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Q4 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Thank you for standing by and welcome to Nutanix Fourth Quarter 2024 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question and answer session. [Operator Instructions] As a reminder, today's program is being recorded.

And now I'd like to introduce your host for today's program, Rich Valera, Vice President of Investor Relations.

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

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

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

During today's call, management will make forward-looking statements, including financial guidance. These forward-looking statements involve risks and uncertainties. Some of which are beyond our control, which could cause actual results to differ materially and adversely from those anticipated by these statements. For a more detailed description of these and other risks and uncertainties, please refer to our SEC filings, including our most recent annual report on Form 10-K and our subsequent quarterly reports on Form 10-Q, as well as our earnings press release issued today.

These forward-looking statements apply as of today, and we undertake no obligation to revise these statements after this call. As a result, you should not rely on them as predictions of future events. Please note, unless otherwise specifically referenced, all financial measures we use on today's call except for revenue are expressed on a non-GAAP basis and have been adjusted to exclude certain charges. We have provided, to the extent available, reconciliations of these non-GAAP financial measures to GAAP financial measures on our IR website and in our earnings press release.

Nutanix will be participating in the Goldman Sachs Communacopia and Technology Conference in San Francisco on September 9 and the Piper Sandler Growth Frontiers Conference in Nashville on September 10. We hope to see you at these events. Finally, our first quarter fiscal 2025 quiet period will begin on Friday, October 18.

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

Rajiv Ramaswami

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

Thank you, Rich, and good afternoon, everyone. Our fourth quarter was a solid finish to our 2024 fiscal year. We continued to see steady demand for our solutions driven by businesses prioritizing infrastructure modernization initiatives, while looking to adopt hybrid multi-cloud operating models and optimize their total cost of ownership. In the fourth quarter, we are happy to have exceeded all of our guided metrics. We delivered quarterly revenue of $548 million, up 11% year-over-year, and saw another quarter of strong free cash flow generation. We also saw the highest number of new logos we've seen in three years, an encouraging sign of building traction with some of our go-to-market partnerships and initiatives.

Our full year 2024 results demonstrated good progress on a number of fronts. Financially, we delivered solid top line performance driven by a continuous strong performance from our renewals business. We saw good growth in our pipeline of larger deals as we shifted our focus upmarket and saw increased engagement from prospects looking for alternative to their existing infrastructure solutions. Even as our land and expand business underperformed relative to our internal expectations due to the longer than expected sales cycles we see, we delivered revenue of $2.15 billion, up 15% year-over-year and ARR of $1.91 billion, up 22% year-over-year. Our bottom line performance was even stronger. We generated free cash flow of $598 million, almost 3 times higher than last year, resulting in a free cash flow margin of 28% and a Rule of 40 Score of 43.

In FY 2024, we also saw tangible progress on the partnership front with significant new or enhanced partnerships with Cisco, Dell and Nvidia. And I'm pleased that Dell XC Plus, our new turnkey HCI-based appliance offering with Dell is now generally available. We see these partnerships as both expanding our addressable market and providing us with meaningful go-to-market leverage.

Finally, we continue to innovate in FY 2024 with important new product releases and enhancements to our Nutanix Cloud Platform. These included the launch of GPT-in-a-Box, our solution for streamlining the adoption of generative AI by enterprises. We made meaningful progress towards our goal of becoming the best platform for modern applications, including the launch of Nutanix Data Services for Kubernetes or NDK, which offers consistent data services across both virtual machines and container assets, as well as the recent release of Nutanix Kubernetes Platform or NKP to simplify management of modern applications on premises and in any native public cloud service.

Our most significant wins in the quarter demonstrated the appeal of the Nutanix Cloud Platform to organizations that are looking to modernize their IP footprint and adopt hybrid cloud operating models as well as those looking for alternatives in the wake of recent industry M&A. Our largest win in Q4 was a multimillion dollar ACV deal with a North American based Fortune 100 financial services company. Following a roughly year-and-a-half engagement with us, they chose to replace their existing solution with Nutanix Cloud Platform, including our AHV hypervisor, as well as Nutanix Cloud Manager. This customer, who had been using a competing HCI solution in much of the footprint, was able to utilize their existing hardware for their Nutanix software deployment, obviating the need for a hardware refresh.

We also had a number of significant wins that included our Nutanix Cloud Clusters, our NC2 capability, which enables workloads to be seamlessly and efficiently run in both private and public clouds. One of these was an existing customer and EMEA-based provider of global research services. This customer was looking to accelerate the migration of their workloads to the public cloud, while ensuring the workloads once migrated were run as efficiently and cost effectively as possible. Having already made a commitment to Microsoft Azure, they purchased licenses for Nutanix Cloud Platform to the Azure Marketplace with the intent of utilizing its NC2 capability to shift their on-prem workloads to Azure.

Another good example was a significant new customer win with a top North American University. Most of our customers start with our platform on-prem. However, this customer was motivated by their decision to migrate away from a competing platform they were using to run their virtual machine workloads at scale in the public cloud on AWS due to dissatisfaction with recent changes at their existing supplier. They chose Nutanix Cloud Platform to migrate their applications running in the public cloud to our NC2 on AWS, while also adopting our cloud platform to run their on-prem workloads. They also plan on adopting Nutanix Cloud Management for consistent self-service and automation across their private and public cloud estate.

A final notable example is a win with an Asia based global 2000 semiconductor provider. This full stack win, which was also a displacement of our primary competitor, enables the customer to streamline their operations, increase their level of automation, and reduce their dependence on more expensive proprietary storage solutions. It included adoption of Nutanix Database Service or NDB to enable them to move off of their expensive commercial databases to open source databases managed by NDB. This customer also plans to adopt our unified storage solution, replacing multiple third party storage options.

Finally, we also plan on utilizing NC2 on Azure to enable them to shift applications to the public cloud, including performing lift and shifts of IP workloads of acquired companies. We see the events as reflecting the value customers see in our platform as they look for seamless and efficient application portability, while adopting hybrid multi-cloud operating models, as well as the value of our partnership with Azure and AWS.

In closing, I am pleased with our solid Q4 and fiscal 2024 results and the progress we continue to make on multiple fronts, including our financial model, our partnerships and our ongoing innovation in our cloud platform towards our goal of becoming the leading platform for running applications and managing data anywhere. We also remain focused on capitalizing on what we view as a long-term opportunity to gain share in face of recent industry disruption and are encouraged by our early successes, including some of the wins I just highlighted.

Finally, I would like to express my sincere gratitude to our investors, customers, and partners for their trust in us and to our employees for their hard work that led to these results. And with that, I'll hand it over to Rukmini Sivaraman. Rukmini?

Rukmini Sivaraman

Chief Financial Officer, Nutanix, Inc.

Thank you, Rajiv, and thank you everyone for joining us. I will first discuss our Q4 fiscal 2024 and full fiscal year 2024 results, followed by our guidance for Q1 fiscal 2025 and for the full fiscal year 2025. Results in Q4 2024 came in above the high end of our range across all guided metrics. ACV billings in Q4 were $338 million above the guided range of $295 million to $305 million, representing year-over-year growth of 21%.

Revenue in Q4 was $548 million higher than the guided range of $530 million to $540 million, representing a year-over-year growth of 11%. ARR at the end of Q4 was $1.908 billion, representing year-over-year growth of 22%. In Q4, we continue to see modestly elongated average sales cycles compared to historical levels. Average contract duration in Q4 was 3.1 years, point one year higher than Q3. Non-GAAP gross margin in Q4 was 86.9% higher than our guided range of 85% to 86%. Non-GAAP operating margin in Q4 was 12.9% higher than our guided range of 9% to 10%, largely due to one, lower operating expenses as a result of higher than expected non-recurring payments related to one of our partnership agreements and a few other items. And two, slightly higher gross margin and revenue.

Non-GAAP net income in Q4 was $76 million or fully diluted EPS of $0.27 per share based on fully diluted weighted average shares outstanding of approximately 285 million shares. DSOs, based on revenue and ending accounts receivable were 39 days in Q4. Free cash flow in Q4 was $224 million, representing a free cash flow margin of 41%. Free cash flow in Q4 benefited from the collection on the eight figure ACV transaction that was booked in fiscal Q3.

Moving to the balance sheet, we ended Q4 with cash, cash equivalents and short-term investments of $994 million, down from $1.651 billion at the end of Q3. The primary reason for the reduction in our cash balance was Bain Capital's conversion of the 2026 notes, which we announced in June. We settled the conversion in Q4 by paying $817.6 million in cash and delivering approximately 16.9 million shares of common stock.

Please note that the entire conversion value had previously already been included in our fully diluted weighted average share count on an if converted basis. The actual settlement included a portion settled in cash rather than exclusively in shares, resulting in the issuance of approximately 17 million shares, which is 12 million lower than the 29 million that we had previously included on an if-converted basis.

Moving to capital allocation, we repurchased about $25 million worth of shares in Q4 and $131 million worth of shares in all of fiscal year 2024 under the share repurchase program previously authorized by our Board of Directors.

Looking at our full year financial results, we exceeded the high end of all guided metrics for fiscal year 2024. ACV billings in fiscal year 2024 were $1.162 billion higher than our guidance of $1.12 billion to $1.13 billion and representing a year over year growth of 21%. A reminder that the annual ACV billings is slightly lower than the sum of the ACV billings from the four quarters due to adjustments for deals with duration of less than a year. Revenue in fiscal year 2024 was $2.149 billion higher than our guidance of $2.13 billion to $2.14 billion and representing a year-over-year growth of 15%. We are pleased to have exceeded the $2 billion revenue threshold in fiscal year 2024.

We ended fiscal year 2024 with an ARR of $1.908 billion, as mentioned earlier, a year-over-year growth of 22%. Net dollar based retention rate or NRR at the end of fiscal year 2024 was 114%. As the fiscal year progressed, we saw a higher mix of larger deals in our pipeline. These larger opportunities often involve strategic decisions and C-suite approvals, causing them to take longer to close and to have greater variability in timing, outcome and deal structure.

And as we mentioned previously, we have continued to see a modest elongation of average sales cycles relative to historical levels. Largely due to these dynamics, our fiscal year 2024 land and expand ACV and ARR performance were below our initial expectations at the beginning of the fiscal year and we expect these dynamics to continue. Our renewals performance continued to be good through the fiscal year and a reminder that renewals tend to be at a lower aggregate average contract duration compared to land and expand. Average contract duration in fiscal year 2024 was 2.95 years, flattish to fiscal year 2023 and slightly higher than expected, partly due to some larger deals with greater than average duration.

Non-GAAP gross margin in fiscal year 2024 was 86.7%. Non-GAAP operating expenses in fiscal year 2024 were $1.515 billion, an increase of 7% year over year. As we began to make additional investments, primarily in research and development and sales and marketing. Non-GAAP operating margin in fiscal year 2024 was 16%, representing an improvement of over 700 basis points year over year. We also delivered our first full year of positive GAAP operating income of $8 million in fiscal year 2024. Non-GAAP net income was $384 million or diluted EPS of $1.31 per share, based on fully diluted weighted average shares outstanding of approximately 294 million shares.

Free cash flow in fiscal year 2024 was $598 million higher than our guidance of $520 million to $540 million and almost 3 times higher than last year's free cash flow. Free cash flow margin in fiscal year 2024 was 28%, implying free cash flow margin expansion of 17 percentage points year over year. Free cash flow in fiscal year 2024 benefited from approximately $30 million in non-recurring payments related to a partnership agreement as previously referenced.

Overall fiscal year 2024 was a significant year, marking our first year with positive GAAP operating income. Significant free cash flow generation of $598 million and free cash flow margin of 28%, while growing ARR at 22% and revenue at 15% year over year. We also delivered a Rule of 40 Score defined as the sum of revenue growth and free cash flow margin of 43 for fiscal year 2024, an improvement of 14 percentage points year-over-year and 28 percentage points higher, compared to two years ago.

Moving to fiscal year 2025. The guidance for the full year is as follows. Revenue of $2.435 billion to $2.465 billion, representing a year-over-year growth of 14% at the midpoint. Non-GAAP operating margin of approximately 15.5% to 17%. Free cash flow of $540 million to $600 million, representing a free cash flow margin of approximately 23% at the midpoint.

I will now provide some commentary regarding our fiscal year 2025 guidance. First, as previously mentioned at our 2023 Investor Day, we are streamlining our metrics by not reporting or guiding ACV billings starting in fiscal year 2025. ACV billings was intended as a transitional metric during our subscription evolution, and we believe that now is the time to evolve away from that metric. We are also no longer guiding to non-GAAP gross margin, which was previously useful as we navigated our business model changes leading to significant improvements in non-GAAP gross margin.

We will continue to guide to revenue, non-GAAP operating margin and free cash flow on an annual basis and to guide to revenue and non-GAAP operating margin for the subsequent quarters. Second, and moving on to assumptions in our guidance, we are seeing continued and significant land and expand opportunities and a growing pipeline for our solutions. However, we continue to see a higher mix of larger deals in our pipeline, which is driving greater variability in our land and expand bookings. These larger opportunities often involve strategic decisions and C-suite approvals at the customer or prospect, causing them to take longer to close and to have greater variability in timing, outcome and deal structure. And as we mentioned previously, we continue to see a modest elongation of average sales cycles relative to historical levels which we expect to continue. Third, the guidance assumes that renewals will continue to perform well in fiscal year 2025. Fourth, the full year guidance assumes that average contract duration will be flat to slightly lower compared to fiscal year 2024, as renewals continue to grow as a percentage of our billings. Fifth, the non-GAAP operating margin guidance assumes incremental, prudent investments in sales and marketing and R&D targeted towards addressing our large market opportunity. It also factors in the annualized run rate of the incremental investments we made in fiscal year 2024. It also assumes a $20 million to $25 million headwind in operating expenses relative to fiscal year 2024 from payments related to one of our partnership agreements. Specifically, there was about $44 million of this benefit to the R&D operating expense line in fiscal year 2024, and we anticipate it to be $20 million to $25 million in fiscal year 2025. And sixth, the free cash flow guidance reflects an approximately $30 million headwind relative to fiscal year 2024 from lower interest income as a result of our lower invested cash due to the cash payments on the conversion of the 2026 convertible notes. We expect free cash flow in fiscal year 2025 to also benefit from the approximately $30 million in non-recurring payments related to a partnership agreement similar to the benefit we saw in fiscal year 2024. It is expected to tail off towards the end of fiscal year 2025.

Moving to Q1 2025, our guidance for Q1 is as follows. Revenue of $565 million to $575 million, non-GAAP operating margin of 14.5% to 15.5%. Fully diluted weighted average shares outstanding of approximately 287 million shares.

In closing, we are pleased that our Q4 and fiscal year 2024 performance exceeded guidance across all metrics. We are excited about the long-term market opportunity and Nutanix's ability to deliver compelling outcomes for customers and prospects. We remain committed to continued progress aligned with our stated philosophy of sustainable, profitable growth, both through durable top line growth and expanding margin.

With that operator, please open the line for questions.

QUESTION AND ANSWER SECTION

Operator: Certainly. And ladies and gentlemen, we ask that you please limit yourself to one question and one follow up. You may get back in the queue as time allows. Our first question comes from the line of George Wang from Barclays. Your question, please.

George Wang
Analyst, Barclays Capital, Inc.

Q

Oh, yeah. Thanks for taking my question. Firstly, just curious if you have any update on the Broadcom kind of churn, especially in the last couple of quarters, you guys talked about that after the initial wave of strong engagement, that activity slowed just because of Broadcom walking back some of the initial initiatives. So we're now more in favor of retaining some of the prior customers. Just curious if that dynamic has changed.

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

A

Hi, George. Rajiv here. Yeah, we are – it's largely an unchanged multi-year opportunity to gain share, like we said last quarter. While the sales cycles have been a bit longer than we had initially anticipated. Thus far, we haven't really seen any meaningful changes in our win or loss rates on these opportunities. As we talked about in our prepared remarks, we are seeing some of these larger opportunities close. We gave you a few examples in the prepared remarks, and I do expect that we'll continue to see more of these over time.

Now, in the midsize and smaller customer segments, we are seeing significant increased engagement and opportunity as many of these smaller companies look for alternative and generally less competitive engagements related to the larger customer opportunities. Along with our increased leverage from our go-to-market partnerships that we've talked about, as well as our programs and incentives that we have in place. This dynamic has also been one of our drivers for our larger, stronger new logo performance.

George Wang
Analyst, Barclays Capital, Inc.

Q

Okay. Okay, great. Just if I can squeeze in quickly. Just it's nice to see one customer finishes service and you guys mentioned without changing the underlying hardware, previously that the gating factor – one of the gating factors being the upgrading the underlying hardware to wait for the hardware refresh. I guess can you talk about sort of better path going forward and kind of now it seems, especially after the Alpine this year, maybe you're kind of removing some of the constraints related to the underlying hardware refresh.

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

A

Yeah.

George Wang
Analyst, Barclays Capital, Inc.

Q

Maybe you can give a little bit more color on that.

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

A

No, that's a very good question, George. I think if you at the installed base out there in data center, as the vast majority of it, I don't have the exact number, but roughly around 80% of it is what we call three tiered infrastructure, separate storage, compute and networking. And, as you know, we have a HCI solution today in the market. And if we want to replace the three tier with HCI, it's a better architecture, and more cost effective long term, but it does require a hardware refresh. Now the remaining 20% is HCI of which we are a market leader and our competition has some of the rest. Now, in this particular case, the example that we talked about, the customer was already on HCI with a competing product and when you're already on HCI, we've been quite successful at having our software be able to run on existing hardware because it's already HCI hardware and that's what happened in this particular account. And so for that subset of customers that are already on HCI, the migration path is easier. And in some subset of those cases we don't need a hardware refresh. And that's what happened here.

On the three tier, it does require a hardware refresh. Now, we're also addressing the three tier market, to your point. You know, one aspect of our partnership with Dell is that we said we would -- they would be the first that we would support an external storage Dell Powerflex. And now the whole idea of doing that is now we can find an easier insertion into three-tier deployments without having to change out the hardware. Now, that solution is not available in the market today. It's only going to be available sometime next year. And over time we anticipate being able to offer that support to a broader set of third party storage arrays.

George Wang
Analyst, Barclays Capital, Inc.

Q

Okay. Thank you. I'll go back to the queue.

Operator: Thank you. And our next question comes from the line of Jim Fish from Piper Sandler. Your question, please.

James E. Fish
Analyst, Piper Sandler & Co.

Q

Hey, guys. Thanks for the questions here. Rajiv, do want to ask around potentially you alluded to a little bit of GPT-in-a-Box here. I don't think we'd be on a conference call anymore without talking about AI, but are you seeing any sort of trend of repatriation of workloads back to private cloud for just a core workload as well as for AI I guess, any update on the GPT-in-a-Box?

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

A

Yeah. So, Jim, good question. I'll give you a two part answer to that. First, in general public workloads and then second on GPT. For general purpose workloads, to your point, for steady state workloads, I think people are getting to the conclusion that it's much more cost effective to run those on-prem in a private cloud environment. We have seen some repatriation. We've also seen much more deliberation in terms of whether that workload goes to the public cloud in the first place, because a lot of the deployment is still on-prem of enterprise workloads. So we're certainly think the trend and realization customers to say, steady state workloads, we can run them more cost effectively in private clouds. And on GPT specifically, I think a lot of the initial interest in GEnAI, have been in these creation and training of LLM, large language models and a lot of that is being done in the public cloud and massive GPU fronts and we don't have a – we don't play that fully back.

But on the other hand, we think the bulk of the enterprise opportunity in terms of how companies are actually going to use it is potentially going to be on-prem because at the end of the day, the genAI workloads applications have to be run wherever the customer data is. And in a lot of cases, sensitive customer data is either inside data centers or at the edges. And so a platform like ours, GPT-in-a-Box provides a very simple, easy to use, secure way of running GenAI applications. And so the use cases that we've seen so far have been around for co-piloting, around document sets and analysis and our customer support and on enhanced fraud detection. We are seeing certainly continued traction. It's still early days for us, but across multiple verticals Healthcare, Financial Services, Government. So early days for GPT adoption in the private cloud enterprise. But I think that's going to be a growing market for fine-tuning RAG, retrieval augmented generation and for inferencing in terms of running these AI workloads close to the data in a private and secure way.

James E. Fish
Analyst, Piper Sandler & Co.

Q

Makes sense. And, Rukmini, I'm sure you're anticipating this question already, but I guess how much as we think about that 2025 guide, how much incremental contribution are you expecting either from a growth dollar perspective, however you want to put it between, the VMware opportunity, the Cisco and Dell partnerships versus the expansion within your existing install base. That, if memory serves me right, should be accelerating a little bit in terms of the renewals up for grabs this year. And is there a way to think about where ARR actually exits this year? Thanks, guys.

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.

A

Thank you, Jim, for that question. So in terms of contribution from the various buckets that you called out, Jim, so I'll give you some qualitative color on that. Right. So we've talked about in general, we have, happy with our pipeline generation overall. We have talked about the growing pipeline and the fact that the pipeline from larger deals is growing faster and that can lead to variability. Right. With respect to timing or outcome or more complex deal structures and so on. And so some of those dynamics we expect to continue next year, similarly with just modestly elongated sales cycles across the board, not just large deals, right, but across the board. And we expect that to continue next year as well.

In terms of the contribution from Cisco, we do expect the Cisco contribution to grow in fiscal year 2025 relative to last year. And we do expect a small initial contribution from Dell XC Plus, which is the new offering that's generally available now. And we expect small initial contribution from that in 2025 and expect that to grow as well over time. And so all of that is taken into account when you think about the fiscal year 2025 top line guide that we provided. Jim, the other thing you alluded to is renewals. So, yes, our renewals business continues to grow nicely year over year. So that's factored in there as well. And I think the last part of your question was around ARR. So we will of course, continue to report ARR on a quarterly basis. And while we noted that ARR underperformed for fiscal 2024 relative to our internal expectations, we're not providing guidance for ARR.

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

Yeah. The only thing I'll add to that Rukmini would be I think Jim you also had a question on the Broadcom opportunity. And like I said that's largely unchanged, but it's also very difficult to explicitly parse that out because every one of our deals historically we've been – we had been competing against VMware in the past and that continues. So, there's some level of influence. Is it only – these are the only reason why people come to us. It's a little hard for us to tease that out separately.

Rukmini Sivaraman A
Chief Financial Officer, Nutanix, Inc.

Yes. Thank you, Rajiv. That attribution is certainly nuanced. So we do expect it to continue to contribute some, but we wouldn't be overly precise on that. So thank you, Rajiv, and thank you, Jim, for the question.

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

Thanks, guys.

Operator: Thank you. And our next question comes from the line of Meta Marshall from Morgan Stanley. Your question, please.

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

Great. Thanks. Wanted to get a sense of maybe kind of circling back to the question that's been asked a couple of times. Just in terms of, do you feel like you've kind of figured out where, Broadcom's line is where kind of the definition of your customer is? Or are you kind of refining where you think the most actionable opportunities are? Or are you still kind of in that discovery mode of figuring out what are the most actionable opportunities? And then, Rukmini, I know Jim just asked about it, but just kind of any of the timing of renewals or co-terming, just given that we've had some kind of early renewal dynamics and kind of co-terming issues over the past couple of years that we should just be mindful of as we go into fiscal 2025. Thanks.

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

Hi, Meta. I'll start and then Rukmini can answer the second part. Yeah, independent of the Broadcom situation, as we look at our addressable market historically and the dynamics have been quite strong in what I would call the smaller side of enterprises and the higher end of commercial mid-market. But over the last few years, we have deliberately made it then further upmarket towards larger enterprises because that's where we are underpenetrated and the biggest TAM opportunity sits. So we have realigned our segmentation over the past few years to focus more on that market.

Now, the products are ready, we have done a lot of work on the product side, the GTM side. Now we already we've got some good partnerships. Now, we also clearly understand that when you get to the large customer, the G2K account, for example, or the Fortune 100 type accounts, those are going to be more competitive. And that's where clearly Broadcom is more focused on. And those engagements tend to be long. They tend to be bigger, but also very fruitful if and when we do win it. And as you can see here, we are starting to win some of those. We talked about an eight-figure ACV win last quarter. This quarter we had a multimillion dollar ACV win. So those tend to take time but are well worth it when they do happen. So we've got a focus there for sure. The mid-market or the smaller side of the enterprise has been historically our sweet spot, and it's also less of a focus for Broadcom, given their exclusive focus on the bigger accounts. And it also tends to be less competitive and easier migrations as well. So that continues to be our historical sweet spot. It continues to be a sweet spot. But the bigger opportunity for us in growth is also now sitting at the top end of the pyramid.

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.
A

And I'll take the question, Meta, on renewals and expectations for renewals in fiscal year 2025. So first, I'd say, we did have in fiscal year 2024 just overall good performance in renewals. And I think to your point, it did include really good discipline from the team around economics for the renewals in terms of pricing. It did include some early and co-term renewals. And as we said before, those are good in our mind as long as they come in at good economics because the customer is willing to renew with us and renew their commitment to us earlier and often give us the cash earlier as well. And then co-terms, of course, a simplification of their real estate pricing. That's a both the customer and us well in terms of managing their footprint. So we did have some of that.

Now, when we look at fiscal year 2025 our available to renew pool or you can think of that as effectively a pipeline for renewals continues to grow it's the strong year-over-year growth and it's roughly similar year-over-year growth, similar to what we saw in fiscal year 2024. And then in terms of timing, I think perhaps your question was sort of seasonality of that, Meta. It does move around a little bit, but in general, our fiscal Q2 and Q4 tend to be sort of higher quarters for us. Given Q2 has the calendar year end and budget flush and things like that. And of course, fiscal year Q4 is the end of our fiscal year and there are incentives around that. So Q2 and Q4 historically tend to have higher in general available to the new pools relative to Q1 and Q3. But that's sort of how we think about the renewals opportunity in fiscal year 2025.

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

Great. Thanks so much.

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.
A

Thank you, Meta.

Operator: Thank you. And our next question comes from the line of Wamsi Mohan from Bank of America. Your question, please.

Ruplu Bhattacharya
Analyst, BofA Securities, Inc.

Q

Hi. Thanks for taking the questions. It's Ruplu filling in for Wamsi today. I have one for Rajiv and one for Rukmini. Rajiv, is the demand environment materially different from 90 days ago? And can you talk about the pricing environment? Specifically, I think you've said in the past that some customers may wait for their hardware to be depreciated. Is pricing a lever you can use to maybe drive fast your share gains? For example, can a smaller customer be induced more to go with Nutanix? And as a management team, how do you trade off share gain versus margins? And I have a follow-up for Rukmini.

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

A

Yeah. Those are all very good questions. At a top level, the demand environment has not changed and it's been fairly stable as we said, over the last several quarters, we are seeing some more elongated sales cycles, people getting more approvals and more awareness of TCO before they make the purchasing decision. So that part has not changed. Now, in terms of how we look at the opportunity. Now hardware refresh, as you can see, right. I mean, when we do need a hardware refresh, that tends to be a significant factor in terms of customers timing on a deal. Now, the key thing to keep in mind is that the hardware refresh is not just a one point in time hardware refresh that happen depending on the size of the estate at various points. And we can use those points to secure an insertion. It may not be a full insertion because hardware always gets replaced over time in multiple cycle. So we may be able to insert for, say, one workload where a portion of the hardware is getting replaced say this year and maybe other portions of the hardware will only get refreshed in two three years from now. So that's sort of normal engagement.

Now, we have offered some promotions to customers in terms of providing them sort of some overlapping windows where we can give them discounted licenses for a period of time. Now, I would say that hardware costs tend to be quite significant. So it's not that we are able to necessarily subsidize hardware costs ourselves. Okay. But sometimes we may be able to work with partners. Hardware partners are more interested in doing that themselves, so that can be a possibility as well when it comes to these hardware costs. And then, look, I think when it comes to landing new customer, especially significant ones, we are going to be quite aggressive in terms of we already have aggressive promotions out there and incentives for customers and we will do what is needed within reasonable bounds to go win these deals while at the same time protecting our margins. So that's a probably a broad answer. I would say net-net we are being aggressive wherever needed. We are working with hardware partners to see if we can mitigate some hardware refresh opportunities. And at the same time, keep in mind, Ruplu, we are also working to broaden the set of places where we can insert without requiring a hardware refresh existing HCI environments...

Ruplu Bhattacharya
Analyst, BofA Securities, Inc.

Q

Okay.

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

A

...or the ability to reuse servers that customers may already invested in. And then over time, as we get our third party storage support, we will be able to do more – even more of that.

Ruplu Bhattacharya
Analyst, BofA Securities, Inc.

Q

Okay. Thank you, Rajiv, for the detailed answer there. Rukmini, I wanted to ask you, your free cash flow guidance for fiscal 2025 is very strong, above the prior 2023 Investor Day guidance. How should we think about the cadence of that in the first half versus the second half of fiscal 2025? And then when we look at the remaining metrics, for example, revenue is now at the lower end of what you had thought, what you had guided in the Analyst Day. Is it given that, is it reasonable for investors to expect that the outer years say fiscal 2027 expectations should also be lower? Or could there be a material acceleration over the next two years given the dynamics of renewables and available to renew as well as new logos that you're winning?

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.

A

Hi, Ruplu. Thank you for that question. So first, I think your first question was around free cash flow. And so, yeah, we are pleased with our free cash flow performance in fiscal year 2024 and happy to guide to free cash flow where we did, which as you noted, the midpoint is above the high end of the range of what we had put out last year at our Investor Day. Now, in terms of the quarterly cadence there, Ruplu, we don't, of course, guide quarterly to free cash flow. So there can be some variation there, including, as we pointed out in the last couple of quarters, because we collect cash from multiple years upfront, generally, a meaningful deal, right. If there are larger deals that we collect cash for upfront. But if it's a longer duration transaction than that, those can cause swings, Ruplu. So, so yeah, so we don't guide to quarterly, but that's sort of the qualitative color. I will say that when you think about the operating expense increase over time, we've talked about you can sort of see the implied OpEx growth year-over-year in our op margin guide and that that would be more gradual over time, right, because we're going to invest in sales and marketing and in R&D and some of that will be over time. The OpEx does include, for example, all of the annualized run rate from investments in 2024. All those are annualized into 2025 plus it includes salary raises for our employees That became effective, but some of those are more run rate and others will be more gradual as we ramp into the spend over time. So that's the first part of your question.

And I think the second part was more around the sort of medium to longer term financial targets that we put out at our last Investor Day. So while we don't plan on commenting on those medium term financial targets on an interim basis, we are happy to note, as you just said, Ruplu, that the fiscal 2025 free cash flow guidance at the midpoint is above the range at what we put out at Investor Day. And our initial fiscal year 2025 revenue guide is within the range that we provided at that time. We continue to focus on driving durable top line growth and expanding free cash flow and operating margin and driving to operating sustainably at a Rule of 40 plus over time. So that's sort of been our philosophy and we continue to drive that philosophy and we're not commenting specifically on those numbers at this point.

Ruplu Bhattacharya
Analyst, BofA Securities, Inc.

Q

Okay. Thank you for all the details and congrats on the results. Thank you.

A

Thank you, Ruplu.

Operator: Thank you. And our next question comes from the line of Jason Ader from William Blair. Your question, please.

Jason Ader
Analyst, William Blair & Co. LLC

Q

Yeah, thank you. One quick one is on the eight-figure deal that you announced last quarter. Did you recognize any revenue this quarter from that deal? And then what's the kind of schedule look like on Rev Rec for that particular transaction?

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.

A

Yeah. Thank you, Jason. So as we said, I think that last quarter, we did collect the cash for that transaction, the entire sort of TCV value of that transaction. But all the revenue recognition is over multiple years starting in fiscal year 2025. So, no, we didn't. I think there was a small professional services portion that began in Q4, Jason, but all the license revenue is in fiscal year 2025 and beyond.

Jason Ader
Analyst, William Blair & Co. LLC

Q

Okay. Thank you. And then, Rajiv, for you just I think a bunch of people have asked this question around the VMware displacement opportunity, but I wanted to kind of frame it like this, which is do you think you have a little bit of misalignment from a growth go-to-market standpoint right now, just because you're moving upmarket over the last couple of years in terms of the types of customers that you're targeting. And yet it seems like most of the low hanging fruit from VMware disruption is coming more in kind of low end – of lower end of the market and kind of low end of the enterprise.

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

A

So to be clear, Jason, I don't think we're misaligned because we are targeting our GTM resources on where we think the maximum dollar opportunity lies. Right. And the more of the dollar opportunity sitting higher up in the pyramid, by the way this is the same reason is why Broadcom is equally focused on those customers. Right. So for us to grow, I mean, we already have, we're well penetrated into the lower end of the market and we will continue to we still have very much focused there and we haven't moved away from there. That's our sweet spot, that's our installed base, and that's where we can go in and capture more customers. We are talking about everything ranging from school districts to retailers to those types of public sector. These are all types, very much a sweet spot. But the biggest TAM opportunity for us certainly sitting in the top of the pyramid. And so we have to as a company to be successful. We have to go after those. Right. And we have the products, we have the GTM, yet we know those are going to be harder part. But when we do win them, like you saw with the eight-figure opportunity that we won last quarter, those can be pretty significant.

Jason Ader
Analyst, William Blair & Co. LLC

Q

Got you. But I thought the eight-figure one that you won last quarter was like a three year sale or two and a half year sales cycle. That wasn't really related to the Broadcom.

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

A

Well, I think that's partly related to Broadcom thing. Very much so. I mean, look, again, it's hard to attribute everything 100% to Broadcom, yes, we were engaged with them for two years. But a lot of the big customers at the very top of the pyramid are very, very sensitive and aware. As soon as the Broadcom deal was announced, they started thinking about what they're going to do. They didn't wait for the deal to close. Unlike many of the smaller customers to see what was going to happen. So this customer – we had certainly our unique value proposition and our use cases that they were going to thinking. And then the Broadcom piece, of course, with an added boost. So it's one of these things that it's hard to articulate how much of it was Broadcom, how much of it was something else. But that's a good example. Similarly to the example from this quarter's call also is very much the same, right, this Fortune 100 financial services customer very much driven by the Broadcom situation.

Jason Ader
Analyst, William Blair & Co. LLC

Q

Great. Thank you.

Operator: Thank you. And our next question comes from the line of Simon Leopold from Raymond James. Your question, please.

Victor Chiu
Analyst, Raymond James & Associates, Inc.

Q

Hi, guys. This is Victor Chiu in for Simon. I wanted to follow-up on that last question, kind of regarding customer migrations. within VMware's footprint of the three tier infrastructure customers that you described, can you help us think about, what percentage of those would be able to fairly easily adapt their existing application platforms to AHV? And kind of what percentage created, for better or worse, are kind of married to VMware because of their dependency on some of the more advanced kind of virtualization functionality on that?

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

A

Yeah, so that's a good question, Victor. I would say the vast majority of applications running on a VMware I provided on three tier can run very well on AHV and HCI environment. There are perhaps things at the edges where it's not technical gap, it's really more ecosystem certification gaps that might hinder some of them. There might be an application that certified on ESX but not certified on AHV. And over the last few years, we've built that out as well. So there are going to be some kind of cases that are not certified. But for the most part, we can address pretty much anything that is running on a three tier infrastructure on VMware and run that effectively on Nutanix HCI on AHV. But there'll be other barriers that we talked about, right, in terms of hardware refresh cycles and, then the timing of the renewals, those are some of the other things that we still have to factor in, but it's not a technical barrier.

Victor Chiu
Analyst, Raymond James & Associates, Inc.

Q

Okay. That's very helpful. And then you maybe, can you help us think about how the economics, compare, with Nutanix having an AHV, having the kind of a hypervisor included in the platform in the economics, does that make the economics materially different or is it just kind of, marginal difference and more of a capabilities kind of thing?

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

A

Yeah. I think so. We've done that again. So clearly historically this has been the case when a customer migrates from a three tier deployment or to a HCI deployment, they save a lot, right. They save 30% or 40%, at least in terms of TCO costs. If you factor in everything, including the hardware cost, the operating cost all of it, it's a pretty savings. And so that continues to be the case today. Right. I think the value of course, is you've got to, you've invested in the hardware. You want to depreciated before you actually go buy a new hardware. But those savings and the value of HCI related to three tier, they're very established and that continues.

Victor Chiu
Analyst, Raymond James & Associates, Inc.
Q

And is the transition for an existing VMware HCI customer to Nutanix much easier.

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

Much easier.

Victor Chiu
Analyst, Raymond James & Associates, Inc.
Q

Can you check that?

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

Yeah. This Fortune 100 win that we talked about with exactly that situation, the customer had a lot of competitive HCI offerings deployed. It was an easier migration because for them, they didn't have to change out their hardware. We could just replace the other software with our software.

Victor Chiu
Analyst, Raymond James & Associates, Inc.
Q

Great, great. That's very helpful. Thank you.

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.
A

Thank you, Victor.

Operator: Thank you. And our next question comes from the line of Matt Hedberg from RBC Capital Markets. Your question, please.

Simran Biswal
Analyst, RBC Capital Markets LLC
Q

Hey, guys. This is Simran on for Matt Hedberg. Thanks for taking our question and congrats on the quarter. I just have one. Can you touch more on the linearity of large deals within the quarter? And did you see any deals being pushed out or pulled in this quarter? And then looking ahead, what early trends have you been seeing so far in August? And then maybe just general linearity for 2025, given some of the uncertainty of these large deal timing? Thanks.

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.
A

I'll take that, Rajiv, and you should feel free to add in. So for linearity in Q4, I would say it was more or less as we expected. I think your question specifically was on linearity with respect to large deals and those we've talked about can be more unpredictable than other portions of the business just given they tend to be often more strategic involved C-suite approvals, things like that, which can be more unpredictable. But overall, I would say linearity in Q4 was largely as expected in terms of pushout or pull in, I think was the next part of the question as we think about last Q4 coming into this – coming into this year, nothing unusual there. I would note, I think it was sort of what we I think would expect for that time of year and nothing unusual there. And then again, on August linearity, again, the only thing I'd sort of to call out in Q1 is it's the US Federal end of fiscal year in September, of course. But again, that's all factored into how we think about our guidance and ability to collect free cash flow and things like that. But as I said earlier, I think the overall linearity can become a little more unpredictable because of the mix of the large deals. And as that grows over time and it is something that we're continuing to watch closely.

Simran Biswal
Analyst, RBC Capital Markets LLC
Q

Great. Thank you.

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.
A

Thank you.

Operator: Thank you. And our next question comes from the line of Mike Cikos from Needham. Your question, please.

Mike Cikos
Analyst, Needham & Co. LLC
Q

Thanks for taking the questions, guys. I just wanted to ask I know last quarter the company gave some great color on the number of $1 million plus ACV opportunities in the pipeline growing 30% year-on-year, it's growing more than 50% if we look at it on a dollar basis. Did these statistic still hold in Q4 and do we have a sizable enough cohort to start really understanding how much longer these sales cycles are for these deals?

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.
A

Hi, Mike. Yeah, good question. So we're not going to provide that metric necessarily quarterly, Mike. But, as we said, I think we are happy overall with pipe creation and are seeing meaningful opportunities with those larger deal segments. So that continues to be good in terms of pipe creation. And I think your second question around, do we have enough data points?

Mike Cikos
Analyst, Needham & Co. LLC
Q

Yeah.

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.
A

Still relatively early. The pipeline has grown nicely, but as we've talked about here, some of these larger deals can take a really long time. I would give one example where it was two years, another one this quarter where it was a year-and-a-half. And so it is variable and it can take long. And so I'd say I don't think we have a lot of that data or enough data points, right, under our belt to sort of draw too many conclusions from that. And that's what I even in the previous question here that was asked in terms of it is something we watch closely, right, in terms of tracking those deals, but also thinking about do we have multiple ways to get to the number of right deals, X and Y, close or don't close. Do we have other deals A and B that could get us there? So that's definitely a discussion that we have internally and factor that into our guidance.

Mike Cikos
Analyst, Needham & Co. LLC
Q

Got it. Thank you for that. And I guess just for a quick follow up, appreciate all the color on the assumptions here. Can you help us understand that call it $30 million benefit to free cash flow we're expecting from the partner payments this year? Again, just because we're this is essentially the second best back to back year, we're now receiving...

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.
A

Yes.

Mike Cikos
Analyst, Needham & Co. LLC
Q

...this kind of payment. Is it the same quarter? Any other color would be beneficial.

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.
A

Yes. Thank you, Mike, for that question, because I think it's I would be happy to clarify that. So there is a these – there are these non-recurring payments from the partner, and there is a timing difference between OpEx and free cash flow. And so the commentary that we had provided was we had about a $44 million benefit in fiscal year 2024 over the course of the year to the R&D OpEx line in fiscal year 2024. And we expect that same $44 million benefit to become more like $20 million to $25 million in fiscal year 2025. So that's the $20 million, $25 million headwind that I was referring to in OpEx in 2025 relative to fiscal year 2024. So all of that is off the operating expense commentary.

Now, when you look at free cash flow, there's a bit of a delay in when the cash comes in relative to that payment. So we got about $30 million of a cash benefit from that in fiscal year 2024. We expect another $30 million in 2025 and then it would taper off and maybe a small portion in 2026, but will then taper off as we end this fiscal year in 2025. And it's non-recurring so we don't expect this to be an ongoing thing. It is continuing into this year, which we didn't fully anticipate about three months ago, but we do think that over time it will taper off.

Mike Cikos
Analyst, Needham & Co. LLC
Q

Got it. Thank you so much.

Rukmini Sivaraman
Chief Financial Officer, Nutanix, Inc.
A

Thank you, Mike.

Operator: Thank you. This does conclude the question-and-answer session as well as today's program. Thank you, ladies and gentlemen, for your participation. You may now disconnect. Good day.