes or advances in technologies could adversely affect the demand for our solutions. A reduction in demand for hybrid cloud technology caused by lack of customer acceptance, technological challenges, competing technologies and solutions or otherwise would result in lower revenue growth rates than anticipated or decreased revenue, either of which could negatively impact our business, operating results and prospects. Any predictions about future revenue and expenses may not be as accurate as they would be if we had a longer operating history. We have encountered and will continue to encounter risks and difficulties associated with rapid growth and expansion and a relatively limited operating history. If we do not address these risks successfully, our business and operating results would be adversely affected, and the price of our Class A common stock could decline.

***Developments or improvements in enterprise IT infrastructure technologies may materially and adversely affect the demand for our solutions.***

Significant developments in enterprise IT infrastructure technologies, such as advances in storage, virtualization, containers, networking, disaster recovery, edge computing, management software and public cloud and hybrid cloud infrastructure solutions, may materially and adversely affect our business, operating results and prospects in ways we do not currently anticipate. For example, improvements in hybrid cloud technologies, such as improvements in orchestration and automation tools or new or improved interoperability between historically on-premises enterprise cloud technologies with public cloud platforms, could emerge as a preferred alternative to our solutions, especially if they are introduced to the market before ours are. Any failure by us to develop new or enhanced technologies or processes, to react to changes or advances in existing technologies or to correctly anticipate these changes or advances as we create and invest in our product roadmap, could materially delay our development and introduction of new solutions, which could result in the loss of competitiveness of our solutions, decreased revenue and a loss of market share to competitors. In addition, public cloud infrastructure offers alternatives to the on-premises infrastructure deployments that our platform currently primarily supports. Various factors could cause the rate of adoption of public cloud infrastructure to increase, including continued or accelerated decreases in the price of public cloud offerings, increased interoperability with on-premises infrastructure solutions that compete with our solutions, and improvements in the ability of public cloud providers to deliver reliable performance, enhanced security, better application compatibility and more precise infrastructure control. Any of these factors could make our platform less competitive as compared to the public cloud, and could materially and adversely affect the demand for our solutions.

***If other IT vendors do not cooperate with us to ensure that our solutions interoperate with their products, including by providing us with early access to their new products or information about their new products, our product development efforts may be delayed or impaired, which could adversely affect our business, operating results and prospects.***

Our solutions provide a platform on which software applications and hypervisors from different software providers run. As a result, our solutions must interoperate with our end customers' existing hardware and software infrastructure, specifically their networks, servers, software and operating systems, as well as the applications that they run on this infrastructure, which may be manufactured and provided by a wide variety of vendors and OEMs. In addition to ensuring that our solutions interoperate with these hardware and software products initially, we must occasionally update our software to ensure that our solutions continue to interoperate with new or updated versions of these hardware and software products. Current or future providers of hardware, software applications, hypervisors or data management tools could make changes that would diminish the ability of our solutions to interoperate with them, and significant additional time and effort may be necessary to ensure the continued compatibility of our solutions, which might not be possible at all. Even if our solutions are compatible with those of other providers, if they do not certify or support our solutions for their systems or cooperate with us to coordinate troubleshooting and hand off of support cases, end customers may be reluctant to buy our solutions, which could decrease demand for our solutions and harm our ability to achieve a return on the investments and resources that we have dedicated to ensuring compatibility. Developing solutions that interoperate properly requires substantial partnering, capital investment and employee resources, as well as the cooperation of the vendors or developers of the software applications and hypervisors both with respect to product development and product support. Vendors may not provide us with early or any access to their technology and products, assist us in these development efforts, certify our solutions, share with or sell to us any APIs, formats, or protocols we may need, or cooperate with us to support end customers. If they do not provide us with the necessary access, assistance or proprietary technology on a timely basis or at all, we may experience product development delays or be unable to ensure the compatibility of our solutions with such new technology or products. To the extent that vendors develop products that compete with ours, they have in the past, and may again in the future, withhold their cooperation, decline to share access, certify our solutions or sell or make available to us their proprietary APIs, protocols or formats or engage in practices to actively limit the functionality, or compatibility, and certification of our products. If any of the foregoing occurs, our product development efforts may be delayed or impaired, our solutions could become less attractive to end customers resulting in a decline in sales, and our business, operating results and prospects may be adversely affected.

***If we fail to successfully execute on our plan to sell more cloud services, which would be sold on a ratable subscription-basis, our results of operations could be adversely affected.***

We have sold and anticipate selling more of our products and services as cloud-based offerings - which include offerings hosted on public cloud infrastructure as well as part of our own Nutanix Xi Cloud Services - on a ratable subscription basis. While cloud-based offerings currently make up a small portion of our business, this shift has required and will continue to require a considerable investment of resources and will continue to divert resources and increase costs, especially in cost of license and other revenues, in any given period. We have also made, and intend to continue to make, investments in the supporting infrastructure for such cloud-based offerings that we host, and may not recoup the costs of such investments. Such investments of resources may also not improve our long-term growth and results of operations. Further, the increase in some costs associated with our cloud-based services may be difficult to predict over time, especially in light of our lack of historical experience with the costs of delivering cloud-based versions of our solutions.

We believe our plan has certain advantages; however, it also presents a number of risks to us including, but not limited to, the following:

- arrangements entered into on a ratable subscription basis may delay when we can recognize revenue, even when compared to similar term-based subscription sales, which we currently recognize upfront, and can require up-front costs, which may be significant;
- since revenue is recognized ratably over the term of the customer agreement, any decrease in customer purchases of our ratable subscription-based products and services will not be fully reflected in our operating results until future periods. This will also make it difficult for us to increase our revenue through additional ratable subscription sales in any given period;
- cloud-based ratable subscription arrangements are generally under short-term agreements. Accordingly, our customers generally have no long-term obligation to us and may cancel their subscription at any time, even if our customers are satisfied with our cloud-based subscription products; and

- there is no assurance that the cloud-based solutions we offer on a ratable subscription basis, including new products that we may introduce, will receive broad marketplace acceptance.

If we fail to properly execute on our plan to sell more of our products and services as cloud-based offerings on a ratable subscription basis, our business and operating results would be adversely affected, and the price of our Class A common stock could decline.

***If we fail to develop or introduce new or enhanced solutions on a timely or cost-effective basis, our ability to attract and retain end customers could be impaired and our brand, reputation and competitive position could be harmed.***

We operate in a dynamic environment characterized by rapidly changing technologies and industry standards and technological obsolescence. We will need to continue to create valuable software solutions and integrate these solutions across hardware platforms. To compete successfully, we must design, develop, market and sell new or enhanced solutions that provide increasingly higher levels of performance, capacity, scalability, security, interoperability, application mobility and reliability and meet the cost expectations of our end customers. The introduction of new products by our competitors, the market acceptance of products based on new or alternative technologies, or the emergence of new industry standards could render our existing or future solutions obsolete or less attractive to end customers. Any failure to anticipate or develop new or enhanced solutions or technologies in a timely or cost-effective manner in response to technological shifts, could result in decreased revenue and harm to our business and prospects. Any new feature or application that we develop or acquire may not be introduced in a timely or cost-effective manner and may not achieve broad market acceptance and investments in research and development or efforts to optimize our engineering cost structure may not be successful. In particular, if we fail to timely release new products, technology or services that we previously announced, our brand and reputation could be harmed. If we fail to introduce new or enhanced solutions that meet the needs of our end customers or penetrate new markets in a timely fashion, we will lose market share and our business, operating results and prospects will be adversely affected.

***If we are not successful in executing our strategy to increase sales of our solutions to new and existing large organizations, service providers and government entities, our operating results may suffer.***

Our growth strategy is dependent in large part upon increasing sales of our solutions to new and existing large enterprises, service providers and government entities, particularly when such sales result in large orders for our solutions. Sales to these end customers involve risks that may not be present, or that are present to a lesser extent, with sales to smaller end customers, which can act as a disincentive to our sales team to pursue these larger end customers. These risks include:

- competition from companies that traditionally target larger enterprises, service providers and government entities and that may have pre-existing relationships or purchase commitments from such end customers;
- increased purchasing power and leverage held by large end customers in negotiating contractual arrangements with us;
- more stringent requirements in our support service contracts, including demand for quicker support response times and penalties for any failure to meet support requirements; and
- longer sales cycles and the associated risk that substantial time and resources may be spent on a potential end customer that elects not to purchase our solutions.

Large organizations often undertake a significant evaluation process that results in a lengthy sales cycle. Although we have a channel sales model, our sales representatives typically engage in direct interaction with our prospective end customers as well as our distributors and resellers. We typically provide evaluation products to these end customers and may spend substantial time, effort and money in our sales efforts to these prospective end customers. In addition, product purchases by large organizations are frequently subject to budget constraints, multiple approvals and unanticipated administrative, processing and other delays. Finally, large organizations typically have longer implementation cycles, require greater product functionality and scalability, require a broader range of services, demand that vendors take on a larger share of risks, require acceptance provisions that can lead to a delay in revenue recognition and expect greater payment flexibility. Given these variables, it can be difficult for us to estimate when an expected sale from a large organization, service provider or government entity may occur, and our ability to accurately forecast our future operating results may be adversely affected. If we fail to realize an expected sale from a large end customer in a particular quarter or at all, our business and operating results could be adversely affected. All of these factors can add further risk to business conducted with these end customers.

***Our growth depends on our existing end customers making additional purchases of software licenses and software upgrades and renewing and upgrading their subscriptions and support and entitlement agreements, and the failure of our end customers to do so could harm our business and operating results.***

Our future success depends in part on purchases by our existing end customers of additional software licenses and appliances as well as renewals and upgrades to their subscription and support and entitlement agreements. If our end customers do not purchase additional software licenses or appliances or software upgrades, or renew or upgrade their subscription and support and entitlement agreements, our revenue may decline and our operating results may be harmed. In order for us to maintain or improve our operating results, we depend on our existing end customers renewing their subscription agreements as well as their support and entitlement agreements, or purchasing additional solutions. End customers may choose not to renew their subscription agreements or support and entitlement agreements, or purchase additional solutions, because of several factors, including dissatisfaction with our prices or features relative to competitive offerings, reductions in our end customers' spending levels or other causes outside of our control. If our existing end customers do not purchase new solutions, or renew or upgrade their subscription agreements or support and entitlement agreements, our revenue may grow more slowly than expected or may decline, and our business and operating results may be adversely affected.

***We rely on our key personnel, and our Chief Executive Officer in particular, to grow our business, and the loss of one or more such key employees or the inability to attract and retain qualified personnel could harm our business.***

Our success and future growth depends to a significant degree on the skills and continued services of our executive officers and key personnel. In particular, we are highly dependent on the services of Dheeraj Pandey, our Chief Executive Officer and Chairman, who is critical to the development of our technology, future vision and strategic direction. We do not have life insurance policies that cover any of our executive officers or other key employees. The loss of the services of Mr. Pandey or any of our key employees or executive officers could disrupt our business and negatively impact our operating results, prospects and future growth. Our future success also depends on our ability to continue to attract, integrate and retain highly skilled personnel, especially skilled sales and engineering employees. Competition for highly skilled personnel is frequently intense, especially in the San Francisco Bay Area, where we are headquartered. Volatility or lack of performance in the price of our Class A common stock may also affect our ability to attract and retain our key employees. We cannot assure you that we will be able to successfully attract or retain qualified personnel. Our inability to attract and retain the necessary personnel could adversely affect our business, operating results and financial condition.

***If we do not effectively expand, train, motivate and retain our sales force, we may be unable to add new end customers or increase sales to our existing end customers and our business will be adversely affected.***

Although we have a channel sales model, our sales representatives typically engage in direct interaction with our prospective end customers. Therefore, we continue to be substantially dependent on our sales force to obtain new end customers and sell additional solutions to our existing end customers. There is significant competition for sales personnel with the skills and technical knowledge that we require. Our ability to achieve revenue growth will depend, in large part, on our success in recruiting, training and retaining sufficient numbers of sales personnel to support our growth. New hires require significant training and may take significant time before they achieve full productivity; we estimate based on past experience that our average sales team members typically do not fully ramp and are not fully productive until around the time of the start of their fourth quarter of employment with us. Our recent hires and planned hires may not become productive as quickly as we expect, and we may be unable to hire or retain sufficient numbers of qualified individuals, particularly individuals who are focused on sales of our solutions to new and existing large enterprises, service providers and government entities, in the markets where we do business or plan to do business. Hiring sales personnel in new countries also requires additional set up, upfront and ongoing costs that we may not recover if the sales personnel fail to achieve full productivity. In addition, as a result of our rapid growth, a large percentage of our sales force is new to our company and our solutions and therefore less effective than our more seasoned employees. Moreover, as we complete our transition to focus on software-only transactions and continue our transition to a subscription-based business model, we are also re-training our seasoned sales employees, who have historically focused on appliance sales and selling software licenses for the life of the device, in order to maintain or increase their productivity. We have adjusted and also anticipate needing to further adjust our go-to-market cost structure, particularly as it relates to how we compensate our sales teams for life-of-device and renewal transactions.

If our new sales employees, particularly those focused on sales of our solutions to new and existing large enterprises, service providers and government entities, do not become fully productive on the timelines that we have projected, or if we are unable to successfully re-train our more seasoned sales employees as we focus on software-only and subscription-based sales or adjust our go-to-market cost structure, our revenue will not increase at anticipated levels and our ability to achieve long-term projections may be negatively impacted. If we are unable to hire, train and maintain sufficient numbers of effective sales personnel, or our new or existing sales personnel are not successful in obtaining new end customers, convincing existing customers to renew their subscription-based purchases, or increasing sales to our existing customer base generally, our business, operating results and prospects will be adversely affected.

***If we do not effectively compose, structure and compensate our sales force to focus on the end customers and activities that will primarily drive our growth strategy, our business will be adversely affected.***

As indicated above, our growth is dependent in large part on increasing our sales to large enterprises, particularly when those sales result in large orders for our solutions. In fiscal 2017, we started to segment our sales force to focus on these major accounts and large deals, and have continued to further refine this segmentation as our business changes. This process has involved hiring new, and promoting existing members of our sales team into, roles that focus on large sales to major enterprise accounts. Competition for sales employees who have the knowledge and experience necessary to effectively penetrate major enterprise accounts is fierce, and we may not be successful in hiring such employees, or hiring them on the timelines we anticipate, which will negatively impact our ability to target and penetrate major enterprise accounts. In addition, we anticipate that the sales cycles associated with major accounts will be longer than our traditional sales cycles, which will increase the time it will take our new global account managers to become fully productive. The new sales processes and leadership structures for these global sales teams may also take longer than anticipated to successfully implement, further impacting productivity. In addition, as our organization continues to focus on major accounts and large deals, the productivity of our traditional sales teams may be impacted. In response to that potential impact, in fiscal 2019 we started to further segment our sales force to separate commercial sales teams, particularly in the United States, from our enterprise sales teams, with the goal of building a focused U.S. commercial sales team to serve as a counterbalance to our enterprise sales teams. This process, which we anticipate will continue for the foreseeable future, will involve hiring new, and training existing, sales teams to focus exclusively on commercial transactions, which are typically smaller and more frequent than enterprise transactions. Additionally, we have transitioned our business to focus primarily on software-only transactions, and are in the process of transitioning to a subscription-based business model. As we continue with this transition to a subscription-based business model, we have adjusted and anticipate needing to further adjust the compensation structure of our sales force, particularly as it relates to how we compensate our sales teams for life-of-device and renewal transactions. In particular, to align with the new subscription-based business model, starting in fiscal 2021 we plan to adjust our sales compensation structure, which is currently based on total contract value, to one that is based primarily on annual contract value, which will likely cause our average contract term lengths to decline and could negatively impact our operating and free cash flows, potentially significantly. These segmentation projects, business model transitions and compensation structure changes may lead to fluctuations in sales productivity that will make it more difficult to accurately project our operating results or plan for future growth. If we are unable to effectively manage these changes or implement new sales structures in a timely manner, or if our decision to segment our sales force is not successful in obtaining large sales of our solutions, our growth and ability to achieve long-term projections may be negatively impacted, and our business and operating results will be adversely affected.

***We rely primarily on indirect sales channels for the distribution of our solutions, and disruption within these channels could adversely affect our business, operating results and cash flows.***

We primarily sell our solutions through indirect sales channels, including channel partners, such as distributors, our OEMs, value added resellers and system integrators. Our OEMs in turn distribute our solutions through their own networks of channel partners with whom we have no direct relationships.

We rely, to a significant degree, on our channel partners to select, screen and maintain relationships with their distribution networks and to distribute our solutions in a manner that is consistent with applicable law, regulatory requirements and our quality standards. If our channel partners or a partner in their distribution network violates applicable law or regulatory requirements or misrepresents the functionality of our solutions, our reputation and brand could be damaged and we could be subject to potential liability. Additionally, if we are unable to establish relationships with strong channel partners in key growth regions, our ability to sell our solutions in these regions may be adversely affected. Our agreements with our channel partners are non-exclusive, meaning our channel partners may offer end customers the products of several different companies, including products that compete with ours. If our channel partners do not effectively market and sell our solutions, choose to use greater efforts to market and sell their own products or those of our competitors, or fail to meet the needs of our end customers, our business, operating results and prospects may be adversely affected. Our channel partners may cease marketing our solutions with limited or no notice and with little or no penalty. The loss of a substantial number of our channel partners, together with our inability to replace them, or the failure to recruit additional channel partners or establish an alternative distribution network could materially and adversely affect our business and operating results. For example, sales through Arrow Electronics, Inc. and Tech Data Corporation to our end customers represented 23% and 12%, respectively, of our total revenue for the nine months ended April 30, 2019 and 29% and 14%, respectively, for the nine months ended April 30, 2020. In addition, if a channel partner offers its own products or services that are competitive to our solutions, is acquired by a competitor or reorganizes or divests its reseller business units, our revenue derived from that partner may be adversely impacted or eliminated altogether.

Recruiting and retaining qualified channel partners and training them in the use of our technologies requires significant time and resources. If we fail to devote sufficient resources to support and expand our network of channel partners, our business may be adversely affected. Maintaining strong indirect sales channels for our products and effectively leveraging our channel partners and OEMs is important to our growth strategy, and the failure to effectively manage these relationships may lead to higher costs and reduced revenue. Also, in certain international markets, we are in the process of transitioning our distribution model from contracting directly with hundreds of individual resellers to contracting with a smaller number of larger global distributors. Although we believe that this transition will make our sales channels more efficient and broader reaching in the long term in these markets, there is no guarantee that this new distribution model will increase our sales in the short term or allow us to sustain our gross margins. Any potential delays or confusion during the transition process to our new partners may negatively affect our relationship with our existing end customers and channel partners and may cause us to lose prospective end customers or additional business from existing end customers or cause a decline in renewal rates with existing end customers. Upon completion of the transition to the new sales model, we will be more reliant on fewer channel partners, which may reduce our contact with our end customers making it more difficult for us to establish brand awareness, ensure proper delivery and installation of our software, support ongoing end customer requirements, estimate end customer demand, respond to evolving end customer needs and obtain subscription renewals from end customers.

All of our sales to government entities have been made indirectly through our channel partners. Government entities may have statutory, contractual or other legal rights to terminate contracts with our channel partners for convenience or due to a default, and, in the future, if the portion of government contracts that are subject to renegotiation or termination at the election of the government are material, any such termination or renegotiation may adversely impact our future operating results. Additionally, we sometimes rely on our channel partners to satisfy certain regulatory obligations that we would otherwise have to satisfy if we sold directly to the government entities, and our channel partners may be unable or unwilling to satisfy these obligations in the future. In the event of such termination or change, it may be difficult for us to arrange for another channel partner to sell our solutions to these government entities in a timely manner, and we could lose sales opportunities during the transition. Governments routinely investigate and audit government contractors' (including subcontractors') administrative processes, and any unfavorable audit could result in the government refusing to continue buying our solutions, our channel partners changing their business models or refusing to continue to sell our solutions under current models, a reduction of revenue or fines, or civil or criminal liability if the audit uncovers improper or illegal activities.

If our indirect distribution channel is disrupted, particularly if we are reliant on a fewer number of channel partners, or if we are required to directly satisfy certain regulatory obligations imposed by government entities as a result of our efforts to expand our sales to government entities, we may be required to devote more time and resources to distribute our solutions directly and support our end customers, which may not be as effective and could lead to higher costs, reduced revenue and growth that is slower than expected.



***Our operating results may fluctuate significantly, which could make our future results difficult to predict and could cause our operating results to fall below expectations.***

Our operating results may fluctuate due to a variety of factors, many of which are outside of our control. As a result, comparing our operating results on a period-to-period basis may not be meaningful. If our revenue or operating results in any particular period fall below investor expectations, the price of our Class A common stock would likely decline. Factors that are difficult to predict and that could cause our operating results to fluctuate include, but are not limited to:

- the timing and magnitude of orders, shipments and acceptance of our solutions in any quarter;
- our ability to attract new and retain existing end customers;
- disruptions in our sales channels or shifts in our relationships with important channel partners and OEMs;
- the timing of revenue recognition for our sales, the impact of which is heightened by our focus on software-only sales and ongoing transition to a subscription-based model;
- reductions in end customers' budgets for information technology purchases;
- delays in end customers' purchasing cycles or deferments of end customers' purchases in anticipation of new products or updates from us or our competitors;
- fluctuations in demand and competitive pricing pressures for our solutions;
- the mix of solutions sold, including the mix between appliance and software-only sales and the mix between subscription-based and non-subscription-based transactions, and the mix of revenue between products and support, entitlements and other services, which will depend in part on whether we are successful in executing our strategy to transition our business to a subscription-based model;
- our ability to develop, introduce and ship in a timely manner new solutions and product enhancements that meet customer requirements, and market acceptance of such new solutions and product enhancements;
- the timing of product releases or upgrades or announcements by us or our competitors;
- any change in the competitive dynamics of our markets, including consolidation or partnerships among our competitors or partners, new entrants or discounting of prices;
- the amount and timing of expenses to grow our business and the extent to which we are able to take advantage of economies of scale or to leverage our relationships with OEM or channel partners;
- the costs associated with acquiring new businesses and technologies and the follow-on costs of integrating and consolidating the results of acquired businesses;
- the amount and timing of stock-based compensation expenses;
- our ability to control the costs of our solutions and their key components, or to pass along any cost increases to our end customers;
- general economic, industry and market conditions and other events that may be outside of our control, such as political and social unrest, terrorist attacks, hostilities, malicious human acts, climate change, natural disasters (including extreme weather), pandemics or other major public health concerns, and other similar events; and
- future accounting pronouncements and changes in accounting policies.

The occurrence of any one of these risks could negatively affect our operating results in any particular quarter, which could cause the price of our Class A common stock to decline.

***Our gross margins are impacted by a variety of factors and may be subject to variation from period to period.***

Our gross margins may be affected by a variety of factors, including shifts in the mix of whether our solutions are sold as an appliance or as software-only, fluctuations in the pricing of our products, including as a result of competitive pricing pressures or increases in component pricing, and the degree to which we are successful in selling the value of incremental feature improvements and upgrades, changes in the cost of components of our hardware appliances, changes in the mix between direct versus indirect sales, changes in the mix of products sold and the timing and amount of recognized and deferred revenue, particularly as a result of our continued transition to a subscription-based business model. If we are unable to manage these factors effectively, our gross margins may decline, and fluctuations in gross margin may make it difficult to manage our business and to achieve or maintain profitability, which could adversely affect our business and operating results.

***Our sales cycles can be long and unpredictable and our sales efforts require considerable time and expense. As a result, it can be difficult for us to predict when, if ever, a particular customer will choose to purchase our solutions, which may cause our operating results to fluctuate significantly.***

Our sales efforts involve educating our end customers about the uses and benefits of our solutions, including their technical capabilities and cost saving potential. End customers often undertake an evaluation and testing process that can result in a lengthy sales cycle. Increasing competition and the emergence of new hyperconverged infrastructure product offerings and consumption models often result in customers evaluating multiple vendors at the same time, which can further lengthen the sales cycle. We spend substantial time and resources on our sales efforts without any assurance that our efforts will produce any sales. Platform purchases are frequently subject to budget constraints, multiple approvals and unanticipated administrative, processing and other delays. The broad nature of the technology shift that our solutions represent and the legacy relationships our end customers have with existing IT vendors sometimes lead to unpredictable sales cycles, which make it difficult for us to predict when end customers may purchase solutions from us. The unpredictable nature of our sales cycles may be increased in future periods as we continue to focus our sales efforts more heavily on major accounts and large deals, and as we educate our customers about our ongoing transition to a subscription-based business model. Our business and operating results will be significantly affected by the degree to which and speed with which organizations adopt our solutions.

***Because we depend on manufacturers of hardware to timely and cost-effectively produce and ship the hardware on which our software runs, we are susceptible to delays and pricing fluctuations, which would cause our business to be adversely affected.***

We rely on manufacturers to produce the hardware appliances, both our Nutanix-branded NX series appliances and the various third-party appliances that are included on our hardware compatibility list, on which our software runs, which exposes us to direct and indirect risks, including reduced control over quality assurance, product costs, product supply and timing and potential reputational harm and brand damage. Furthermore, our orders for NX series appliances represent a relatively small percentage of the overall orders received by such hardware manufacturers from their customers. Therefore, fulfilling our orders may not be a priority in guiding their business decisions and operational commitments. If we fail to manage our relationships with these manufacturers effectively, or if any of them experience delays, disruptions or increased manufacturing lead times, component lead-time disruptions, capacity constraints or quality control problems in their operations or are unable to meet our or our end customers' requirements for timely delivery, our ability to sell our solutions to our end customers could be severely impaired due to the lack of availability of certified hardware appliances, and our customers' ability to consume our software will be delayed, which will adversely affect our business and operating results, competitive position, brand and reputation.

In particular, we rely substantially on Super Micro Computer, Inc. ("Super Micro") and Flextronics Systems Limited ("Flextronics") to assemble and test the Nutanix-branded NX series appliances, including those that are delivered by us. Our agreement with Super Micro automatically renews in May 2020 for successive one-year periods thereafter, with the option to terminate upon each annual renewal, and does not contain any minimum long-term commitment to manufacture NX-branded appliances. Our agreement with Flextronics expires in November 2020 and automatically renews for successive one-year periods thereafter, with the option to terminate upon each annual renewal. The agreement does not contain any minimum long-term commitment to manufacture NX-branded appliances and any orders are fulfilled only after a purchase order has been delivered and accepted. If we are required to change the manufacturer of our NX-branded appliances, we may lose revenue, incur increased costs and damage our channel partner and end customer relationships. We may also decide to switch or bring on additional contract manufacturers in order to better meet our needs. Switching to or bringing on a new contract manufacturer and commencing production is expensive and time-consuming and may cause delays in order fulfillment at our existing contract manufacturers or cause other disruptions.

Our agreements with Super Micro and Flextronics do not contain any price assurances, and any increases in component costs, without a corresponding increase in the price of our NX series solutions, could harm our gross margins. Furthermore, we may need to increase our component purchases, manufacturing capacity and internal test and quality functions if we experience increased demand. The inability of Super Micro, Flextronics or other manufacturers to produce adequate supplies of hardware appliances could cause a delay in customers' ability to consume our software and our order fulfillment, and our business, operating results and prospects would be adversely affected. As of April 30, 2020, we had approximately \$121.5 million in the form of guarantees to our contract manufacturers related to certain components.

***There are a limited number of suppliers, and in some cases single-source suppliers, for several key components in the NX-branded appliances, and any delay or disruption in the availability or quality of these components could delay shipments of the NX-branded appliances and damage our channel partner or end customer relationships.***

We rely on a limited number of suppliers, and in some cases single-source suppliers, for several key hardware components of the Nutanix-branded NX series appliances. These components are generally purchased on a purchase order basis through Super Micro or Flextronics and we do not have long-term supply contracts with our suppliers. Our reliance on key suppliers exposes us to risks, including reduced control over product quality, production and component costs, timely delivery and capacity. It also exposes us to the potential inability to obtain an adequate supply of required components because we do not have long-term supply commitments, and replacing some of these components would require a lengthy product qualification process. Furthermore, we extensively test and qualify the components that are used in NX-branded appliances to ensure that they meet certain quality and performance specifications. If our supply of certain components is disrupted or delayed, or if we need to replace existing suppliers, there can be no assurance that additional supplies or components can serve as adequate replacements for the existing components, will be available when required or that supplies will be available on terms that are favorable to us, and we may be required to modify our solutions to interoperate with the replacement components. Any of these developments could extend our lead times, increase the costs of our components or costs of product development, cause us to miss market windows for product launch and adversely affect our business, operating results and financial condition.

We generally maintain minimal inventory for repairs and a number of evaluation and demonstration units, and generally acquire components only as needed. We do not enter into long-term supply contracts for these components. As a result, our ability to respond to channel partner or end customer orders efficiently may be constrained by the then-current availability, terms and pricing of these components. The technology industry has experienced component shortages and delivery delays in the past, and we may experience shortages or delays of critical components in the future as a result of strong demand in the industry, component availability constraints, or other factors. If we or our suppliers inaccurately forecast demand for our solutions or we ineffectively manage our enterprise resource planning processes, our suppliers may have inadequate inventory, which could increase the prices we must pay for substitute components or result in our inability to meet demand for our solutions, as well as damage our channel partner or end customer relationships.

If the suppliers of the components of our hardware appliances increase prices of components, experience delays, disruptions, capacity constraints, quality control problems in their manufacturing operations or adverse changes to their financial condition, our ability to ship appliances to our channel partners or end customers in a timely manner and at competitive prices could be impaired and our competitive position, brand, reputation, and operating results could be adversely affected. Qualifying a new component is expensive and time-consuming. If we are required to change key suppliers or assume internal manufacturing operations, we may lose revenue and damage our channel partner or end customer relationships which could adversely impact our revenue and operating results.

***We enter into arrangements with our suppliers that could require us to purchase certain minimum levels of inventory, which could result in us incurring losses with respect to such inventory, and may negatively impact our business and operating results.***

We enter into arrangements with our suppliers whereby the supplier will purchase certain quantities of components and allocate them exclusively for our use in our products. If we are unable to use the inventory within a specified period, we may be required to purchase the inventory, or to pay the supplier the difference between the price at which the supplier purchased the inventory and the price at which the supplier is ultimately able to sell the inventory to a third party. As a result, if we inaccurately or mistakenly forecast our need for any such components, or if the market price of any such components decreases after the components are purchased by a supplier, we may suffer losses with respect to such inventory, and our business and operating results could be adversely affected.

***We rely upon third parties for the warehousing and delivery of appliances and replacement parts for support, and we therefore have less control over these functions than we otherwise would.***

We outsource the warehousing and delivery of appliances to a third-party logistics provider for worldwide fulfillment. In addition, some of our support offerings commit us to replace defective parts in our appliances as quickly as four hours after the initial customer support call is received, which we satisfy by storing replacement parts inventory in various third-party supply depots in strategic worldwide locations. As a result of relying on third parties, we have reduced control over shipping and logistics transactions and costs, quality control, security and the supply of replacement parts for support. Consequently, we may be subject to shipping disruptions and unanticipated costs as well as failures to provide adequate support for reasons that are outside of our direct control. If we are unable to have appliances or replacement products shipped in a timely manner, end customers may cancel their contracts with us, we may suffer reputational harm and our business, operating results and prospects may be adversely affected.

***Our ability to sell our solutions is dependent in part on ease of use and the quality of our technical support, and any failure to offer high-quality technical support would harm our business, operating results and financial condition.***

Once our solutions are deployed, our end customers depend on our support organization to resolve any technical issues relating to our solutions. Furthermore, because of the emerging nature of our solutions, our support organization often provides support for and troubleshoots issues for products of other vendors running on our solutions, even if the issue is unrelated to our solutions. There is no assurance that we can solve issues unrelated to our solutions, or that vendors whose products run on our solutions will not challenge our provision of technical assistance to their products. Our ability to provide effective support is largely dependent on our ability to attract, train and retain personnel who are not only qualified to support our solutions, but also well versed in some of the primary applications and hypervisors that our end customers run on our solutions. Furthermore, as we expand our operations internationally, our support organization will face additional challenges, including those associated with delivering support, training and documentation in languages other than English. In addition, as we continue to expand our product portfolio to include additional solutions our ability to provide high-quality support will become more difficult and will involve more complexity. Any failure to maintain high-quality installation and technical support, or a market perception that we do not maintain high-quality support, could harm our reputation and brand, adversely affect our ability to sell our solutions to existing and prospective end customers, and could harm our business, operating results and financial condition.

***Our solutions are highly technical and may contain undetected defects, which could cause data unavailability, unauthorized access to, loss, or corruption that might, in turn, result in liability to our end customers and harm to our reputation, brand and business.***

Our solutions are highly technical and complex and are often used to store information critical to our end customers' business operations. Our solutions may contain undetected errors, defects or security vulnerabilities that could result in data unavailability, unauthorized access to, loss, corruption or other harm to our end customers' data, including personal or identifying information regarding their employees, customers, and suppliers, as well as their finance and payroll data, and other sensitive business information. In addition, as we expand our platform and introduce new cloud-based products that may hold more of our customer's data, such as Xi Leap and our other Xi Cloud Services, any undetected or unresolved errors, defects or security vulnerabilities may result in material losses or corruption of our end-customers' data. Some errors or defects in our solutions may only be discovered after they have been installed and used by end customers. We previously conducted an in-field replacement of equipment manufactured by our previous outsourced manufacturer, and may be required to do so again in the future. In addition, we may make certain commitments to our OEMs regarding the time frames within which we will correct any security vulnerabilities in our software. If any hardware or software errors, defects or security vulnerabilities are discovered in our solutions after commercial release, a number of negative effects in our business could result, including but not limited to:

- lost revenue or lost OEM or other channel partners or end customers;
- increased costs, including warranty expense and costs associated with end customer support as well as development costs to remedy the errors or defects;
- delays, cancellations, reductions or rescheduling of orders or shipments;
- product returns or discounts; and
- damage to our reputation and brand.

In addition, we could face legal claims for breach of contract, product liability, tort or breach of warranty. While many of our contracts with end customers contain provisions relating to warranty disclaimers and liability limitations, these provisions might not be upheld or might not provide adequate protection if we face such legal claims. Defending a lawsuit, regardless of its merit, could be costly and may divert management's attention and adversely affect the market's perception of us and our solutions. In addition, our business liability insurance coverage could prove inadequate with respect to a claim and future coverage may be unavailable on terms favorable or acceptable to us or at all. These product-related issues could result in claims against us and our business could be adversely impacted.

***Our business depends, in part, on sales to government organizations, and significant changes in the contracting or fiscal policies of such government organizations could have an adverse effect on our business and operating results.***

We derive a portion of our revenue from contracts with federal, state, local and foreign governments, and we believe that the success and growth of our business will continue to depend on our successful procurement of government contracts. However, demand is often unpredictable from government organizations, and there can be no assurance that we will be able to maintain or grow our revenue from the public sector. Government agencies are subject to budgetary processes and expenditure constraints that could lead to delays or decreased capital expenditures in IT spending, particularly in light of continued uncertainties about government spending levels, such as recent changes to, or failure to appoint new, government leaders. The budget and approval process for government agencies also experiences a longer sales cycle relative to our other end customers, and it may be difficult for us to accurately forecast the impact of these contracts on our future operating results. If government organizations reduce or shift their capital spending patterns, our business, operating results and prospects may be harmed. Factors that could impede our ability to maintain or increase the amount of revenue derived from government contracts, include, but are not limited to:

- public sector budgetary cycles and funding authorizations;
- changes in fiscal or contracting policies;
- decreases in available government funding;
- changes in government programs or applicable requirements;
- the adoption of new laws or regulations or changes to existing laws or regulations;
- potential delays or changes in the government appropriations or other funding authorization processes; and
- higher expenses associated with, or delays caused by, diligence and qualifying or maintaining qualification as a government vendor.

The occurrence of any of the foregoing could cause governments and governmental agencies to delay or refrain from purchasing our solutions in the future or otherwise have an adverse effect on our business, operating results and prospects.

***Third-party claims that we are infringing intellectual property, whether successful or not, could subject us to costly and time-consuming litigation or expensive licenses, and our business could be harmed.***

A number of companies, both within and outside of the enterprise computing infrastructure industry, hold a large number of patents covering aspects of storage, servers, networking, desktop, security and virtualization products. In addition to these patents, participants in this industry typically also protect their technology through copyrights and trade secrets. As a result, there is frequent litigation based on allegations of infringement, misappropriation or other violations of intellectual property rights. We have received, and in the future may receive, inquiries from other intellectual property holders and may become subject to claims that we infringed or are infringing their intellectual property rights, particularly as we expand our presence in the market and face increasing competition. Based upon our review of these claims, we believe we have meritorious defenses to the allegations, although there can be no assurance that we will be successful in defending against these allegations or reaching a business resolution that is satisfactory to us. In addition, parties may claim that the names and branding of our solutions infringe their trademark rights in certain countries or territories. If such a claim were to prevail, we may have to change the names and branding of our solutions in the affected territories and we could incur other costs.

We currently have a number of agreements in effect pursuant to which we have agreed to defend, indemnify and hold harmless our end customers, suppliers and channel and other partners from damages and costs which may arise from the infringement by our solutions of third-party patents or other intellectual property rights. The scope of these indemnity obligations varies, but may, in some instances, include indemnification for damages and expenses, including attorneys' fees. A claim that our solutions infringe a third party's intellectual property rights, even if untrue, could harm our relationships with our end customers and/or channel partners, may deter future end customers from purchasing our solutions and could expose us to costly litigation and settlement expenses. Even if we are not a party to any litigation between a customer and a third party relating to infringement by our solutions, an adverse outcome in any such litigation could make it more difficult for us to defend our solutions against intellectual property infringement claims in any subsequent litigation in which we are a named party. Any of these results could harm our brand and operating results.

Our defense of intellectual property rights claims brought against us or our end customers, suppliers and channel partners, with or without merit, could be time-consuming, expensive to litigate or settle, divert management resources and attention and force us to acquire intellectual property rights and licenses, which may involve substantial royalty or other payments. Further, a party making such a claim, if successful, could secure a judgment that requires us to pay substantial damages. An adverse determination also could invalidate our intellectual property rights and prevent us from offering our solutions to our end customers and may require that we procure or develop substitute solutions that do not infringe, which could require significant effort and expense. We may have to seek a license for the technology, which may not be available on terms favorable or acceptable to us or at all, and as a result may significantly increase our operating expenses or require us to restrict our business activities in one or more respects. Any of these events could adversely affect our business, operating results, financial condition and prospects.

***The success of our business depends in part on our ability to protect and enforce our intellectual property rights.***

We rely on a combination of patent, copyright, service mark, trademark and trade secret laws, as well as confidentiality procedures and contractual restrictions and covenants, to establish and protect our proprietary rights, all of which provide only limited protection. We cannot assure you that any patents will be issued with respect to our currently pending patent applications in a manner that gives us adequate defensive protection or competitive advantages, if at all, or that any patents issued to us will not be challenged, invalidated or circumvented. We have filed for patents in the United States and in certain international jurisdictions, but such protections may not be available in all countries in which we operate or in which we seek to enforce our intellectual property rights, or may be difficult to enforce in practice. Our currently issued patents and any patents that may be issued in the future with respect to pending or future patent applications may not provide sufficiently broad protection or they may not prove to be enforceable in actions against alleged infringers. We cannot be certain that the steps we have taken will prevent unauthorized use of our technology or the reverse engineering of our technology. Moreover, others may independently develop technologies that are competitive to ours or infringe our intellectual property.

Protecting against the unauthorized use of our intellectual property, solutions and other proprietary rights is expensive and difficult, particularly internationally. Litigation may be necessary in the future to enforce or defend our intellectual property rights or to determine the validity and scope of the proprietary rights of others. Any such litigation could result in substantial costs and diversion of management resources, either of which could harm our business, operating results and financial condition. Further, many of our current and potential competitors have the ability to dedicate substantially greater resources to defending intellectual property infringement claims and to enforcing their intellectual property rights than we have. Attempts to enforce our rights against third parties could also provoke these third parties to assert their own intellectual property or other rights against us, or result in a holding that invalidates or narrows the scope of our rights, in whole or in part. Effective patent, trademark, service mark, copyright and trade secret protection may not be available in every country in which our solutions are available. An inability to adequately protect and enforce our intellectual property and other proprietary rights could seriously harm our business, operating results, financial condition and prospects.

***We may become subject to claims that our employees have wrongfully disclosed or we have wrongfully used proprietary information of our employees' former employers. These claims may be costly to defend and if we do not successfully do so, our business could be harmed.***

Many of our employees were previously employed at current or potential competitors. Although we have processes to ensure that our employees do not use the proprietary information or know-how of others in their work for us, we may in the future become subject to claims that these employees have divulged, or we have used, proprietary information of these employees' former employers. Litigation may be necessary to defend against these claims. If we fail in defending such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights or personnel. A loss of key research personnel or their work product could hamper our ability to develop new solutions and features for existing solutions, which could severely harm our business. Even if we are successful in defending against these claims, litigation efforts are costly, time-consuming and a significant distraction to management.

***If we fail to maintain an effective system of internal controls, our ability to produce timely and accurate financial statements or comply with applicable regulations could be impaired.***

As a public company, we are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley Act") and the rules and regulations of the Nasdaq Stock Market. We expect that the requirements of these rules and regulations will continue to increase our legal, accounting and financial compliance costs, make some activities more difficult, time-consuming and costly, and place significant strain on our personnel, systems and resources.

The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. We are continuing to develop and refine our disclosure controls, internal control over financial reporting and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we will file with the SEC, is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that information required to be disclosed in reports under the Exchange Act is accumulated and communicated to our principal executive and financial officers.

Our current controls and any new controls that we develop may become inadequate because of changes in conditions in our business. Further, weaknesses in our internal controls may be discovered in the future. Any failure to develop or maintain effective controls, or any difficulties encountered in their implementation or improvement, could harm our operating results or cause us to fail to meet our reporting obligations and may result in a restatement of our financial statements for prior periods. Any failure to implement and maintain effective internal controls also could adversely affect the results of periodic management evaluations and annual independent registered public accounting firm attestation reports regarding the effectiveness of our internal control over financial reporting that we are required to include in our periodic reports we will file with the SEC under Section 404 of the Sarbanes-Oxley Act. Ineffective disclosure controls and procedures and internal control over financial reporting could also cause investors to lose confidence in our reported financial and other information, which would likely have a negative effect on the market price of our Class A common stock.

In order to maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting to comply with the SEC rules that implement Sections 302 and 404 of the Sarbanes-Oxley Act, we have expended and anticipate that we will continue to expend significant resources and undertake various actions, including incurring accounting-related costs and implementing new internal controls and procedures, and providing significant management oversight. In addition, our independent registered public accounting firm is also required to formally attest to the effectiveness of our internal control over financial reporting and may issue a report that is adverse in the event it is not satisfied with the level at which our controls are documented, designed or operating. Any failure to maintain the adequacy of our internal controls, or consequent inability to produce accurate financial statements on a timely basis, or an adverse report from our independent auditors, could increase our operating costs and could materially impair our ability to operate our business and could have a material and adverse effect on our operating results and could cause a decline in the price of our Class A common stock. In addition, if we are unable to continue to meet these requirements, we may not be able to remain listed on the Nasdaq Stock Market.

***Failure to comply with laws and regulations applicable to our business could subject us to fines and penalties and could also cause us to lose end customers in the public sector or negatively impact our ability to contract with the public sector.***

Our business is subject to regulation by various federal, state, local and foreign governmental agencies, including agencies responsible for monitoring and enforcing employment and labor laws, antitrust laws, workplace safety, product safety, environmental laws, consumer protection laws, anti-bribery laws, import/export controls, federal securities laws and tax laws and regulations. In certain jurisdictions, these regulatory requirements may be more stringent than in the United States. Noncompliance with applicable regulations or requirements could subject us to investigations, sanctions, mandatory product recalls, enforcement actions, disgorgement of profits, fines, damages and civil and criminal penalties or injunctions. If any governmental sanctions are imposed, or if we do not prevail in any possible civil or criminal litigation, our business, reputation, operating results and financial condition could be adversely affected. In addition, responding to any action will likely result in a significant diversion of management's attention and resources and an increase in third-party professional fees. Enforcement actions and sanctions could harm our business, operating results and financial condition.

In addition, we must comply with laws and regulations relating to the formation, administration and performance of contracts with the public sector, including U.S. federal, state and local governmental organizations, which affect how we and our channel partners do business with governmental agencies. Selling our solutions to the U.S. government, whether directly or through channel partners, also subjects us to certain regulatory and contractual requirements. Failure to comply with these requirements by either us or our channel partners could subject us to investigations, fines and other penalties, which could have an adverse effect on our business, operating results, financial condition and prospects. As an example, the U.S. Department of Justice ("DOJ") and the General Services Administration ("GSA") have in the past pursued claims against and financial settlements with IT vendors under the False Claims Act and other statutes related to pricing and discount practices and compliance with certain provisions of GSA contracts for sales to the federal government. The DOJ and GSA continue to actively pursue such claims. Violations of certain regulatory and contractual requirements could also result in us being suspended or debarred from future government contracting. Any of these outcomes could have an adverse effect on our revenue, operating results, financial condition and prospects.

These laws and regulations impose added costs on our business, and failure to comply with these or other applicable regulations and requirements, including noncompliance in the past, could lead to claims for damages from our channel partners, penalties, termination of contracts, loss of exclusive rights in our intellectual property and temporary suspension or permanent debarment from government contracting. Any such damages, penalties, disruptions or limitations in our ability to do business with the public sector could have an adverse effect on our business and operating results.

***We are subject to governmental regulation and other legal obligations, particularly related to privacy, data protection and information security, and our actual or perceived failure to comply with such obligations could adversely affect our business and operating results. Compliance with such laws could also impair our efforts to maintain and expand our customer base, and thereby decrease our revenue.***

Personal privacy, data protection and information security are significant issues in the United States and the other jurisdictions where we offer our solutions. The regulatory framework for privacy and security issues worldwide is rapidly evolving and is likely to remain uncertain for the foreseeable future. Our handling of data is subject to a variety of laws and regulations, including regulation by various government agencies, including the U.S. Federal Trade Commission ("FTC") and various state, local and foreign bodies and agencies.

The U.S. federal and various state and foreign governments have adopted or proposed limitations on the collection, distribution, use and storage of personal information of individuals, including end customers and employees. In the United States, the FTC and many state attorneys general are applying federal and state consumer protection laws to the online collection, use and dissemination of data. Additionally, many foreign countries and governmental bodies, including in Australia, the European Union ("EU"), India, Japan and numerous other jurisdictions in which we operate or conduct our business, have laws and regulations concerning the collection and use of personal information obtained from their residents or by businesses operating within their jurisdiction. These laws and regulations often are more restrictive than those in the United States. Such laws and regulations may require companies to implement new privacy and security policies, permit individuals to access, correct and delete personal information stored or maintained by such companies, inform individuals of security breaches that affect their personal information, and, in some cases, obtain individuals' consent to use personal information for certain purposes. In addition, a foreign government could require that any personally identifiable information collected in a country not be disseminated outside of that country, and we are not currently equipped to comply with such a requirement.



We also expect that there will continue to be new proposed laws, regulations and industry standards concerning privacy, data protection and information security in the United States, the European Union and other jurisdictions, and we cannot yet determine the impact such future laws, regulations and standards may have on our business. For example, California has enacted the California Consumer Privacy Act ("CCPA"), which went into effect on January 1, 2020 and, among other things, requires covered companies to provide new disclosures to California consumers and afford such consumers new abilities to opt-out of certain sales of personal information. We cannot yet predict the full impact of the CCPA on our business or operations, but it has and may continue to require us to modify our data processing practices and policies and to incur substantial costs and expenses in an effort to comply. Additionally, the General Data Protection Regulation ("GDPR"), which became effective in May 2018, superseded prior EU data protection legislation, imposes more stringent EU data protection requirements, provides an enforcement authority which substantially increases compliance costs, and imposes large penalties for noncompliance. Moreover, as a result of current and proposed data protection and privacy laws aimed at using personal data for marketing purposes, including the ePrivacy Regulation to replace the ePrivacy Directive in the European Union, we face an increased difficulty in marketing to current and potential customers, which impacts our ability to spread awareness of our products and services and, in turn, grow a customer base in some regions. There also remains significant uncertainty surrounding the regulatory framework for the future of personal data transfers from the European Union to the United States. As we begin to offer more cloud-based services, we will increasingly be positioned as a data processor, which imposes additional obligations under the foregoing and other laws and regulations relating to privacy and data protection, and may increase our liability exposure by operation of law, contract, or penalties for noncompliance. Additionally, we expect that existing laws, regulations and standards may be interpreted in new manners in the future. Current or future laws, regulations, standards and other obligations, as well as changes in the interpretation of existing laws, regulations, standards and other obligations could impair our or our customers' ability to collect, use or disclose information relating to individuals, which could decrease demand for our solutions, require us to restrict our business operations, increase our costs and impair our ability to maintain and grow our customer base and increase our revenue.

Although we are working to comply with those federal, state and foreign laws and regulations, industry standards, contractual obligations and other legal obligations that apply to us, those laws, regulations, standards and obligations are evolving and may be modified, interpreted and applied in an inconsistent manner from one jurisdiction to another, and may conflict with one another, other requirements or legal obligations, our practices or the features of our solutions. As such, we cannot assure ongoing compliance with all such laws or regulations, industry standards, contractual obligations and other legal obligations. Any failure or perceived failure by us to comply with federal, state or foreign laws or regulations, industry standards, contractual obligations or other legal obligations, or any actual or suspected security incident, whether or not resulting in unauthorized access to, or acquisition, release or transfer of personal information or other data, may result in governmental enforcement actions and prosecutions, private litigation, fines and penalties or adverse publicity and could cause our customers to lose trust in us, which could have an adverse effect on our reputation, brand and business. Any inability to adequately address privacy and security concerns, even if unfounded, or comply with applicable laws, regulations, policies, industry standards, contractual obligations or other legal obligations could result in additional cost and liability to us, damage our reputation and brand, inhibit sales and adversely affect our business and operating results.

***Failure to comply with anticorruption and anti-money laundering laws, including the U.S. Foreign Corrupt Practices Act of 1977, as amended ("FCPA"), and similar laws associated with our activities outside of the United States could subject us to penalties and other adverse consequences.***

We are subject to the FCPA, the U.S. domestic bribery statute contained in 18 U.S.C. § 201, the U.S. Travel Act, the USA PATRIOT Act, the United Kingdom Bribery Act of 2010 ("U.K. Bribery Act") and possibly other anti-bribery and anti-money laundering laws in countries in which we conduct activities. We face significant risks if we fail to comply with the FCPA and other anticorruption laws that prohibit companies and their employees and third-party intermediaries from authorizing, offering or providing, directly or indirectly, improper payments or benefits to foreign government officials, political parties and private-sector recipients for the purpose of obtaining or retaining business, directing business to any person or securing any advantage. In many foreign countries, particularly in countries with developing economies, it may be a local custom that businesses engage in practices that are prohibited by the FCPA or other applicable laws and regulations. In addition, we use various third parties to sell our solutions and conduct our business abroad. We or our third-party intermediaries may have direct or indirect interactions with officials and employees of government agencies or state-owned or affiliated entities and we can be held liable for the corrupt or other illegal activities of these third-party intermediaries, our employees, representatives, contractors, partners and agents, even if we do not explicitly authorize such activities. We continue to update and implement our FCPA/anti-corruption compliance program and no assurance can be given that all of our employees and agents, as well as those companies to which we outsource certain of our business operations, will not take actions in violation of our policies and applicable law, for which we may be ultimately held responsible.

Any violation of the FCPA, other applicable anticorruption laws and anti-money laundering laws could result in whistleblower complaints, adverse media coverage, investigations, loss of export privileges, severe criminal or civil sanctions and, in the case of the FCPA, suspension or debarment from U.S. government contracts, which could have a material and adverse effect on our reputation, brand, business, operating results and prospects. In addition, responding to any enforcement action may result in a materially significant diversion of management's attention and resources and significant defense costs and other third-party professional fees.

***We are subject to governmental export and import controls that could impair our ability to compete in international markets or subject us to liability if we violate the controls.***

Our solutions are subject to U.S. export controls, including the Export Administration Regulations and economic sanctions administered by the Office of Foreign Assets Control, and we incorporate encryption technology into certain of our solutions. These encryption products and the underlying technology may be exported outside of the United States only with the required export authorizations, including by license, a license exception or other appropriate government authorizations, including the filing of an encryption registration.

Furthermore, our activities are subject to the U.S. economic sanctions laws and regulations that prohibit the shipment of certain products and services without the required export authorizations, including to countries, governments and persons targeted by U.S. embargoes or sanctions. Additionally, the U.S. government has recently been critical of existing trade agreements and may impose more stringent export and import controls. Obtaining the necessary export license or other authorization for a particular sale may be time-consuming and may result in the delay or loss of sales opportunities even if the export license ultimately may be granted. While we take precautions to prevent our solutions from being exported in violation of these laws, including obtaining authorizations for our encryption products, implementing IP address blocking and screenings against U.S. government and international lists of restricted and prohibited persons, we cannot guarantee that the precautions we take will prevent violations of export control and sanctions laws. Violations of U.S. sanctions or export control laws can result in significant fines or penalties and possible incarceration for responsible employees and managers could be imposed for criminal violations of these laws.

We also note that if our channel partners fail to obtain appropriate import, export or re-export licenses or permits, we may also be adversely affected, through reputational harm as well as other negative consequences including government investigations and penalties. We presently incorporate export control compliance requirements into our channel partner agreements; however, no assurance can be given that our channel partners will be able to comply with such requirements.

Also, various countries, in addition to the United States, regulate the import and export of certain encryption and other technology, including import and export licensing requirements, and have enacted laws that could limit our ability to distribute our solutions or could limit our end customers' ability to implement our solutions in those countries. Changes in our solutions or future changes in export and import regulations may create delays in the introduction of our solutions in international markets, prevent our end customers with international operations from deploying our solutions globally or, in some cases, prevent the export or import of our solutions to certain countries, governments, or persons altogether. From time to time, various governmental agencies have proposed additional regulation of encryption technology, including the escrow and government recovery of private encryption keys. Any change in export or import regulations, economic sanctions or related legislation, increased export and import controls stemming from U.S. government policies, or change in the countries, governments, persons or technologies targeted by such regulations, could result in decreased use of our solutions by, or in our decreased ability to export or sell our solutions to, existing or potential end customers with international operations. Any decreased use of our solutions or limitation on our ability to export or sell our solutions would adversely affect our business, operating results and prospects.

***Our international operations expose us to additional risks, and failure to manage those risks could adversely affect our business, operating results and cash flows.***

We derive a significant portion of our revenue from end customers and channel partners outside the United States. We derived approximately 44%, 45%, 44% and 46% of our total revenue from our international customers based on bill-to-location for fiscal 2018 and fiscal 2019 and the nine months ended April 30, 2019 and 2020, respectively. We are continuing to adapt to and develop strategies to address international markets but there is no guarantee that such efforts will have the desired effect. As of April 30, 2020, approximately 50% of our full-time employees were located outside of the United States. We expect that our international activities will continue to grow over the foreseeable future as we continue to pursue opportunities in existing and new international markets, which will require significant management attention and financial resources. We are subject to risks associated with having significant worldwide operations, including, but not limited to:

- business practices may differ from those in the United States and may require us in the future to include terms other than our standard terms in customer, channel partner, employee, consultant and other contracts;
- political, economic and social instability or uncertainty around the world, including the results and impact of the United Kingdom's separation from the European Union, commonly known as "Brexit";
- potential changes in trade relations arising from policy initiatives implemented by, or statements made by, the U.S. government, which has been critical of existing and proposed trade agreements;
- the potential impact of tariffs or other trade restrictions imposed by, or threatened to be imposed by, the U.S. government, such as the tariffs imposed on Chinese imports to the U.S.;
- greater difficulty in enforcing contracts, judgments and arbitration awards in international courts, and in collecting accounts receivable and longer payment and collection periods;
- greater risk of unexpected changes in regulatory practices, tariffs and tax laws and treaties;
- risks associated with trade restrictions and foreign legal requirements, including the importation, certification and localization of our solutions required in foreign countries;
- greater risk of a failure of foreign employees, partners, distributors and resellers to comply with both U.S. and foreign laws, including antitrust regulations, the FCPA, the U.K. Bribery Act, U.S. or foreign sanctions regimes and export or import control laws and any trade regulations ensuring fair trade practices;
- heightened risk of unfair or corrupt business practices in certain geographies and of improper or fraudulent sales arrangements that may impact financial results and result in restatements of, or irregularities in, financial statements;
- requirements to comply with foreign privacy, data protection and information security laws and regulations and the risks and costs of noncompliance;
- reduced or uncertain protection for intellectual property rights in some countries;
- impediments to the flow of foreign exchange capital payments and receipts due to exchange controls instituted by certain foreign governments;
- increased expenses incurred in establishing and maintaining corporate entities, office space and equipment for our international operations;
- difficulties in managing and staffing international offices and increased travel, infrastructure and legal and regulatory compliance costs associated with multiple international locations, including costs related to additional regulatory reviews or audits, financial accounting and reporting obligations and international cybersecurity requirements;
- greater difficulty in identifying, attracting and retaining local experienced personnel, and the costs and expenses associated with such activities;
- the challenge of managing a development team in geographically disparate locations;
- management communication and integration problems resulting from cultural and geographic dispersion;
- differing employment practices and labor relations issues;
- fluctuations in exchange rates between the U.S. dollar and foreign currencies in markets where we do business; and
- treatment of revenue from international sources for tax purposes and changes in tax laws, regulations or official interpretations, including being subject to foreign tax laws and being liable for paying withholding, income or other taxes in foreign jurisdictions.

As we expand our business globally, our success will depend, in large part, on our ability to anticipate and effectively manage these risks. These factors and other factors could harm our ability to gain future international revenue and, consequently, materially impact our business, operating results and financial condition. The expansion of our existing international operations and entry into additional international markets will require significant management attention and financial resources. Our failure to successfully manage our international operations and the associated risks effectively could limit the future growth of our business.

***A number of our solutions incorporate software provided under open source licenses which may restrict or impose certain obligations on how we use or distribute our solutions or subject us to various risks and challenges, which could result in increased development expenses, delays or disruptions to the release or distribution of those solutions, inability to protect our intellectual property rights and increased competition.***

Certain significant components of our solutions incorporate or are based upon open source software, and we may incorporate open source software into other solutions in the future. Such open source software is generally licensed under open source licenses, including, for example, the GNU General Public License, the GNU Lesser General Public License, "Apache-style" licenses, "BSD-style" licenses and other open source licenses. The use of open source software subjects us to a number of risks and challenges, including, but not limited to:

- If open source software programmers, most of whom we do not employ, do not continue to develop and enhance open source technologies, our development expenses could increase and our product release and upgrade schedules could be delayed.
- Open source software is open to further development or modification by anyone. As a result, others may develop such software to be competitive with our platform and may make such competitive software available as open source. It is also possible for competitors to develop their own solutions using open source software, potentially reducing the demand for, and putting price pressure on, our solutions.
- The licenses under which we license certain types of open source software may require that, if we modify the open source software we receive, we are required to make such modified software and other related proprietary software of ours publicly available without cost and on the same terms. Accordingly, we monitor our use of open source software in an effort to avoid subjecting our proprietary software to such conditions and others we do not intend. Although we believe that we have complied with our obligations under the various applicable licenses for open source software that we use, our processes used to monitor how open source software is used could be subject to error. In addition, there is little or no legal precedent governing the interpretation of terms in most of these licenses. Therefore, any improper usage of open source could result in unanticipated obligations regarding our solutions and technologies, which could have an adverse impact on our intellectual property rights and our ability to derive revenue from solutions incorporating the open source software.
- If an author or other third party that distributes such open source software were to allege that we had not complied with the conditions of one or more of these licenses, we could be required to incur legal expenses defending against such allegations, or engineering expenses in developing a substitute solution.

If we are unable to successfully address the challenges of integrating offerings based upon open source technology into our business, our business and operating results may be adversely affected and our development costs may increase.

***Adverse or uncertain macroeconomic or geopolitical conditions or reduced IT spending may adversely impact our business, revenues and profitability.***

Our business, operations and performance are dependent in part on worldwide economic conditions and events that may be outside of our control, such as political and social unrest, terrorist attacks, hostilities, malicious human acts, climate change, natural disasters (including extreme weather), pandemics or other major public health concerns and other similar events, and the impact these conditions and events have on the overall demand for enterprise computing infrastructure solutions and on the economic health and general willingness of our current and prospective end customers to purchase our solutions and to continue spending on IT in general. The global macroeconomic environment has been, and may continue to be, inconsistent, challenging and unpredictable due to the ongoing COVID-19 pandemic, international trade disputes, tariffs, including those imposed by the U.S. government on Chinese imports to the U.S., restrictions on sales and technology transfers, uncertainties related to changes in public policies such as domestic and international regulations, taxes, or international trade agreements, elections, geopolitical turmoil and civil unrests, instability in the global credit markets, uncertainties regarding the effects of the United Kingdom's separation from the European Union, commonly known as "Brexit," actual or potential government shutdowns, and other disruptions to global and regional economies and markets.

These macroeconomic challenges and uncertainties, including the COVID-19 pandemic, have, and may continue to, put pressure on global economic conditions and overall IT spending and may cause our end customers to modify spending priorities or delay or abandon purchasing decisions, thereby lengthening sales cycles and potentially lowering prices for our solutions, and may make it difficult for us to forecast our sales and operating results and to make decisions about future investments, any of which could materially harm our business, operating results and financial condition.

***We are exposed to fluctuations in currency exchange rates, which could negatively affect our operating results.***

Our sales contracts are denominated in U.S. dollars, and therefore, substantially all of our revenue is not subject to foreign currency risk. However, a relative strengthening of the U.S. dollar could increase the real cost of our solutions to our end customers outside of the United States, which could adversely affect our financial condition and operating results. In addition, an increasing portion of our operating expenses is incurred outside the United States, is denominated in foreign currencies such as the Euro, the Pound Sterling, the Indian Rupee, the Canadian Dollar and the Australian Dollar, and is subject to fluctuations due to changes in foreign currency exchange rates. In particular, the ongoing COVID-19 pandemic has caused, and may continue to cause, significant volatility in the currency exchange rates, and such volatility may continue for the duration of and possibly beyond the COVID-19 pandemic. If we become more exposed to currency fluctuations and are not able to successfully hedge against the risks associated with currency fluctuations, our operating results could be adversely affected. Furthermore, such currency fluctuations may also adversely impact our ability to accurately predict our future financial results. To date, we have not entered into any hedging arrangements with respect to foreign currency risk or other derivative instruments.

***Taxing authorities may successfully assert that we should have collected or in the future should collect sales and use, value added or similar taxes, and we could be subject to liability with respect to past or future sales, which could adversely affect our operating results.***

We do not collect sales and use, value added or similar taxes in all jurisdictions in which we have sales, and we have been advised that such taxes are not applicable to our products and services in certain jurisdictions. Sales and use, value added and similar tax laws and rates vary greatly by jurisdiction. Certain jurisdictions in which we do not collect such taxes may assert that such taxes are applicable. The U.S. Supreme Court's decision in *South Dakota v. Wayfair, Inc.* increases states' ability to assert taxing jurisdiction on out-of-state retailers could result in additional jurisdictions asserting that sales and use or other taxes apply to our products and services. The assertion that such taxes are applicable by a jurisdiction in which we do not collect such taxes could result in tax assessments, penalties and interest, to us or our end customers for the past amounts, and we may be required to collect such taxes in the future. If we are unsuccessful in collecting such taxes from our end customers, we could be held liable for such costs, which may adversely affect our operating results.

***Our international operations may subject us to potential adverse tax consequences.***

We have expanded and, in the long-term, anticipate continuing to expand our international operations and staff to better support our growth into the international markets. Our corporate structure and associated transfer pricing policies contemplate the business flows and future growth into the international markets, and consider the functions, risks and assets of the various entities involved in the intercompany transactions. The amount of taxes we pay in different jurisdictions may depend on the application of the tax laws of the various jurisdictions, including the United States, to our international business activities, changes in tax rates, new or revised tax laws or interpretations of existing tax laws and policies and our ability to operate our business in a manner consistent with our corporate structure and intercompany arrangements. The taxing authorities of the jurisdictions in which we operate may challenge our methodologies for pricing intercompany transactions pursuant to the intercompany arrangements or disagree with our determinations as to the income and expenses attributable to specific jurisdictions. If such a challenge or disagreement were to occur, and our position was not sustained, we could be required to pay additional taxes, interest and penalties, which could result in one-time tax charges, higher effective tax rates, reduced cash flows and lower overall profitability of our operations. Our financial statements could fail to reflect adequate reserves to cover such a contingency.

***Changes in global tax laws could increase our worldwide tax rate and could have a material adverse effect on our business, cash flow, results of operations or financial conditions.***

In December 2017, the U.S. Congress passed and the President signed legislation commonly referred to as the Tax Cuts and Jobs Act ("TCJA"), which includes a broad range of tax reform proposals affecting businesses, including a federal corporate rate reduction from 35% to 21%; limitations on the deductibility of interest expense and executive compensation; creation of new minimum taxes such as the base erosion anti-abuse tax, Global Intangible Low Taxed Income; and a new minimum tax on certain foreign earnings. In addition, in June 2019, the U.S. Court of Appeals for the Ninth Circuit overturned the 2015 U.S. tax court decision in *Altera Corp. v. Commissioner*. The Ninth Circuit's opinion upholds Treasury Regulations requiring the inclusion of stock-based compensation costs under cost sharing agreements. On July 22, 2019, the taxpayer requested an en banc rehearing before the full Ninth Circuit Court of Appeals and the request was denied on November 12, 2019. On February 10, 2020, the taxpayer filed a petition for writ of certiorari to the U.S. Supreme Court. Based on our current analysis, we believe the impact of the court's decision would not have a material impact on our consolidated financial statements; however, additional changes to precedent or applicable law on this point could impact our financial statements or operations.

In addition, international organizations such as the Organization for Economic Cooperation and Development, have published Base Erosion and Profit Shifting action plans that, if adopted by countries where we do business, could increase our tax obligations in these countries. We will continue to assess the ongoing impact of these current and pending changes to global tax legislation and the impact on the Company's future financial statements upon the finalization of laws, regulations and additional guidance. In addition, we have continued to evaluate our corporate structure. Any changes to the taxation of undistributed foreign earnings could change our plans regarding reinvestment of such earnings. Due to the large scale of our U.S. and international business activities, many of these enacted and proposed changes to the taxation of our activities could increase our worldwide effective tax rate and have an adverse effect on our operating results, cash flow or financial condition.

Certain EU and other jurisdictions have introduced anti-hybrid provisions, which came into force in EU member states on January 1, 2020 (subject to relevant derogations). The scope of these rules is wide-reaching, and can apply to disallow certain deductions for corporate tax purposes where hybrid entities exist within a company structure. These provisions may place additional burden on our management to assess the impact of the rules and potentially create additional tax costs. Separately, as a result of the complexity of, and lack of clear precedent or authority with respect to, the application of various income tax laws to our corporate structure, tax authorities may challenge how we report our transactions, which may increase our costs and impact our operations.

The determination of our worldwide provision for income taxes and other tax liabilities requires significant judgment by management and involves dealing with uncertainties in the application of complex global tax regulations. Although we believe that our estimates are reasonable, the ultimate tax outcome may differ from the amounts recorded in our consolidated financial statements and may materially affect our financial results in the period or periods for which such determination is made.

***Our ability to use our net operating loss carryforwards and certain other tax attributes may be limited.***

In general, under Section 382 of the United States Internal Revenue Code of 1986, as amended, or the Code, a corporation that undergoes an ownership change is subject to limitations on its ability to utilize its pre-change net operating losses ("NOLs"), and other tax attributes to offset future taxable income. An ownership change occurs when a company's "five-percent shareholders" (as defined in Section 382 of the Code) collectively increase their ownership in the company by more than 50 percentage points (by value) over a rolling three-year period. Similar limitations may apply for state tax purposes. If our existing NOLs are subject to limitations arising from previous ownership changes, our ability to utilize NOLs could be limited by Section 382 of the Code. In addition, we may experience ownership changes in the future as a result of subsequent shifts in our stock ownership. Moreover, the TCJA eliminates the carryback and permits the indefinite carryforward of NOLs arising in tax years beginning after December 31, 2017 (whereas NOLs arising in tax years beginning on or prior to that date continue to have a two-year carryback and 20 year carryforward), and limits the deductibility of NOLs arising in tax years beginning after December 31, 2017 to 80% of current year taxable income. As a result, if we earn net taxable income, our ability to use our NOLs and other tax attributes to offset U.S. federal taxable income may be subject to limitations, which could potentially result in increased future tax liability to us.

The Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") enacted on March 27, 2020 lifts certain deduction limitations originally imposed by the TCJA. Under the CARES Act, we will be able to carryback federal NOLs to offset prior year taxable income generated in tax years beginning after December 31, 2017 and before January 1, 2021. This provision does not impact us, as we have NOLs in the applicable tax years.

***Our business is subject to the risks of natural disasters (including extreme weather), man-made problems, pandemics and other major public health concerns and other similar events that may be outside of our control.***

Significant natural disasters (such as earthquakes, fires, floods, and extreme weather), man-made problems (such as significant power outages, security breaches, acts of terrorism or war, civil unrests, or geopolitical turmoil), pandemics or other major public health concerns (such as the ongoing COVID-19 pandemic) and other similar events that may be outside of our control could have an adverse impact on our business and operating results. For example, despite the implementation of network security measures, our networks also may be vulnerable to computer viruses, break-ins and similar disruptions from unauthorized tampering with our solutions. Further, both our corporate headquarters and our main contract manufacturers are located in the San Francisco Bay Area, a region known for seismic activity. In addition, natural disasters (including extreme weather), man-made problems and pandemics or other major public health concerns could cause disruptions in our or our end customers' or channel partners' businesses, our suppliers' and manufacturers' operations or the global economy as a whole. We also rely on IT systems to communicate among our workforce and with third parties. Any disruption to our communications, whether caused by a natural disaster or by man-made problems, such as power disruptions, could adversely affect our business. We do not have a formal disaster recovery plan or policy in place and do not currently require that our manufacturing partners have such plans or policies in place. To the extent that any such disruptions result in delays or cancellations of orders or impede our suppliers' or our manufacturers' ability to timely deliver our solutions and product components, or the deployment of our solutions, our business, operating results and financial condition would be adversely affected. We do maintain what we believe are commercially reasonable levels of business interruption insurance. However, such insurance may not adequately cover our losses in the event of a significant disruption in our business.

***If we are the victim of a cyber attack or other cyber security incident and our networks, computer systems or software solutions are breached or unauthorized access to sensitive or proprietary information, including employee or customer data, otherwise occurs, our business operations may be interrupted, our reputation and brand may be damaged, and we may incur significant liabilities.***

Cyber attacks designed to gain access to sensitive or proprietary information by breaching mission critical systems of large organizations are constantly evolving, and high-profile electronic security breaches leading to the unauthorized release of sensitive or proprietary information, including employee and customer information, have occurred at a number of large companies in recent years. Companies in our industry have reported that they have been subject to cyber attacks, including attacks potentially from nation-state actors, and we could be subject to similar attacks. Computer malware, viruses, social engineering (predominantly spear phishing attacks) and general hacking have become more prevalent in our industry, particularly against cloud services, and companies like us can suffer security breaches from a variety of causes, whether due to third-party action, software vulnerabilities or coding errors, physical break-ins, employee error, malfeasance or otherwise. As we transition to offering more cloud-based solutions, such as Nutanix Xi Cloud Services, we may increasingly be the target of cyber threats. Because the techniques used and vulnerabilities exploited to obtain unauthorized access or to sabotage systems change frequently, and generally are not identified until they are launched against a target, we may be unable to anticipate these techniques or vulnerabilities or implement adequate preventative measures. We may also experience security breaches that may remain undetected for an extended period. If any unauthorized access to or security breach of our solutions occurs, or is believed to have occurred, such an event or perceived event could result in the loss of data, loss of intellectual property or trade secrets, loss of business, severe reputational or brand damage adversely affecting end customer or investor confidence, regulatory investigations and orders, litigation, indemnity obligations, damages for contract breach and penalties for violation of privacy, data protection and other applicable laws, regulations or contractual obligations. We may also be subject to significant costs for remediation that may include liability for stolen assets or information and repair of system damage that may have been caused or incentives offered to end customers or other business partners in an effort to maintain business relationships after a breach and other liabilities. Additionally, any such event or perceived event could impact our reputation and brand, harm customer confidence, hurt our sales and expansion into existing and new markets or cause us to lose potential or existing end customers. Furthermore, a high-profile security breach suffered, or perceived to have been suffered, by an industry peer may entail a general loss of trust in our industry and thereby have a similar adverse impact on our business and financial performance as a direct breach suffered by us. We could be required to expend significant capital and other resources to alleviate problems caused by such actual or perceived breaches and to remediate our systems, we could be exposed to a risk of loss, litigation or regulatory action and possible liability, and our ability to operate our business may be impaired. Additionally, actual, potential or anticipated attacks may cause us to incur increasing costs, including costs to deploy additional personnel and protection technologies, train employees and engage third-party experts and consultants.

In addition, if the security measures of our end customers, partners, vendors, or suppliers are compromised, even without any actual compromise of our own systems or of our solutions used by such end customers, partners, vendors, or suppliers, we may face negative publicity, reputational harm or brand damage if our end customers, partners, vendors, or suppliers or anyone else incorrectly attributes the blame for such security breaches to us or our solutions. If end customers believe that our solutions do not provide adequate security for the storage of personal or other sensitive or proprietary information or the transmission of such information over the internet, our business will be harmed. End customers' concerns about security or privacy may deter them from using our solutions for activities that involve personal or other sensitive information, which may significantly affect our business and operating results. Moreover, we have acquired a number of companies, products, services and technologies over the years. Although we devote significant resources to address any security issues with respect to such acquisitions, we may still inherit additional risks as we integrate these companies, products, services and technologies into our business and solutions.

***We have expanded and may further expand through acquisitions of, or investments in, other companies, each of which may divert our management's attention, resulting in additional dilution to our stockholders and consumption of resources that are necessary to sustain and grow our business.***

Our business strategy may, from time to time, include acquiring other complementary products, technologies or businesses. For example, in August 2018 we acquired Mainframe2, Inc., in March 2018 we acquired Minjar, Inc. and Netsil Inc., in August 2016, we acquired Calm.io Pte. Ltd. and in September 2016, we acquired PernixData, Inc. We also may enter into relationships with other businesses in order to expand our solutions, which could involve preferred or exclusive licenses, additional channels of distribution or discount pricing or investments in other companies. Negotiating these transactions can be time-consuming, difficult and expensive, and our ability to close these transactions may be subject to third-party approvals, such as government regulatory approvals, which are beyond our control. Consequently, we can make no assurance that these transactions once undertaken and announced, will close.

These kinds of acquisitions or investments may result in unforeseen expenditures and operating and integration difficulties, especially if the acquisitions or investments are more complex in structure and scope, including due to the geographic location of the acquired company. In particular, we may encounter difficulties assimilating or integrating the businesses, technologies, products, personnel or operations of companies that we may acquire, particularly if the key personnel of the acquired business choose not to work for us. We may have difficulty retaining the customers of any acquired business or the acquired technologies or research and development expectations may prove unsuccessful. Acquisitions may also disrupt our ongoing business, divert our resources, require significant management attention that would otherwise be available for development of our business and may be viewed negatively by our end customers, investors or securities analysts. We may not successfully evaluate or utilize the acquired technology or personnel, or accurately forecast the financial impact of an acquisition transaction, including accounting charges. Any acquisition or investment could expose us to unknown liabilities and risks, and we may incur additional costs and expenses necessary to address an acquired company's failure to comply with laws and governmental rules and regulations. Moreover, we cannot assure you that the anticipated benefits of any acquisition or investment would be realized in a timely manner, if at all, or that we would not be exposed to unknown liabilities. In connection with these types of transactions, we may issue additional equity securities that would dilute our stockholders, use cash that we may need in the future to operate our business, incur debt on terms unfavorable to us or that we are unable to repay, incur large charges or substantial liabilities, encounter difficulties integrating diverse business cultures and become subject to adverse tax consequences, substantial depreciation or deferred compensation charges. These challenges related to acquisitions or investments could adversely affect our business, operating results, financial condition and prospects.

***Regulations related to conflict minerals may cause us to incur additional expenses and could limit the supply and increase the costs of certain metals used in the manufacturing of our solutions.***

We are subject to the requirements under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank Act") that have and will continue to require us to perform due diligence and disclose and report whether our solutions contain conflict minerals. Although the SEC has provided guidance with respect to a portion of the conflict mineral filing requirements that has and may continue to somewhat reduce our reporting practices, we have incurred and expect to incur additional costs to comply with these disclosure requirements, and the requirements could adversely affect the sourcing, availability and pricing of the materials used in the manufacture of components used in our products.



## **Risks Related to the Convertible Senior Notes (the "Notes")**

***We may not have the ability to raise the funds necessary to settle conversions of the Notes in cash or to repurchase the Notes upon a fundamental change, and our future debt may contain limitations on our ability to pay cash upon conversion or repurchase of the Notes.***

Holders of the Notes will have the right to require us to repurchase all or a portion of their Notes upon the occurrence of a fundamental change before the maturity date at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid special interest, if any. In addition, upon conversion of the Notes, unless we elect to deliver solely shares of our Class A common stock to settle such conversion (other than paying cash in lieu of delivering any fractional share), we will be required to make cash payments in respect of the Notes being converted. Moreover, we will be required to repay the Notes in cash at their maturity unless earlier converted or repurchased. However, we may not have enough available cash or be able to obtain financing at the time we are required to make repurchases of Notes surrendered therefor or pay cash with respect to Notes being converted or at their maturity.

In addition, our ability to repurchase Notes or to pay cash upon conversions of Notes or at their maturity may be limited by law, regulatory authority or agreements governing our future indebtedness. Our failure to repurchase Notes at a time when the repurchase is required by the indenture or to pay cash upon conversions of Notes or at their maturity as required by the indenture would constitute a default under the indenture. A default under the indenture or the fundamental change itself could also lead to a default under agreements governing our future indebtedness. Moreover, the occurrence of a fundamental change under the indenture could constitute an event of default under any such agreement. If the payment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness or to pay cash amounts due upon conversion, upon required repurchase or at maturity of the Notes.

***The conditional conversion feature of the Notes, if triggered, may adversely affect our financial condition and operating results.***

In the event the conditional conversion feature of the Notes is triggered, holders of the Notes will be entitled to convert their Notes at any time during specified periods at their option. If one or more holders elect to convert their Notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our Class A common stock (other than paying cash in lieu of delivering any fractional share), we would be required to settle a portion or all of our conversion obligation in cash, which could adversely affect our liquidity. In addition, even if holders of Notes do not elect to convert their Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the Notes as a current rather than long-term liability, which would result in a material reduction of our net working capital.

***The accounting method for convertible debt securities that may be settled in cash, such as the Notes, could have a material effect on our reported financial results.***

Under Accounting Standards Codification 470-20, Debt with Conversion and Other Options ("ASC 470-20"), an entity must separately account for the liability and equity components of the convertible debt instruments, such as the Notes, that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer's economic interest cost. The effect of ASC 470-20 on the accounting for the Notes is that the equity component is required to be included in the additional paid-in capital section of stockholders' equity on our consolidated balance sheet at the issuance date and the value of the equity component would be treated as debt discount for the purpose of accounting for the debt component of the Notes. As a result, we are required to record non-cash interest expense as a result of the amortization of the discounted carrying value of the Notes to their face amount over the term of the Notes. We will report larger net losses (or lower net income) in our financial results because ASC 470-20 will require interest to include the amortization of the debt discount, which could adversely affect our reported or future financial results or the trading price of our Class A common stock.

In addition, under certain circumstances, convertible debt instruments (such as the Notes) that may be settled entirely or partly in cash may be accounted for utilizing the treasury stock method, the effect of which is that the shares issuable upon conversion of such Notes are not included in the calculation of diluted earnings per share except to the extent that the conversion value of such Notes exceeds their principal amount. Under the treasury stock method, for diluted earnings per share purposes, the transaction is accounted for as if the number of shares of Class A common stock that would be necessary to settle such excess, if we elected to settle such excess in shares, are issued. We cannot be sure that the accounting standards in the future will continue to permit the use of the treasury stock method. If we are unable or otherwise elect not to use the treasury stock method in accounting for the shares issuable upon conversion of the Notes, then our diluted earnings per share could be adversely affected.

***The convertible note hedge and warrant transactions may affect the value of the Notes and our Class A common stock.***

In connection with the pricing of the Notes, we entered into convertible note hedge transactions with one or more of the initial purchasers of the Notes and/or their respective affiliates or other financial institutions, or the option counterparties. We also entered into warrant transactions with the option counterparties pursuant to which we will sell warrants for the purchase of our Class A common stock. The convertible note hedge transactions are expected generally to reduce the potential dilution upon any conversion of Notes and/or offset any cash payments we are required to make in excess of the principal amount upon conversion of any Notes. The warrant transactions could separately have a dilutive effect to the extent that the market price per share of our Class A common stock exceeds the strike price of the warrants.

The option counterparties and/or their respective affiliates may modify their hedge positions by entering into or unwinding various derivatives with respect to our Class A common stock and/or purchasing or selling our Class A common stock in secondary market transactions prior to the maturity of the Notes (and are likely to do so during any observation period related to a conversion of Notes or following any repurchase of Notes by us on any fundamental change repurchase date or otherwise). This activity could also cause or avoid an increase or a decrease in the market price of our Class A common stock. In addition, if any such convertible note hedge and warrant transactions fail to become effective, the option counterparties may unwind their hedge positions with respect to our Class A common stock, which could adversely affect the value of our Class A common stock.

The potential effect, if any, of these transactions and activities on the market price of our Class A common stock will depend in part on market conditions and cannot be ascertained at this time. Any of these activities could adversely affect the value of our Class A common stock.

***We are subject to counterparty risk with respect to the convertible note hedge transactions.***

The option counterparties will be financial institutions or affiliates of financial institutions, and we will be subject to the risk that one or more of such option counterparties may default under the convertible note hedge transactions. Our exposure to the credit risk of the option counterparties will not be secured by any collateral. If any option counterparty becomes subject to bankruptcy or other insolvency proceedings, we will become an unsecured creditor in those proceedings with a claim equal to our exposure at that time under our transactions with that option counterparty. Our exposure will depend on many factors but, generally, an increase in our exposure will be correlated to an increase in our Class A common stock market price and in the volatility of the market price of our Class A common stock. In addition, upon a default by an option counterparty, we may suffer adverse tax consequences and dilution with respect to our Class A common stock. We can provide no assurance as to the financial stability or viability of any option counterparty.

**Risks Related to Ownership of Our Class A Common Stock**

***The market price of our Class A common stock may be volatile and may decline.***

The market price of our Class A common stock has fluctuated and may continue to fluctuate substantially. The market price of our Class A common stock depends on a number of factors, including those described in this "Risk Factors" section, many of which are beyond our control and may not be related to our operating performance. These fluctuations could cause you to lose all or part of your investment in our Class A common stock. Factors that could cause fluctuations in the market price of our Class A common stock include the following:

- price and volume fluctuations in the overall stock market from time to time;
- volatility in the market prices and trading volumes of high technology stocks;
- changes in operating performance and stock market valuations of other technology companies generally, or those in our industry in particular;
- changes in financial estimates by any analysts who follow our company, including as a result of our plan to transition our business toward a subscription-based model, or our failure to meet these estimates or the expectations of investors;
- the financial projections we may provide to the public, any changes in these projections or our failure to meet these projections;
- announcements by us or our competitors of new products or new or terminated significant contracts, commercial relationships or capital commitments;
- public analyst or investor reaction to our press releases, other public announcements and filings with the SEC;

- rumors and market speculation involving us or other companies in our industry;
- actual or anticipated changes or fluctuations in our operating results;
- actual or anticipated developments in our business or our competitors' businesses or the competitive landscape generally;
- actual or threatened litigation involving us, our industry or both, or investigations by regulators into our operations or those of our competitors;
- developments or disputes concerning our intellectual property or our solutions, or third-party proprietary rights;
- rumored, announced or completed acquisitions of businesses or technologies of or by us or our competitors;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- changes in accounting standards, policies, guidelines, interpretations or principles;
- any major changes in our management or our Board of Directors;
- general economic conditions and slow or negative growth of our markets; and
- other events or factors which may be outside of our control, such as political and social unrest, terrorist attacks, hostilities, malicious human acts, climate change, natural disasters (including extreme weather), pandemics or other major public health concerns (such as the ongoing COVID-19 pandemic), and other similar events, or responses to these events.

In addition, the stock market in general, and the market for technology companies in particular, has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. Broad market and industry factors may seriously affect the market price of our Class A common stock, regardless of our actual operating performance. In addition, in the past, following periods of volatility in the overall market and the market prices of a particular company's securities, securities class action litigation has often been instituted against that company. For example, following our earnings release in February 2019, the price of our Class A common stock fell significantly and, as a result, multiple class action securities lawsuits have been filed against us, as well as multiple shareholder derivative claims. These securities litigation matters, as well as any additional securities litigation matters that may be instituted against us, could result in substantial costs, divert our management's attention and resources from our business, and adversely impact our reputation and brand. This could have an adverse effect on our business, operating results and financial condition.

***Sales of substantial amounts of our Class A common stock in the public markets, or the perception that they might occur, could reduce the price that our Class A common stock might otherwise attain and may dilute your voting power and your ownership interest in us.***

Sales of a substantial number of shares of our Class A common stock in the public markets, particularly sales by our directors, executive officers and significant stockholders, or the perception that these sales could occur, could adversely affect the market price of our Class A common stock.

We have reserved a substantial number of shares of our Class A common stock for issuance upon vesting or exercise of our equity compensation plans, upon conversion of the Notes and in relation to warrant transactions we entered into in connection with the pricing of the Notes.

In addition, certain holders of our Class B common stock are entitled to rights with respect to registration of these shares under the Securities Act, pursuant to our Amended and Restated Investors' Rights Agreement. If such holders exercise their registration rights and sell a large number of shares, they could adversely affect the market price for our Class A common stock. We have also registered the offer and sale of all shares of Class A and Class B common stock that we may issue under our equity compensation plans.

We may also issue our shares of Class A common stock or additional securities convertible into shares of our Class A common stock from time to time in connection with a financing, acquisition, investments or otherwise. Any such issuance could result in substantial dilution to our existing stockholders and cause the market price of our Class A common stock to decline.

***The dual class structure of our common stock as contained in our charter documents has the effect of concentrating voting control with a limited number of stockholders that held our stock prior to our IPO, including our directors, executive officers, and employees and their affiliates, and significant stockholders, which will limit your ability to influence corporate matters.***

Our Class B common stock has 10 votes per share, and our Class A common stock has one vote per share. As of April 30, 2020, stockholders who hold shares of Class B common stock, including our investors and our directors, executive officers, and employees, and their affiliates, together hold a majority of the voting power of our outstanding capital stock. As a result, for the foreseeable future, such stockholders will have significant influence over the management and affairs of our company and over the outcome of all matters submitted to our stockholders for approval, including the election of directors and significant corporate transactions, such as a merger, consolidation or sale of substantially all of our assets.

In addition, the holders of Class B common stock collectively will continue to control all matters submitted to our stockholders for approval even if their stock holdings represent less than 50% of the outstanding shares of our common stock. Because of the ten-to-one voting ratio between our Class B and Class A common stock, the holders of our Class B common stock collectively will continue to control a majority of the combined voting power of our common stock so long as the shares of Class B common stock represent at least 9.1% of all outstanding shares of our Class A and Class B common stock. This concentrated control will limit your ability to influence corporate matters for the foreseeable future, and, as a result, the market price of our Class A common stock could be adversely affected. These holders of our Class B common stock may also have interests that differ from yours and may vote in a way with which you disagree and which may be adverse to your interests, and, unless earlier converted at the election of the holders of 67% of our outstanding Class B common stock, our amended and restated certificate of incorporation provides for a dual class stock structure for 17 years following the completion of our IPO.

Future transfers, whether or not for value, by holders of Class B common stock will generally result in those shares converting to Class A common stock, subject to limited exceptions, such as certain transfers affected for estate planning purposes. The conversion of shares of our Class B common stock into shares of our Class A common stock will have the effect, over time, of increasing the relative voting power of those holders of Class B common stock who retain their shares in the long term. If one or more significant holders of our Class B common stock decides to convert or sell their shares, it could result in a different group of Class B common stock holders having the power to exert significant influence over our company, which may or may not align with the strategy and direction set by our management. Any such changes could adversely affect the market price of our Class A common stock.

***The requirements of being a public company may strain our resources, divert management's attention and affect our ability to attract and retain qualified Board members.***

We are subject to the reporting and corporate governance requirements of the Exchange Act, the listing requirements of the Nasdaq Stock Market and other applicable securities rules and regulations, including the Sarbanes-Oxley Act and the Dodd-Frank Act. Compliance with these rules and regulations will increase our legal and financial compliance costs, make some activities more difficult, time-consuming or costly and increase demand on our systems and resources, particularly now that we are no longer an "emerging growth company," as defined in the Jumpstart Our Business Startups Act. Among other things, the Exchange Act requires that we file annual, quarterly and current reports with respect to our business and results of operations and maintain effective disclosure controls and procedures and internal control over financial reporting. In order to improve our disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight may be required. As a result, management's attention may be diverted from other business concerns, which could harm our business, financial condition, results of operations and prospects. Although we have already hired additional employees to help comply with these requirements, we may need to further expand our legal and finance departments in the future, which will increase our costs and expenses.

In addition, changing laws, regulations and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time-consuming. These laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expense and a diversion of management's time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies, regulatory authorities may initiate legal proceedings against us and our business and prospects may be harmed. As a result of our required public disclosures of information, our business and financial condition are more visible, which may result in threatened or actual litigation, including by competitors and other third parties. If such claims are successful, our business, financial condition, results of operations and prospects could be harmed, and even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the resources of our management and harm our business, financial condition, results of operations and prospects.

In addition, as a result of our disclosure obligations as a public company, we will have reduced strategic flexibility and will be under pressure to focus on short-term results, which may adversely affect our ability to achieve long-term profitability.

***If financial or industry analysts do not publish research or reports about our business, if they have a difficulty understanding the changes to our business model, or if they issue inaccurate or unfavorable research regarding our Class A common stock, our stock price and trading volume could decline.***

The trading market for our Class A common stock will be influenced by the research and reports that industry or financial analysts publish about us or our business. We do not control these analysts or the content and opinions included in their reports. In addition, we are in a period of transition to a subscription-based business model in the long term, which analysts may not have historically reflected, or may not accurately in the future reflect, in their research. The foregoing factors could affect analysts' ability to accurately forecast our results and make it more likely that we fail to meet their estimates. In the event we obtain industry or financial analyst coverage, if any of the analysts who cover us issue an inaccurate or unfavorable opinion regarding our Class A common stock, the price of our Class A common stock would likely decline. In addition, the stock prices of many companies in the high technology industry have declined significantly after those companies have failed to meet, or often times significantly exceeded, the financial guidance publicly announced by the companies or the expectations of analysts. If our financial results fail to meet (or significantly exceed) our announced guidance or the expectations of analysts or public investors, analysts could downgrade our Class A common stock or publish unfavorable research about us. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause the price of our Class A common stock or trading volume to decline, potentially significantly.

***Certain provisions in our charter documents and under Delaware law could make an acquisition of our company more difficult, limit attempts by our stockholders to replace or remove members of our Board of Directors or current management and may adversely affect the market price of our Class A common stock.***

Our amended and restated certificate of incorporation and amended and restated bylaws contain provisions that could delay or prevent a change in control of our company. These provisions could also make it difficult for stockholders to elect directors that are not nominated by the current members of our Board of Directors or take other corporate actions, including effecting changes in our management. These provisions include:

- our amended and restated certificate of incorporation provides for a dual class common stock structure for 17 years following the completion of our IPO;
- a classified Board of Directors with three-year staggered terms, which could delay the ability of stockholders to change the membership of a majority of our Board of Directors;
- the ability of our Board of Directors to issue shares of preferred stock and to determine the price and other terms of those shares, including preferences and voting rights, without stockholder approval, which could be used to significantly dilute the ownership of a hostile acquirer;
- upon the conversion of our Class A common stock and Class B common stock into a single class of common stock, the exclusive right of our Board of Directors to elect a director to fill a vacancy created by the expansion of our Board of Directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our Board of Directors;

- upon the conversion of our Class A common stock and Class B common stock into a single class of common stock, a prohibition on stockholder action by written consent, which forces stockholder action to be taken at an annual or special meeting of our stockholders;
- the requirement that a special meeting of stockholders may be called only by the chairman of our Board of Directors, our lead independent director, our president, our secretary or a majority vote of our Board of Directors, which could delay the ability of our stockholders to force consideration of a proposal or to take action, including the removal of directors;
- the requirement for the affirmative vote of holders of at least 66 2/3% of the voting power of all of the then outstanding shares of the voting stock, voting together as a single class, to amend the provisions of our amended and restated certificate of incorporation relating to the issuance of preferred stock and management of our business or our amended and restated bylaws, which may inhibit the ability of an acquirer to effect such amendments to facilitate an unsolicited takeover attempt;
- the ability of our Board of Directors, by majority vote, to amend our amended and restated bylaws, which may allow our Board of Directors to take additional actions to prevent an unsolicited takeover and inhibit the ability of an acquirer to amend our amended and restated bylaws to facilitate an unsolicited takeover attempt; and
- advance notice procedures with which stockholders must comply to nominate candidates to our Board of Directors or to propose matters to be acted upon at a stockholders' meeting, which may discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer's own slate of directors or otherwise attempting to obtain control of us.

In addition, as a Delaware corporation, we are subject to Section 203 of the Delaware General Corporation Law. These provisions may prohibit large stockholders, in particular those owning 15% or more of our outstanding voting stock, from merging or combining with us for a certain period of time.

***We do not intend to pay dividends in the foreseeable future. As a result, your ability to achieve a return on your investment will depend on appreciation in the price of our Class A common stock.***

We have never declared or paid any cash dividends on our Class A common stock. We currently intend to retain all available funds and any future earnings for use in the operation and expansion of our business and do not anticipate paying any dividends on our Class A common stock in the foreseeable future. Any determination to pay dividends in the future will be at the discretion of our Board of Directors. Accordingly, investors must rely on sales of their Class A common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investments.

## **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None.

## **Purchases of Equity Securities by the Issuer**

None.

## **Item 3. Defaults Upon Senior Securities**

None.

## **Item 4. Mine Safety Disclosures**

Not applicable.

## **Item 5. Other Information**

None.

## **Item 6. Exhibits**

See the Exhibit Index below for a list of exhibits filed or furnished with this report, which Exhibit Index is incorporated herein by reference.

## EXHIBIT INDEX

<u>Number</u>	<u>Exhibit Title</u>	<u>Incorporated by Reference</u>			<u>Filed Herewith</u>
		<u>Form</u>	<u>File No.</u>	<u>Exhibit</u>	
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
32.1*	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X
32.2*	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document				X
101.SCH	XBRL Taxonomy Extension Schema Document				X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document				X
101.	XBRL Taxonomy Extension Definition				X
101.	XBRL Taxonomy Extension Label Linkbase				X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document				X
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)				X

\* These exhibits are furnished with this Quarterly Report on Form 10-Q and are not deemed filed with the Securities and Exchange Commission and are not incorporated by reference in any filing of Nutanix, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date hereof and irrespective of any general incorporation language contained in such filings.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: June 4, 2020

/s/ Duston M. Williams  
Duston M. Williams  
Chief Financial Officer  
(Principal Financial Officer)



**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Dheeraj Pandey, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Nutanix, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 4, 2020

/s/ Dheeraj Pandey  
Dheeraj Pandey  
Chairman and Chief Executive Officer  
(Principal Executive Officer)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Duston M. Williams, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Nutanix, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 4, 2020

/s/ Duston M. Williams  
Duston M. Williams  
Chief Financial Officer  
(Principal Financial Officer)

**CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER  
PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Dheeraj Pandey, certify pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Nutanix, Inc. for the period ended April 30, 2020, fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Nutanix, Inc.

Date: June 4, 2020

/s/ Dheeraj Pandey

Dheeraj Pandey

Chairman and Chief Executive Officer

*(Principal Executive Officer)*

**CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER  
PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Duston M. Williams, certify pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Nutanix, Inc. for the period ended April 30, 2020, fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Nutanix, Inc.

Date: June 4, 2020

/s/ Duston M. Williams  
Duston M. Williams  
Chief Financial Officer  
(Principal Financial Officer)