

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended July 31, 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 is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes  No

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post 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. (Check one):

Large Accelerated Filer  Accelerated Filer

Non-accelerated Filer  (Do not check if a smaller reporting company) Smaller Reporting Company

If an emerging growth company, indicate by check mark

Emerging Growth Company

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant as of January 31, 2020 (the last business day of the registrant's most recently completed second fiscal quarter) was approximately \$5.9 billion, based upon the closing sale price of such stock on the NASDAQ Stock Market. The registrant has no non-voting common equity.

As of August 31, 2020, the registrant had 186,885,682 shares of Class A common stock, \$0.000025 par value per share, and 15,102,453 shares of Class B common stock, \$0.000025 par value per share, outstanding.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

As noted herein, the information called for by Parts II and III is incorporated by reference to specified portions of the registrant's definitive proxy statement to be filed in conjunction with the registrant's 2020 annual meeting of stockholders, which is expected to be filed not later than 120 days after the registrant's fiscal year ended July 31, 2020.

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## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K 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 Annual Report on Form 10-K 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 Annual Report on Form 10-K 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 invest in our global engineering, research and development and sales and marketing teams;
- the impact of any adjustments to our go-to-market cost structure, in particular our sales compensation structure;
- the impact of our decision to use new or different metrics, or to make adjustments to the metrics we use, to supplement our financial reporting;
- the timing, success and impact of the succession plan for our Chief Executive Officer;
- 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 I, Item 1A. "Risk Factors" in this Annual Report on Form 10-K. 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 Annual Report on Form 10-K 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 Annual Report on Form 10-K 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

### ITEM 1. Business

#### Overview

Nutanix, Inc. ("we," "us," "our" or "Nutanix") provides a leading enterprise cloud platform, which we call the Nutanix Cloud Platform, that consists of software solutions and cloud services that power our customers' hybrid cloud and multicloud strategies. Our solutions run across private-, hybrid- and multicloud environments, and allow organizations to seamlessly "lift and shift" their workloads, including enterprise applications, high-performance databases, end-user computing and virtual desktop infrastructure ("VDI") services, cloud native workloads, and analytics applications, between different cloud environments.

Founded in 2009, we pioneered the hyperconverged infrastructure ("HCI") category, initially combining the disparate IT silos of compute, storage and networking into a single on-premises product. As the market realized the power, scalability and customer choice that HCI provides, we continued to innovate, and Acropolis Hypervisor ("AHV") - our native, no-cost hypervisor designed to run all virtualized applications - was born. To give our customers even more choice, we engineered our software solutions to run on a variety of server platforms, decoupling our software from our Nutanix-branded hardware appliances and powering a variety of on-premises private cloud deployments; a significant step in our transition from a hardware to a software company. That transition has continued with the adoption of "cloud" as a mainstream IT paradigm, which has motivated IT professionals to move toward hybrid cloud architectures that allow businesses to simultaneously utilize a private cloud powered by Nutanix software, along with third-party public cloud infrastructures for maximum flexibility. We continue to transform our software solutions into a comprehensive enterprise cloud platform, based on web-scale engineering principles and a focus on operational simplicity, which allows our customers to power nearly any scale IT deployment. Although today our customers primarily use our enterprise cloud platform to power their on-premises private cloud deployments, our solutions also simplify the complexities of multicloud environments with a single management console for automation, cost governance and compliance. The end result will be an enterprise cloud platform that empowers our customers to unify various clouds - on-premises private, public and distributed - into one seamless cloud, allowing IT to choose the right cloud for each application.

In addition to our transition to a software-centric business model, and to provide our customers with the freedom to choose the best consumption model based on their specific business needs, we have also continued to reshape our licensing by moving toward a subscription-based business model. A subscription-based business model means one in which our products, including associated support and entitlement arrangements, are sold with a defined term. For more information, see the section titled "Components of Our Results of Operations" included in Part II, Item 7, as well as Note 3 of Notes to Consolidated Financial Statements included in Part II, Item 8, of this Annual Report on Form 10-K. Furthermore, as part of our transition to a subscription-based business model, we have commenced our transition to a sales compensation structure that is based on Annual Contract Value ("ACV"). These transitions have caused, and will continue to cause, our traditional life-of-device licensing models to become increasingly replaced by term-based licenses, providing our customers with a subscription consumption option which are portable across hybrid- and multicloud deployments. We believe that these transitions - from hardware to software solutions, and from life-of-device to subscription models - will contribute to our long-term growth, although they may have an adverse impact on our business and financial performance in the near term. In fiscal 2020, our subscription billings increased to 80.8% of total billings, up 20 percentage points from fiscal 2019, and our subscription revenue reached \$1.0 billion, representing a year-over-year increase of 58.9%. In fiscal 2020, our ACV billings was \$505.2 million, representing a year-over-year increase of 17.9%.

#### The Nutanix Cloud Platform

Leveraging the foundation of our core HCI technology, the Nutanix Cloud Platform delivers a rich set of digital HCI services, datacenter services, DevOps services, and desktop services.

##### *Digital HCI Services*

Our HCI products – composed of Acropolis ("AOS"), a software-defined platform that converges compute, storage, and networking services, Prism, our consumer-grade control plane providing management and analytics for the entire enterprise cloud platform, and Acropolis Hypervisor ("AHV"), a native, enterprise-grade hypervisor designed to run all virtualized applications – form the foundation of the Nutanix Cloud Platform.

*Acropolis (AOS)*. AOS converges virtualization, storage, and networking services into a turnkey solution. AOS is comprised of three foundational components:

- *Virtualization*. AOS supports major hypervisors, including our native, no-cost AHV.
- *Storage Capabilities*. Building on a distributed data fabric, AOS enables robust enterprise storage services across multiple storage protocols. Storage capabilities include snapshots and cloning, performance acceleration capabilities, such as caching, data tiering and data locality and storage optimization, such as deduplication, compression and erasure coding, along with data protection and disaster recovery features.
- *Networking Services*. AOS provides services to visualize the network, automate common network operations, secure the network and integrate with various third-party networking and security products.

*Prism*. Nutanix Prism is our consumer-grade control plane providing management and analytics across the enterprise cloud platform. It delivers integrated management, robust operational analytics, self-service capabilities and one-click administration. Prism allows routine IT operations that are typically manual and cumbersome to be fully automated or completed with just one click, including capacity planning, provisioning of new resources and troubleshooting. Prism enables efficient centralized administration to manage multiple clusters within a single datacenter, or across multiple sites. Prism also offers Application Programming Interfaces ("APIs") for integration with third-party products and advanced management and orchestration of Nutanix environments.

*Acropolis Hypervisor*. AHV is a native, enterprise-grade virtualization solution that is included with our enterprise cloud platform with no additional software components to license, install or manage. AHV is built upon a widely-used open source hypervisor technology, known as KVM and extends its base functionality to include additional features such as virtual machine ("VM") high availability and live migration. AHV also includes such features as flexible migrations, automated workload placement, security hardening, network virtualization, data protection and disaster recovery and rich analytics, while allowing for integrated management via Nutanix Prism to streamline the provisioning, placing and managing of VMs, thereby providing our customers with a high-performance virtualization solution while eliminating third-party virtualization costs.

### ***Datacenter Services Solutions***

The Nutanix Cloud Platform also provides the IT resources that data center professionals need to design, build and operate a cloud datacenter. This includes scale-out storage services that consolidate management of structured and unstructured data. Nutanix customers can simplify storage operations, while delivering enterprise-grade NFS and SMB files services (Nutanix Files), as well as S3-compatible object services (Nutanix Objects), at nearly any scale.

Security is designed into the Nutanix Cloud Platform, including application-centric firewall services based on advanced microsegmentation technology (Nutanix Flow) that protects applications against internal and external threats, as well as data encryption. Nutanix solutions also provide strong user authentication, authorization and access services, activity monitoring and comprehensive logging. With multiple industry security certifications, Nutanix solutions help customers across industries meet stringent security and compliance mandates.

Beyond protecting applications and data against security threats, the Nutanix Cloud Platform provides essential capabilities to maintain business continuity in the event of an IT failure, and to quickly recover from unplanned downtime. Capabilities include built-in multi-site data replication and synchronization services, orchestration runbooks, and validated integration with popular data back-up solutions. We also provide a managed, cloud-based disaster recovery service (Nutanix Xi Leap) to maintain IT operations in the event of a datacenter outage.

### **DevOps Services Solutions**

As part of our integrated offering, we deliver services for application developers and DevOps teams to accelerate the development, testing, provisioning and scaling of applications across different cloud environments. These services include automated database management to simplify database administration and to efficiently manage database copies that proliferate in most IT environments (Nutanix Era). Also included are automation services that streamline application lifecycle management, provide self-service provisioning via an application marketplace, and deliver powerful hybrid cloud orchestration (Nutanix Calm). Our DevOps Services solutions also allow for automated deployment and management of Kubernetes clusters to simplify the provisioning, operations and lifecycle management of cloud-native environments, containerized applications and microservices (Nutanix Karbon).

### **Desktop Services Solutions**

The Nutanix Cloud Platform provides a rich set of end-user computing ("EUC") services that can reduce the cost of delivering virtualized desktops and applications, while improving performance and scalability. Services include virtualization, file storage, security and networking for traditional VDI environments. We also provide desktop-as-a-service (Nutanix Xi Frame) to deliver virtual apps or desktops to users from multiple public cloud environments and/or an enterprises private cloud datacenter, which can be easily accessed from any browser.

### **Delivery of Our Solutions**

The Nutanix Cloud Platform can be deployed on-premises running on a variety of qualified hardware platforms, in popular public cloud environments such as Amazon Web Services through Nutanix Clusters, or, in the case of our cloud-based software and software-as-a-service ("SaaS") offerings, via hosted service. Non-portable software licenses for our platform are 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 also 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. As we continue our transition toward 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.

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. Super Micro Computer, Inc. ("Super Micro") and Flextronics Systems Limited ("Flextronics") pre-install our software on our Nutanix-branded NX series appliances. Dell Technologies ("Dell"), Lenovo Group Ltd. ("Lenovo"), International Business Machines Corporation ("IBM"), Fujitsu Technology Solutions GmbH ("Fujitsu"), Hewlett Packard Enterprise ("HPE") and Inspur Group ("Inspur") pre-install our software on their hardware to create the Dell XC Series, Lenovo Converged HX Series, IBM CS Series, Fujitsu XF Series, HPE DX Series and Inspur inMerge 1000 Series appliances, respectively. Some of our OEM partners also sell associated support offerings.

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. Purchases of non-portable software are typically accompanied by the purchase of a separate support and entitlement agreement. Purchases of term-based licenses and SaaS subscriptions have support and entitlements built into the license.

### **Our Support Programs**

*Product Support.* We offer varying levels of product support to our customers based on their needs. We also offer premium support programs through our technical account managers and designated support engineers.

*Professional Services.* We provide consulting and implementation services to customers through our professional services team for assessment, design, deployment and optimizing of their Nutanix environments. We typically provide these services at the time of initial installation to help the customer with configuration and implementation.

## Our End Customers

Our solutions serve a broad range of workloads, including enterprise applications, databases, virtual desktop infrastructure, 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 had a broad and diverse base of approximately 17,360 end customers as of July 31, 2020, including approximately 915 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. The number of end customers grew from approximately 14,180 as of July 31, 2019 to approximately 17,360 as of July 31, 2020.

Our enterprise cloud platform is primarily sold through channel partners, including distributors, resellers and OEMs, and delivered directly to our end customers. Arrow Electronics, Inc., a distributor to our end customers, represented 18%, 24% and 29% of our total revenue for fiscal 2018, 2019 and 2020, respectively. Tech Data Corporation, another distributor to our end customers, represented 13%, 13% and 14% of our total revenue for fiscal 2018, 2019 and 2020, respectively.

## Growth Strategy

Key elements of our growth strategy include:

- **Continually innovate and maintain technology leadership.** Since inception, we have rapidly innovated from supporting limited applications and a single hypervisor to a full enterprise cloud platform that is designed to support a wide variety of workloads across private, public and multicloud deployments. We intend to continue to invest heavily in developing our enterprise cloud platform with new features, services and products to expand our market opportunity.
- **Invest to acquire new end customers.** Since the completion of our first end customer sale in October 2011, we have grown to approximately 17,360 end customers. We intend to grow our base of end customers by continuing to invest in sales and marketing, leveraging our network of channel partners and OEMs, furthering our international expansion and extending our enterprise cloud platform to address new customer segments. One area of continued focus is increasing our sales to new, and expanding our sales to existing, large enterprise customers.
- **Continue to drive follow-on sales to existing end customers.** Our end customers typically deploy our technology initially for a specific project or application deployment. Our sales teams and channel partners then seek to systematically target follow-on sales opportunities to drive additional purchases throughout our broader product portfolio. This land and expand strategy enables us to quickly expand our footprint within our existing end customer base from follow-on orders that in the aggregate are often multiples of the initial order.
- **Enhanced focus on renewals.** In addition to our land and expand strategy described above, as part of our transition to a subscription-based model, we have enhanced our focus on renewals, which are typically associated with lower sales costs. We have also commenced our transition to an ACV-based sales compensation structure starting in August 2020, which we expect will shorten the lengths of our contract terms, allowing us in turn to benefit from such efficiency gains associated with renewals.
- **Deepen engagement with current channel and OEM partners and establish additional routes to market to enhance sales leverage.** We have established meaningful channel partnerships globally and have driven strong engagement and commercial success with several major resellers and distributors. We believe that our OEM relationships can augment our routes to market to accelerate our growth and that there is a significant opportunity to grow our sales with our channel partners and OEMs. We intend to attract and engage new channel and OEM partners around the globe while also selling our standalone software for deployment on qualified hardware or a hosted service to maximize the availability of our solutions for our customers.

- **Invest in rapid growth while remaining focused on our overall financial health.** We intend to continue investing in our rapid growth, while balancing such growth against our operating expenses. By maintaining this balance, we believe we can drive toward our high growth potential without sacrificing our overall financial health.

#### Sales and Marketing

**Sales.** We primarily engage our end customers through our global sales force who directly interact with key IT decision makers while also providing sales development, opportunity qualification and support to our channel partners. We have established relationships with our channel partners, who represent many of the key resellers and distributors of datacenter infrastructure software and systems in each of the geographic regions where we operate. We also engage our end customers through our OEM partners, which license our software and package it with their hardware, and sell through their direct sales forces and channel partners.

**Technology Alliances.** We have developed relationships with a number of leading technology companies that help us deliver world-class solutions to our customers. Through our Technology Alliance Partner Program, our developer, application, hardware and infrastructure partners get access to resources that allow them to validate and integrate their products with Nutanix solutions and engage in joint sales training and enablement. In addition, we work closely with our technology partners through co-marketing and lead-generation activities in an effort to broaden our marketing reach and help us win new customers and retain existing ones.

**Marketing.** We supplement our sales efforts with marketing programs that include online advertising, corporate and third-party events, demand generation activities, social media promotions, media and analyst relations and community programs. More recently, in response to the global COVID-19 pandemic, we have transformed nearly all of our in-person marketing programs into digital experiences. For example, in September 2020 we hosted our sixth annual .NEXT Conference in a completely digital format, where approximately 41,000 digital attendees registered to learn about our current and future products and solutions. We also establish deep integration with our ecosystem of third-party technology partners and engage in joint marketing activities with them. Our channel partners have joined our integrated partner program, the Nutanix Elevate Partner Program, which provides market development funds, preferred pricing through deal registration, sales enablement and product training, innovative marketing campaigns and dedicated account support. We also coordinate with our OEM partners on joint marketing activities.

#### Research and Development

Our research and development efforts are focused primarily on improving current technology, developing new technologies in current and adjacent markets and supporting existing end customer deployments. Our research and development teams primarily consist of distributed systems software and user interface engineers. A large portion of our research and development team is based in San Jose, California. We also maintain research and development centers in India, North Carolina, Washington, Serbia and Germany. We plan to dedicate significant resources to our continued research and development efforts, and intend to continue to grow our global research and development and engineering teams to enhance our solutions, improve integration with new and existing ecosystem partners and broaden the range of IT infrastructure technologies that we converge into our enterprise cloud platform. We believe that these investments will contribute to our long-term growth, although they may adversely affect our profitability in the near term.

Research and development expense was \$313.8 million, \$500.7 million and \$554.0 million for fiscal 2018, 2019 and 2020, respectively.

#### Manufacturing

We do not manufacture any hardware. The Nutanix-branded NX series appliances, including those that are delivered by us, are manufactured for us based on our specifications by two manufacturers, Super Micro and Flextronics. Super Micro and Flextronics assemble and test the Nutanix-branded NX series appliances and they generally procure the components used in the NX series appliances directly from third-party suppliers. Our agreement with Super Micro was renewed in May 2020 for one year and will automatically renew for successive one-year periods thereafter, with the option to terminate upon each annual renewal. 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. Distributors handle fulfillment and shipment for certain end customers, but do not hold inventory.

## Backlog

We typically accept and deliver orders within a short time frame. In general, customers may cancel or reschedule orders without penalty prior to delivery, and delivery schedules requested by customers in their purchase orders vary based upon each customer's particular needs. As a result, we do not believe that our backlog at any particular time is a reliable indicator of future revenue.

## Competition

We operate in the intensely competitive IT infrastructure market and compete primarily with companies that sell software to build and operate private 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, Inc. ("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 Systems, Inc. ("Cisco"), Dell, HPE, Hitachi Data Systems ("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, Inc. ("NetApp"), which typically sell centralized storage products; and
- providers of public cloud infrastructure and SaaS-based offerings, such as Amazon.com, Inc. ("Amazon"), Google Inc. and Microsoft Corporation.

In addition, we compete against vendors of hyperconverged infrastructure 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, Inc. ("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 would also compete directly with our core solutions.

We believe the principal competitive factors in our market include:

- product features and capabilities;
- system scalability, performance and resiliency;
- management and operations, including provisioning, troubleshooting, analytics, automation and upgrades;
- total cost of ownership over the lifetime of the technology;
- product interoperability with third-party applications, infrastructure software, infrastructure systems and platforms and public clouds;
- application mobility across disparate silos of enterprise computing, including public and private cloud infrastructure; and
- complete customer experience, including usability, support and professional services.

We believe we are positioned favorably against our competitors based on these factors. However, many of our competitors have substantially greater financial, technical and other resources, greater brand recognition, larger sales forces and marketing budgets, a larger existing customer base, broader distribution and larger and more mature intellectual property portfolios.

## **Intellectual Property**

Our success depends in part upon our ability to protect and use our core technology and intellectual property. We rely on patents, trademarks, copyrights and trade secret laws, confidentiality procedures and employee nondisclosure and invention assignment agreements to protect our intellectual property rights. As of July 31, 2020, we had 195 United States patents that have been issued and 263 non-provisional patent applications pending in the United States. Our issued U.S. patents expire between 2031 and 2039. We also leverage open source software in most of our products.

See Item 1A, "Risk Factors," for further discussion of risks related to protecting our intellectual property.

## **Facilities**

Our corporate headquarters are located in San Jose, California where, under lease agreements that expire through May 2024, we currently lease approximately 436,000 square feet of space. We also maintain offices in North America, Europe, Asia Pacific, the Middle East, Latin America and Africa. We lease all of our facilities and do not own any real property. We expect to add facilities as we grow our employee base and expand geographically. We believe that our facilities are adequate to meet our needs for the immediate future and that, should it be needed, suitable additional space will be available to accommodate the expansion of our operations.

## **Employees**

We had approximately 6,170 employees worldwide as of July 31, 2020. None of our employees in the United States are represented by a labor organization or is a party to any collective bargaining arrangement. In certain of the European countries in which we operate, we are subject to, and comply with, local labor law requirements in relation to the establishment of works councils. We are often required to consult and seek the consent or advice of these works councils. We have never had a work stoppage and we consider our relationship with our employees to be good.

## **Information about Segment and Geographic Areas**

The segment and geographic information required herein is contained in Note 13 of Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K.

## **Corporate Information**

We were incorporated in Delaware in September 2009 as Nutanix, Inc. Our principal executive offices are located at 1740 Technology Drive, Suite 150, San Jose, California 95110, and our telephone number is (408) 216-8360. We have operations throughout North America, Europe, Asia Pacific, the Middle East, Latin America and Africa. Our website address is [www.nutanix.com](http://www.nutanix.com). Information contained on or accessible through our website is neither a part of this Annual Report on Form 10-K nor incorporated by reference herein, and any references to our website and the inclusion of our website address in this Annual Report on Form 10-K are intended to be inactive textual references only.

## Available Information

Our website is located at [www.nutanix.com](http://www.nutanix.com) and our investors relations website is located at [ir.nutanix.com](http://ir.nutanix.com). We file reports with the Securities and Exchange Commission ("SEC"), which maintains an internet site (<http://www.sec.gov>) that contains reports, proxy and information statements and other information regarding issuers, including us, that file electronically with the SEC. This Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, our Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are made available free of charge on the investor relations portion of our website as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. We also provide a link to the section of the SEC's website at [www.sec.gov](http://www.sec.gov) that has, or will have, all of our public filings, including this Annual Report on Form 10-K and our Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, all amendments to those reports, our Proxy Statements and other ownership-related filings. We use our investor relations website as well as social media as channels of distribution for important company information. For example, webcasts of our earnings calls and certain events we participate in or host with members of the investment community are on our investor relations website. Additionally, we announce investor information, including news and commentary about our business and financial performance, SEC filings, notices of investor events and our press and earnings releases, on our investor relations website. It is possible that the information we post on social media could be deemed to be material information. Therefore, we encourage investors, the media and others interested in our company to review the information we post on social media channels listed on our investor relations website. Investors and others can receive notifications of new information posted on our investor relations website in real time by signing up for email alerts and RSS feeds. Further corporate governance information, including our corporate governance guidelines, board committee charters and code of business conduct and ethics, is also available on our investor relations website under the heading "Governance." Information contained on or accessible through our websites are neither a part of nor incorporated by reference into this Annual Report on Form 10-K or any other report or document we file with or furnish to the SEC, and any references to our websites and the inclusion of our website addresses in this Annual Report on Form 10-K are intended to be inactive textual references only.

## Item 1A. Risk Factors

*You should carefully consider the risks and uncertainties described below, together with all of the other information contained in this Annual Report on Form 10-K, including our 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 COVID-19 pandemic has caused, and continues to cause, 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, and are continuing to implement, numerous unprecedented measures, including travel bans and restrictions, quarantines, shelter-in-place, stay-at-home, remote work and social distancing orders, and shutdowns. Such measures have impacted and will continue to impact our workforce and operations, as well as those of our customers, vendors, suppliers, and partners, and may result in a prolonged recession or depression that could further materially and adversely affect the global economy and our business even beyond the duration of the pandemic. Furthermore, different jurisdictions are in varying stages of restrictions and have achieved varying degrees of success at controlling the spread of the pandemic, with many jurisdictions seeing a resurgence in COVID-19 cases and subsequently having to halt or reverse their reopening plans. As such, we cannot predict, with any degree of certainty, the ultimate duration and severity of the adverse effects of the COVID-19 pandemic and the measures taken in response to the pandemic on the global economy and our business, or the likelihood or frequency of future resurgence of the COVID-19 pandemic or other similar major public health concerns.

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 July 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., in a period spanning May to October 2020. We remain unable to 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, energy, education, and healthcare, 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 employees and those of our partners, customers and service providers work remotely from non-corporate managed networks during the ongoing COVID-19 pandemic and potentially beyond;
- 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 cancellations or restrictions on the availability of visas, delays in the issuance of visas or suspensions of entry), 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 physical and mental 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, being in jurisdictions where travel or other activities remain restricted, or due to prolonged social isolation or distancing measures;

- 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;
- Changes in our internal controls, policies and procedures due to remote work arrangements, which may result in significant deficiencies or material weaknesses in our internal controls in the preparation of our financial reports, and the resulting increased costs of controls and compliance oversight activities;
- An inability to execute our business continuity plans and/or maintain our critical business processes; and
- Increased quarterly fluctuations in, and an inability to forecast or difficulties or delays in forecasting, our financial performance or results of operations, as well as related impacts to any financial guidance we may issue from time to time, including any modification or withdrawal thereof.

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. While governments and central banks in several parts of the world have enacted fiscal and monetary stimulus measures to counteract the negative macroeconomic impacts of COVID-19 pandemic, the effectiveness and adequacy of such stimulus measures, as well as their future availability, remain uncertain. The discontinuation or reduction in scope of such stimulus measures may cause a further decline in the global macroeconomic conditions and financial hardships for our customers and partners, thereby exacerbating the adverse effects of the pandemic on our business, including those described above. 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 \$872.9 million for fiscal 2018, 2019 and 2020, respectively. As of July 31, 2020, we had an accumulated deficit of \$2.5 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. Our transition to a subscription-based business model entails 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 and minimizing customer churn 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 at the time of renewal or hardware refresh. 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 have adjusted, and may in the future need to further 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, starting in fiscal 2021, we adjusted our sales compensation structure, which was previously based primarily on total contract value, to one that is based primarily on annual contract value ("ACV"), 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, cause a change in the mix of solutions sold and the mix of revenue among solutions sold, 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 recently announced sales compensation model change to one that is based primarily on ACV, 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;
- we may see increased discounting behavior from our sales employees and, if we are unable to monitor, prevent and manage such discounting behavior successfully and in a timely manner, our business and financial results will be negatively affected;
- 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 expected sales compensation costs, particularly if the pace of our subscription transition is faster than anticipated;
- we may face additional and/or different financial reporting obligations, which could increase the costs associated with our financial reporting and investor relations activities;
- similarly to our decision to start reporting ACV billings and run-rate ACV, we may choose to supplement our financial reporting with new or different metrics, which could increase the costs associated with our financial reporting and may be difficult for investors to understand; and
- investors, industry and financial analysts may have difficulty understanding the shift in our business model, resulting in changes in analysts' 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.

***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, and these transitions make it difficult to compare historical results. Similarly, while we saw improvements in our pipeline generation in recent periods as a result of our investments in sales and marketing activities, including 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. Furthermore, such downward impact on average term lengths may be exacerbated by our recently announced transition to an ACV-based sales compensation structure. 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 original equipment manufacturer ("OEM" and, collectively, "OEMs") 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.

***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 the on-going COVID-19 pandemic, 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 have been highly dependent on the services of Dheeraj Pandey, our Chief Executive Officer and Chairman, who plans to retire as Chief Executive Officer ("CEO"), of the Company upon the selection and appointment of the Company's next CEO. As one of our co-founders, Mr. Pandey has been critical to the development of our technology, future vision and strategic direction, and his retirement could disrupt our business and negatively impact our operating results, prospects and future growth and cause a significant decline in the price of our Class A common stock. Furthermore, while the Company has a CEO succession plan in place, failure to successfully manage such succession plan and in particular to recruit in a timely manner, integrate and retain the successor CEO may have a material adverse impact on our operational and financial performance and future growth. In addition, 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, the successor Chief Executive Officer, or any of our key employees or executive officers could disrupt our business and negatively impact our operating results, prospects and future growth.

In addition, 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 the success of our sales force and in particular our ability to structure our sales force and sales compensation structure in a way that aligns with our growth strategy. As part of our efforts to appropriately structure and compensate our sales force such that their incentives are properly aligned with our growth strategy, we have made changes to our sales processes, sales segmentation, and leadership structures for our global sales teams and may need to make additional changes in the future. Such changes may take longer than anticipated to successfully implement, and we may not be able to realize the full benefits thereof, which may have a material adverse impact on our sales productivity as well as our business and operational results generally. In particular, as indicated above, our growth continues to be substantially dependent on our ability to increase our sales to large enterprises, particularly when those sales result in large orders for our solutions. 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. 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 fiscal 2019 we also 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 have adjusted our sales compensation structure, which was previously based on total contract value, to one that is based primarily on ACV, 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 may 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 29% and 14%, respectively, of our total revenue for fiscal 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 lengths of our contract terms;
- 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, including our OEM partners, 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, including our OEM partners, to produce the hardware appliances on which our software runs, including both our Nutanix-branded NX series appliances and the various third-party appliances that are included on our hardware compatibility list, which exposes us to direct and indirect risks beyond our control, including reduced control over quality assurance, product costs, product supply and timing, and potential reputational harm and brand damage. We may not be able to discover, manage, and/or remediate such risks successfully and in a timely manner. For example, customers may delay their purchase of our software if they expect that the delivery of the servers on which they intend to operate the software will be delayed for many months. 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, or willingness, to consume our software will be materially delayed, which will adversely affect our business and operating results, competitive position, brand and reputation, as well as our relationships with affected customers.

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 was renewed in May 2020 for one year and will automatically renew for successive one-year periods following the expiration of such renewal term, 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 OEM partner or contract manufacturer and commencing production is expensive and time-consuming and may cause delays in order fulfillment at our existing OEM partners and 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 July 31, 2020, we had approximately \$81.2 million in the form of guarantees to our OEM partners 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 certain of our OEM partners 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 certain of our OEM partners 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 OEM partner the difference between the price at which the OEM partner purchased the inventory and the price at which the OEM partner 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 an OEM partner, 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 data unavailability, unauthorized access to, loss, corruption or other harm to 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 and cloud 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. 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 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.

***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, Brazil, 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. In addition, the California Privacy Rights Act ("CPRA"), which would significantly amend the CCPA and generally expand consumers' privacy rights and protections with respect to their personal information, is on the California November 2020 ballot. We cannot yet predict the full impact of the CCPA (or potentially the CPRA if enacted) 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. Certain other jurisdictions, including Brazil, have adopted or are considering legislation with obligations that are similar to the GDPR.

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 EU or the European Economic Area ("EEA"), as applicable, to the United States. For example, in July 2020, the Court of Justice of the European Union ("CJEU") invalidated the EU-U.S. Privacy Shield framework ("Privacy Shield"), one of the mechanisms we use to legitimize the transfer of personal data from the EEA to the U.S. The CJEU decision also drew into question the long-term viability of an alternative means of data transfer upon which we rely, the standard contractual clauses, for transfers of personal data from the EU or the EEA to the U.S. This CJEU decision may lead to increased scrutiny on data transfers from the EU or the EEA to the U.S. generally and increase our liability and costs of compliance with data privacy legislation. Furthermore, we may experience a reluctance from current or prospective European customers to use our products and may find it necessary to make changes to our handling of personal data of our EEA customers.

Additionally, following a referendum in June 2016 in which voters in the United Kingdom approved an exit from the EU, the United Kingdom government has initiated a process to leave the EU, known as Brexit. Brexit has created uncertainty with regard to the regulation of data protection in the United Kingdom. In particular, while the Data Protection Act of 2018, which implements and complements the GDPR achieved Royal Assent on May 23, 2018 and is now effective in the United Kingdom, it is still unclear whether transfer of data from the EEA to the United Kingdom will remain lawful under the GDPR. During the period of “transition” (i.e., until December 31, 2020), EU law will continue to apply in the United Kingdom, including the GDPR, after which the Data Protection Act will substantially convert the requirements of the GDPR into United Kingdom law. However, we cannot fully predict how the Data Protection Act and other United Kingdom data protection laws or regulations may develop in the medium to longer term, affecting how data transfers to and from the United Kingdom will be regulated. We continue to monitor and review the impact of any resulting changes to EU or United Kingdom law that could affect our operations. Beginning in 2021, the United Kingdom will be a “third country” under the GDPR. We may incur liabilities, expenses, costs, and other operational losses under the GDPR and privacy laws of applicable EU member states and the United Kingdom in connection with any measures we take to comply with them.

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% and 46% of our total revenue from our international customers based on bill-to-location for fiscal 2018, 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 July 31, 2020, approximately 52% 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. In addition, some open source licenses appear to be permissive in that internal use of the open source software is allowed, but prohibit commercial uses, or treat provision of cloud services as triggering the requirement to make proprietary software publicly available. 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 and licensors sometimes change their license terms. Therefore, any improper usage of open source, including a failure to identify changes in license terms, 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 or tensions, 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 and fiscal and monetary stimulus measures, taxes, or international trade agreements, actual or potential government shutdowns, elections and any related political instability, including potential additional U.S. government shutdowns and developments resulting from the 2020 U.S. presidential election, 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," 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 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* ("Altera"). 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. In June 2020, the U.S. Supreme Court denied *certiorari* in the case of Altera. We have concluded that the law remains unsettled and continue to record unrecognized tax benefit as we exclude stock-based compensation costs from our cost sharing arrangements. Any potential impact of a final adverse decision would result in adjustments to deferred tax assets and corresponding adjustments to the valuation allowance. We will continue to monitor developments and the potential effect on its consolidated financial statements and tax filings.

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. EU countries and other jurisdictions will continue to interpret or issue additional guidance on how provisions of the anti-hybrid will be applied, which, if applicable, may materially impact our financial statements and cash flow. 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 (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 bugs or 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, as well as those based on our partnerships with third party public cloud providers, 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 Our Long-Term Debt**

In January 2018, we issued \$575.0 million in aggregate principal amount of 0% Convertible Senior Notes due 2023 (the "2023 Notes"), in private placements to qualified institutional buyers. We expect to issue \$750.0 million in aggregate principal amount of 2.5% Convertible Senior Notes due 2026 (the "2026 Notes," together with the 2023 Notes, the "Notes") in September 2020. The 2026 Notes will bear interest at a rate of 2.50% per annum, with such interest to be paid in kind on the Notes held by Bain Capital through an increase in the principal amount of the Notes and in cash on the Notes transferred to entities not affiliated with Bain Capital. Interest on the 2026 Notes will accrue from the date of issuance and be added to the principal amount of such Notes on a semi-annual basis thereafter.

***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 2023 Notes, we entered into convertible note hedge transactions with one or more of the initial purchasers of the 2023 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 2023 Notes and/or offset any cash payments we are required to make in excess of the principal amount upon conversion of any 2023 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 2023 Notes (and are likely to do so during any observation period related to a conversion of 2023 Notes or following any repurchase of 2023 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 2023 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.

***Conversion of our Notes may dilute the ownership interest of existing stockholders, or may otherwise depress the price of our Class A common stock.***

The conversion of some or all of our Notes, to the extent we deliver shares upon conversion thereof will dilute the ownership interests of existing stockholders, reduce our earnings per share and potentially have an adverse effect on the price of our Class A common stock. Any sales in the public market of our Class A common stock issuable upon such conversion could adversely affect prevailing market prices of our Class A common stock. In addition, the existence of the Notes may encourage short selling by market participants because the conversion of the Notes could be used to satisfy short positions, or anticipated conversion of the Notes into shares of our Class A common stock could depress the price of our Class A common stock.

***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 July 31, 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 1B. Unresolved Staff Comments**

Not Applicable.

**Item 2. Properties**

Our corporate headquarters are located in San Jose, California where, under lease agreements that expire through May 2024, we currently lease approximately 436,000 square feet of space. We also maintain offices in North America, Europe, Asia Pacific, the Middle East, Latin America and Africa. We lease all of our facilities and do not own any real property. We expect to add facilities as we grow our employee base and expand geographically. We believe that our facilities are adequate to meet our needs for the immediate future and that, should it be needed, suitable additional space will be available to accommodate the expansion of our operations.

**Item 3. Legal Proceedings**

The information set forth under the "Legal Proceedings" subheading in Note 8 of Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K is incorporated herein by reference.

**Item 4. Mine Safety Disclosures**

Not Applicable.

**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities****Market Information for Common Stock**

Our Class A common stock began trading publicly on the NASDAQ Stock Market under the ticker symbol "NTNX" on September 30, 2016. Prior to that time, there was no public market for our Class A common stock. The following table sets forth, for the periods indicated, the high and low sale prices of our Class A common stock as reported on the NASDAQ Global Select Market.

Fiscal Quarter:	Fiscal 2019		Fiscal 2020	
	High	Low	High	Low
First quarter	\$ 61.13	\$ 35.95	\$ 29.51	\$ 18.20
Second quarter	\$ 52.23	\$ 36.13	\$ 37.35	\$ 26.62
Third quarter	\$ 54.14	\$ 33.51	\$ 37.42	\$ 12.49
Fourth quarter	\$ 42.98	\$ 22.70	\$ 25.35	\$ 17.64

Our Class B common stock is not listed nor traded on any stock exchange.

**Holders of Record**

As of July 31, 2020, there were 122 holders of record of our Class A common stock. This figure does not include a substantially greater number of "street name" holders or beneficial holders of our common stock whose shares are held of record by banks, brokers and other financial institutions. As of July 31, 2020, there were approximately 45 stockholders of record of our Class B common stock.

**Dividend Policy**

We have never declared or paid cash dividends on our common stock. We currently intend to retain all available funds and any future earnings for use in the operation of our business and do not anticipate paying any dividends in the foreseeable future. Any future determination to declare dividends will be made at the discretion of our Board of Directors, subject to applicable laws and will depend on our financial condition, operating results, capital requirements, general business conditions and other factors that our Board of Directors may deem relevant.

**Unregistered Sales of Equity Securities and Use of Proceeds**

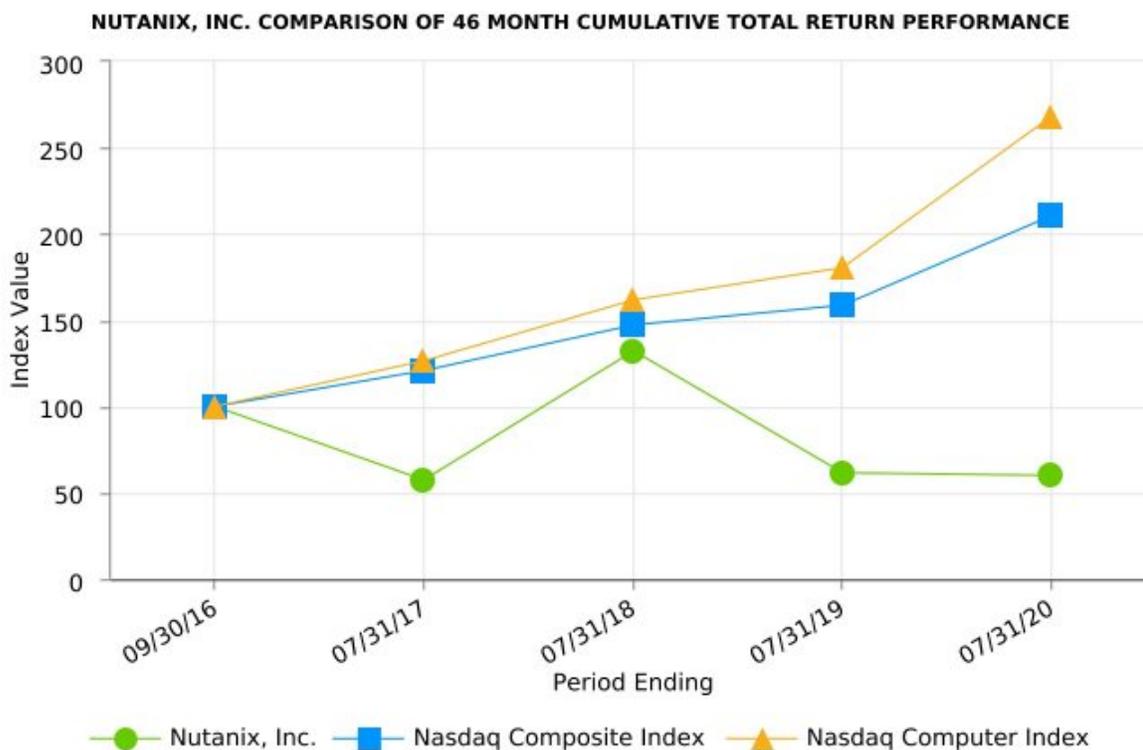
None.

**Purchases of Equity Securities by the Issuer**

None.

**Stock Performance Graph**

The following graph shows a comparison from September 30, 2016 (the date our Class A common stock commenced trading on the NASDAQ Stock Market) through July 31, 2020 of the cumulative total return for our Class A common stock based on the closing price on the last day of each respective period. The graph assumes an initial investment of \$100 on September 30, 2016 in the common stock of Nutanix, Inc., the NASDAQ Composite Index and NASDAQ Computer Index and assumes reinvestment of any dividends. The stock price performance on the following graph is not necessarily indicative of future stock price performance.



	Fiscal Year				
	9/30/16	7/31/17	7/31/18	7/31/19	7/31/20
Nutanix, Inc.	\$ 100	\$ 57.42	\$ 132.14	\$ 61.35	\$ 59.97
Nasdaq Composite Index	\$ 100	\$ 120.60	\$ 147.29	\$ 158.70	\$ 210.72
Nasdaq Computer Index	\$ 100	\$ 126.39	\$ 161.66	\$ 180.60	\$ 267.85

The information on the above graph shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that section or Sections 11 and 12(a)(2) of the Securities Act, and shall not be incorporated by reference into any registration statement or other document filed by us with the SEC, whether made before or after the date of this Annual Report on Form 10-K, regardless of any general incorporation language in such filing, except as shall be expressly set forth by specific reference in such filing.

**Securities Authorized for Issuance Under Equity Compensation Plans**

The information required by this item is incorporated herein by reference to our definitive proxy statement for our 2020 annual meeting of stockholders, which will be filed no later than 120 days after the end of our fiscal year ended July 31, 2020.

**Item 6. Selected Consolidated Financial and Other Data**

The selected consolidated statement of operations data for fiscal 2018, 2019 and 2020 and the consolidated balance sheet data as of July 31, 2019 and 2020 are derived from our audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K. The selected consolidated statement of operations data for fiscal 2016 and fiscal 2017 and the consolidated balance sheet data as of July 31, 2016, 2017 and 2018 were derived from audited financial statements not included in this Annual Report on Form 10-K. Our historical results are not necessarily indicative of the results that may be expected in the future. The selected consolidated financial data below should be read in conjunction with the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Part II, Item 7 of this Annual Report on Form 10-K and our consolidated financial statements and related notes included in Part II, Item 8 of this Annual Report on Form 10-K.

We adopted Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASC 606"), effective August 1, 2017. For the fiscal years ended July 31, 2016 and 2017, we have recast certain of our financial data, as disclosed in our Annual Report on Form 10-K for the fiscal year ended July 31, 2018.

	<b>Fiscal Year Ended July 31,</b>				
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
	(in thousands, except per share data)				
<b>Consolidated Statement of Operations Data:</b>					
Revenue:					
Product	\$ 413,910	\$ 673,297	\$ 887,989	\$ 832,419	\$ 765,822
Support, entitlements and other services	89,500	172,606	267,468	403,724	541,860
<b>Total revenue</b>	<b>503,410</b>	<b>845,903</b>	<b>1,155,457</b>	<b>1,236,143</b>	<b>1,307,682</b>
Cost of revenue:					
Product <sup>(1)(2)</sup>	133,541	249,393	276,127	143,078	71,312
Support, entitlements and other services <sup>(1)</sup>	37,246	77,938	109,903	161,050	215,377
<b>Total cost of revenue</b>	<b>170,787</b>	<b>327,331</b>	<b>386,030</b>	<b>304,128</b>	<b>286,689</b>
Gross profit	332,623	518,572	769,427	932,015	1,020,993
Operating expenses:					
Sales and marketing <sup>(1)(2)</sup>	286,584	501,021	649,657	909,750	1,160,389
Research and development <sup>(1)</sup>	116,400	288,619	313,777	500,719	553,978
General and administrative <sup>(1)</sup>	34,265	77,341	86,401	119,587	135,547
<b>Total operating expenses</b>	<b>437,249</b>	<b>866,981</b>	<b>1,049,835</b>	<b>1,530,056</b>	<b>1,849,914</b>
Loss from operations	(104,626)	(348,409)	(280,408)	(598,041)	(828,921)
Other expense, net	(1,290)	(26,377)	(9,306)	(15,019)	(26,300)
Loss before provision for income taxes	(105,916)	(374,786)	(289,714)	(613,060)	(855,221)
Provision for income taxes	2,317	4,852	7,447	8,119	17,662
<b>Net loss</b>	<b>\$ (108,233)</b>	<b>\$ (379,638)</b>	<b>\$ (297,161)</b>	<b>\$ (621,179)</b>	<b>\$ (872,883)</b>
Net loss per share attributable to Class A and Class B common stockholders—basic and diluted	\$ (2.46)	\$ (2.96)	\$ (1.81)	\$ (3.43)	\$ (4.48)
Weighted average shares used in computing net loss per share attributable to Class A and Class B common stockholders—basic and diluted	43,970	128,296	164,091	181,031	194,719

(1) Includes stock-based compensation expense as follows:

	Fiscal Year Ended July 31,				
	2016	2017	2018	2019	2020
	(in thousands)				
<b>Cost of revenue:</b>					
Product	\$ 391	\$ 3,066	\$ 2,580	\$ 3,535	\$ 5,334
Support, entitlements and other services	968	10,411	8,945	15,326	22,014
Total cost of revenue	1,359	13,477	11,525	18,861	27,348
Sales and marketing	8,006	78,117	65,060	107,751	126,015
Research and development	6,259	109,044	74,389	140,519	153,252
General and administrative	4,432	30,853	26,894	39,598	45,383
Total stock-based compensation expense	\$ 20,056	\$ 231,491	\$ 177,868	\$ 306,729	\$ 351,998

During the three months ended October 31, 2016, we recorded approximately \$83.0 million of stock-based compensation expense related to performance stock awards, as we determined that the performance conditions (certain liquidity events, including our IPO, and the achievement of specified performance targets) were probable of achievement.

(2) Includes amortization of intangible assets as follows:

	Fiscal Year Ended July 31,				
	2016	2017	2018	2019	2020
	(in thousands)				
Product cost of revenue	\$ —	\$ 1,314	\$ 5,641	\$ 14,248	\$ 14,777
Sales and marketing	—	915	914	2,528	2,603
Total amortization of intangible assets	\$ —	\$ 2,229	\$ 6,555	\$ 16,776	\$ 17,380

	As of July 31,				
	2016	2017	2018	2019	2020
	(in thousands)				
<b>Consolidated Balance Sheet Data:</b>					
Cash, cash equivalents and short-term investments	\$ 185,200	\$ 349,053	\$ 934,303	\$ 908,834	\$ 719,778
Total assets	\$ 411,715	\$ 738,212	\$ 1,599,880	\$ 1,786,042	\$ 1,768,547
Deferred revenue (current and non-current portion)	\$ 218,481	\$ 369,056	\$ 631,207	\$ 910,044	\$ 1,183,441
Long-term debt	\$ 73,260	\$ —	\$ 429,598	\$ 458,910	\$ 490,222
Preferred stock warrant liability	\$ 9,679	\$ —	\$ —	\$ —	\$ —
Convertible preferred stock	\$ 310,379	\$ —	\$ —	\$ —	\$ —
Total stockholders' (deficit) equity	\$ (285,827)	\$ 217,063	\$ 326,779	\$ 186,893	\$ (274,977)

**NUTANIX, INC.****Management's Discussion and Analysis of  
Financial Condition and Results of Operations****Item 7. 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 the consolidated financial statements and the related notes thereto included elsewhere in this Annual Report on Form 10-K. 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" or in other parts of this Annual Report on Form 10-K. See also "Special Note Regarding Forward-Looking Statements" above.*

**Overview**

Nutanix, Inc. ("we," "us," "our" or "Nutanix") provides a leading enterprise cloud platform, which we call the Nutanix Cloud Platform, that consists of software solutions and cloud services that power our customers' hybrid cloud and multicloud strategies. 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 allows enterprises to simplify the complexities of a multicloud 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 17,360 end customers as of July 31, 2020, including approximately 915 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 14,180 as of July 31, 2019 to approximately 17,360 as of July 31, 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.

**Management's Discussion and Analysis of  
Financial Condition and Results of Operations (Continued)**

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 5,340 as of July 31, 2019 to approximately 6,170 as of July 31, 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 COVID-19 pandemic, 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.

**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; requiring our employees to work remotely; implementing travel restrictions that allow only the most 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 July 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.

**NUTANIX, INC.**
**Management's Discussion and Analysis of  
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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 full 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:

	<b>As of and for the Fiscal Year Ended July 31,</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	(in thousands, except percentages)		
Total revenue	\$ 1,155,457	\$ 1,236,143	\$ 1,307,682
Year-over-year percentage increase	36.6 %	7.0 %	5.8 %
Subscription revenue	\$ 330,645	\$ 648,415	\$ 1,030,180
Software and support revenue (TCV revenue)	\$ 898,143	\$ 1,130,822	\$ 1,284,227
Total billings	\$ 1,417,484	\$ 1,514,660	\$ 1,580,092
Subscription billings	\$ 581,923	\$ 916,000	\$ 1,276,413
Software and support billings (TCV billings)	\$ 1,160,170	\$ 1,409,339	\$ 1,556,637
ACV billings	\$ 328,811	\$ 428,564	\$ 505,179
Run-rate ACV	\$ 650,166	\$ 944,444	\$ 1,219,965
Gross profit	\$ 769,427	\$ 932,015	\$ 1,020,993
Adjusted gross profit	\$ 786,593	\$ 965,287	\$ 1,063,655
Gross margin	66.6 %	75.4 %	78.1 %
Adjusted gross margin	68.1 %	78.1 %	81.3 %
Total deferred revenue	\$ 631,207	\$ 910,044	\$ 1,183,441
Net cash provided by (used in) operating activities	\$ 92,540	\$ 42,168	\$ (159,885)
Free cash flow	\$ 30,168	\$ (76,284)	\$ (249,373)
Non-GAAP operating expenses	\$ 883,244	\$ 1,239,567	\$ 1,518,697
Total end customers	10,610	14,180	17,360

## NUTANIX, INC.

**Management's Discussion and Analysis of  
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**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:

	Fiscal Year Ended July 31,		
	2018	2019	2020
(in thousands)			
<b>Disaggregation of revenue:</b>			
Subscription revenue	\$ 330,645	\$ 648,415	\$ 1,030,180
Non-portable software revenue	543,952	449,131	208,158
Hardware revenue	257,314	105,321	23,455
Professional services revenue	23,546	33,276	45,889
Total revenue	<u>\$ 1,155,457</u>	<u>\$ 1,236,143</u>	<u>\$ 1,307,682</u>
<b>Disaggregation of billings:</b>			
Subscription billings	\$ 581,923	\$ 916,000	\$ 1,276,413
Non-portable software billings	543,952	449,131	208,158
Hardware billings	257,314	105,321	23,455
Professional services billings	34,295	44,208	72,066
Total billings	<u>\$ 1,417,484</u>	<u>\$ 1,514,660</u>	<u>\$ 1,580,092</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 \$243.9 million, \$376.4 million and \$508.8 million of our subscription revenue for fiscal 2018, 2019 and 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 \$86.7 million, \$272.0 million and \$521.3 million of our subscription revenue for fiscal 2018, 2019 and 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.

**Management's Discussion and Analysis of  
Financial Condition and Results of Operations (Continued)**

**Non-GAAP Financial Measures and Key Performance Measures**

We regularly monitor total billings, subscription billings, professional services billings, software and support billings (TCV billings), ACV billings, run-rate ACV, 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 is a performance measure which we believe provides useful information to investors, as it represents the dollar value under binding purchase orders received and billed during a given period. Subscription billings and professional services billings are performance measures that we believe provide useful information to our management and investors as they allow us to better track the growth of the subscription-based portion of our business, which is a critical part of our business plan. TCV billings is a performance measure that we believe provides useful information to our management and investors as it allows us to better track the true growth of our software business by excluding the amounts attributable to the pass-through hardware sales that we use to deliver our solutions. ACV billings and run-rate ACV are performance measures that we believe provide useful information to our management and investors, in particular as we progress further on our subscription-based business model transition, as they allow us to better track the top-line growth of our business during our transition to a subscription-based business model because they take into account variability in term lengths. Free cash flow is a performance measure that we believe 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 we believe 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), ACV billings, run-rate ACV, 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. There is no GAAP measure that is comparable to either ACV billings or run-rate ACV, so we have not reconciled either ACV billings or run-rate ACV numbers included in this Annual Report on Form 10-K to any GAAP measure. 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 financial and key performance 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.

NUTANIX, INC.

**Management's Discussion and Analysis of  
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**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.

**ACV billings** — We calculate ACV billings as the sum of the ACV for all contracts billed during the period. ACV is defined as the total annualized value of a contract, excluding amounts related to professional services and hardware. We calculate the total annualized value for a contract by dividing the total value of the contract by the number of years in the term of the contract, using, where applicable, an assumed term of five years for contracts that do not have a specified term. As there is no GAAP measure that is comparable to ACV billings, we have not reconciled ACV billings numbers to any GAAP measure.

**Run-rate ACV** — We calculate run-rate ACV as the sum of ACV for all contracts that are in effect as of the end of the period. For the purposes of this calculation, we assume that the contract term begins on the date a contract is booked, irrespective of the periods in which we would recognize revenue for such contract. As there is no GAAP measure that is comparable to run-rate ACV, we have not reconciled run-rate ACV numbers to any GAAP measure.

**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, the amortization of acquired intangible assets and costs associated with other non-recurring transactions. 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.

## NUTANIX, INC.

**Management's Discussion and Analysis of  
Financial Condition and Results of Operations (Continued)**

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:

	Fiscal Year Ended July 31,		
	2018	2019	2020
	(in thousands, except percentages)		
Total revenue	\$ 1,155,457	\$ 1,236,143	\$ 1,307,682
Change in deferred revenue, net of acquisitions	262,027	278,517	272,410
Total billings (non-GAAP)	<u>\$ 1,417,484</u>	<u>\$ 1,514,660</u>	<u>\$ 1,580,092</u>
Gross profit	\$ 769,427	\$ 932,015	\$ 1,020,993
Stock-based compensation	11,525	18,861	27,348
Amortization of intangible assets	5,641	14,248	14,777
Impairment of lease-related assets	—	—	537
Other	—	163	—
Adjusted gross profit (non-GAAP)	<u>\$ 786,593</u>	<u>\$ 965,287</u>	<u>\$ 1,063,655</u>
Gross margin	66.6 %	75.4 %	78.1 %
Stock-based compensation	1.0 %	1.5 %	2.1 %
Amortization of intangible assets	0.5 %	1.2 %	1.1 %
Adjusted gross margin (non-GAAP)	<u>68.1 %</u>	<u>78.1 %</u>	<u>81.3 %</u>
Operating expenses	\$ 1,049,835	\$ 1,530,056	\$ 1,849,914
Stock-based compensation	(166,343)	(287,868)	(324,650)
Change in fair value of contingent consideration	2,423	832	—
Amortization of intangible assets	(914)	(2,528)	(2,603)
Acquisition-related costs	(1,757)	(721)	—
Impairment of lease-related assets	—	—	(2,465)
Other	—	(204)	(1,499)
Operating expenses (non-GAAP)	<u>\$ 883,244</u>	<u>\$ 1,239,567</u>	<u>\$ 1,518,697</u>
Net cash provided by (used in) operating activities	\$ 92,540	\$ 42,168	\$ (159,885)
Purchases of property and equipment	(62,372)	(118,452)	(89,488)
Free cash flow (non-GAAP)	<u>\$ 30,168</u>	<u>\$ (76,284)</u>	<u>\$ (249,373)</u>

## NUTANIX, INC.

**Management's Discussion and Analysis of  
Financial Condition and Results of Operations (Continued)**

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:

	Fiscal Year Ended July 31,		
	2018	2019	2020
	(in thousands)		
Subscription revenue	\$ 330,645	\$ 648,415	\$ 1,030,180
Change in subscription deferred revenue, net of acquisitions	251,278	267,585	246,233
Subscription billings	<u>\$ 581,923</u>	<u>\$ 916,000</u>	<u>\$ 1,276,413</u>
Professional services revenue	\$ 23,546	\$ 33,276	\$ 45,889
Change in professional services deferred revenue	10,749	10,932	26,177
Professional services billings	<u>\$ 34,295</u>	<u>\$ 44,208</u>	<u>\$ 72,066</u>
Software revenue	\$ 630,675	\$ 727,098	\$ 742,367
Hardware revenue	257,314	105,321	23,455
Product revenue	887,989	832,419	765,822
Support, entitlements and other services revenue	267,468	403,724	541,860
Total revenue	<u>\$ 1,155,457</u>	<u>\$ 1,236,143</u>	<u>\$ 1,307,682</u>
Software and support revenue (TCV revenue) <sup>(1)</sup>	\$ 898,143	\$ 1,130,822	\$ 1,284,227
Change in software and support deferred revenue (TCV deferred revenue), net of acquisitions	262,027	278,517	272,410
Software and support billings (TCV billings) <sup>(1)</sup>	<u>\$ 1,160,170</u>	<u>\$ 1,409,339</u>	<u>\$ 1,556,637</u>

(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.

**Management's Discussion and Analysis of  
Financial Condition and Results of Operations (Continued)**

***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 17% from July 31, 2019 to July 31, 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 July 31, 2020, we considered approximately 69% of our global sales team members to be fully ramped, while the remaining approximately 31% 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.

**Management's Discussion and Analysis of  
Financial Condition and Results of Operations (Continued)*****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. In addition, starting in fiscal 2021, we are beginning to compensate our sales force based on ACV instead of total contract value, and while we expect that the shift to an ACV-based sales compensation plan will incentivize sales representatives to maximize ACV and minimize discounts, it could also further compress the average term of our subscription term-based licenses. 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 3 of Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K and "Critical Accounting Estimates" later in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" section.

***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. This includes 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. We hope to compress and stabilize these sales cycles 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 sales enablement and co-marketing with our partners and OEMs in the long term 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.

**Management's Discussion and Analysis of  
Financial Condition and Results of Operations (Continued)*****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, and given our transition to a subscription-focused business model, software and support renewals will have an increasing significance for our future revenue streams as existing subscriptions come up for renewal. 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 July 31, 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 4.2x greater, or 4.6x greater excluding the value of hardware purchases, on average, than their initial order. This number increases to approximately 12.4x, or 13.9x excluding hardware, on average, for Global 2000 end customers who have been with us for 18 months or longer as of July 31, 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 a number of factors. These factors include 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.

**Management's Discussion and Analysis of  
Financial Condition and Results of Operations (Continued)**

**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 OEM partners, 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.

## NUTANIX, INC.

**Management's Discussion and Analysis of  
Financial Condition and Results of Operations (Continued)**

**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 "2023 Notes"), interest income related to our short-term investments and foreign currency exchange gains or losses. During fiscal 2019 and fiscal 2020, we recognized \$29.3 million and \$31.3 million, respectively, of interest expense related to the amortization of the debt discount and issuance costs associated with the 2023 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 consolidated results of operations in dollars and as a percentage of total revenue for the fiscal years presented. The period-to-period comparison of results is not necessarily indicative of results for future periods.

**NUTANIX, INC.**
**Management's Discussion and Analysis of  
Financial Condition and Results of Operations (Continued)**

	Fiscal Year Ended July 31,		
	2018	2019	2020
	(in thousands)		
<b>Revenue:</b>			
Product	\$ 887,989	\$ 832,419	\$ 765,822
Support, entitlements and other services	267,468	403,724	541,860
Total revenue	1,155,457	1,236,143	1,307,682
<b>Cost of revenue:</b>			
Product <sup>(1)(2)</sup>	276,127	143,078	71,312
Support, entitlements and other services <sup>(1)</sup>	109,903	161,050	215,377
Total cost of revenue	386,030	304,128	286,689
Gross profit	769,427	932,015	1,020,993
<b>Operating expenses:</b>			
Sales and marketing <sup>(1)(2)</sup>	649,657	909,750	1,160,389
Research and development <sup>(1)</sup>	313,777	500,719	553,978
General and administrative <sup>(1)</sup>	86,401	119,587	135,547
Total operating expenses	1,049,835	1,530,056	1,849,914
Loss from operations	(280,408)	(598,041)	(828,921)
Other expense, net	(9,306)	(15,019)	(26,300)
Loss before provision for income taxes	(289,714)	(613,060)	(855,221)
Provision for income taxes	7,447	8,119	17,662
Net loss	\$ (297,161)	\$ (621,179)	\$ (872,883)

(1) Includes stock-based compensation expense as follows:

	Fiscal Year Ended July 31,		
	2018	2019	2020
	(in thousands)		
<b>Cost of revenue:</b>			
Product	\$ 2,580	\$ 3,535	\$ 5,334
Support, entitlements and other services	8,945	15,326	22,014
Total cost of revenue	11,525	18,861	27,348
Sales and marketing	65,060	107,751	126,015
Research and development	74,389	140,519	153,252
General and administrative	26,894	39,598	45,383
Total stock-based compensation expense	\$ 177,868	\$ 306,729	\$ 351,998

(2) Includes amortization of intangible assets as follows:

	Fiscal Year Ended July 31,		
	2018	2019	2020
	(in thousands)		
Product cost of revenue	\$ 5,641	\$ 14,248	\$ 14,777
Sales and marketing	914	2,528	2,603
Total amortization of intangible assets	\$ 6,555	\$ 16,776	\$ 17,380

**NUTANIX, INC.**
**Management's Discussion and Analysis of  
Financial Condition and Results of Operations (Continued)**

	Fiscal Year Ended July 31,		
	2018	2019	2020
(as a percentage of total revenue)			
<b>Revenue:</b>			
Product	76.9 %	67.3 %	58.6 %
Support, entitlements and other services	23.1 %	32.7 %	41.4 %
Total revenue	100.0 %	100.0 %	100.0 %
<b>Cost of revenue:</b>			
Product	23.9 %	11.6 %	5.4 %
Support, entitlements and other services	9.5 %	13.0 %	16.5 %
Total cost of revenue	33.4 %	24.6 %	21.9 %
Gross profit	66.6 %	75.4 %	78.1 %
<b>Operating expenses:</b>			
Sales and marketing	56.2 %	73.6 %	88.7 %
Research and development	27.2 %	40.5 %	42.4 %
General and administrative	7.5 %	9.7 %	10.4 %
Total operating expenses	90.9 %	123.8 %	141.5 %
Loss from operations	(24.3)%	(48.4)%	(63.4) %
Other expense, net	(0.8)%	(1.2)%	(2.0) %
Loss before provision for income taxes	(25.1)%	(49.6)%	(65.4) %
Provision for income taxes	0.6 %	0.7 %	1.4 %
Net loss	(25.7)%	(50.3)%	(66.8) %

**Revenue**

	Fiscal Year Ended July 31,		Change		Fiscal Year Ended July 31,		Change	
	2018	2019	\$	%	2019	2020	\$	%
(in thousands, except percentages)								
Product	\$ 887,989	\$ 832,419	\$ (55,570)	(6)%	\$ 832,419	\$ 765,822	\$ (66,597)	(8) %
Support, entitlements and other services	267,468	403,724	136,256	51 %	403,724	541,860	138,136	34 %
Total revenue	\$ 1,155,457	\$ 1,236,143	\$ 80,686	7 %	\$ 1,236,143	\$ 1,307,682	\$ 71,539	6 %

Total revenue by bill-to-location was as follows:

	Fiscal Year Ended July 31,		Change		Fiscal Year Ended July 31,		Change	
	2018	2019	\$	%	2019	2020	\$	%
(in thousands, except percentages)								
U.S.	\$ 648,805	\$ 682,340	\$ 33,535	5 %	\$ 682,340	\$ 706,110	\$ 23,770	3 %
Asia Pacific	240,247	271,712	31,465	13 %	271,712	265,092	(6,620)	(2) %
Europe, the Middle East and Africa	224,392	238,356	13,964	6 %	238,356	277,489	39,133	16 %
Other Americas	42,013	43,735	1,722	4 %	43,735	58,991	15,256	35 %
Total revenue	\$ 1,155,457	\$ 1,236,143	\$ 80,686	7 %	\$ 1,236,143	\$ 1,307,682	\$ 71,539	6 %

**NUTANIX, INC.**
**Management's Discussion and Analysis of  
Financial Condition and Results of Operations (Continued)**

Product revenue decreased year-over-year for fiscal 2019 and fiscal 2020 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 had 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. The total average contract term was approximately 4.3 years, 4.1 years and 3.8 years for fiscal 2018, 2019 and 2020, respectively. Total average contract term represents the dollar-weighted term across all subscription and life-of-device contracts billed during the period, using an assumed term of five years for licenses without a specified term, such as life-of-device licenses.

Support, entitlements and other services revenue increased year-over-year for both fiscal 2019 and fiscal 2020 in conjunction with the growth of our end customer base and the related software entitlement and support subscription contracts. Our total end customer count increased from approximately 10,610 as of July 31, 2018 to approximately 14,180 as of July 31, 2019 and to approximately 17,360 as of July 31, 2020.

**Cost of Revenue and Gross Margin**

	Fiscal Year Ended July 31,		Change		Fiscal Year Ended July 31,		Change	
	2018	2019	\$	%	2019	2020	\$	%
(in thousands, except percentages)								
Cost of product revenue	\$ 276,127	\$ 143,078	\$ (133,049)	(48)%	\$ 143,078	\$ 71,312	\$ (71,766)	(50)%
<i>Product gross margin</i>	68.9 %	82.8 %			82.8 %	90.7 %		
Cost of support, entitlements and other services revenue	\$ 109,903	\$ 161,050	\$ 51,147	47 %	\$ 161,050	\$ 215,377	\$ 54,327	34 %
<i>Support, entitlements and other services gross margin</i>	58.9 %	60.1 %			60.1 %	60.3 %		
<b>Total gross margin</b>	66.6 %	75.4 %			75.4 %	78.1 %		

**Cost of product revenue**

The year-over-year fluctuations in cost of product revenue are in line with the corresponding fluctuations in hardware revenue. For fiscal 2019 and fiscal 2020, as compared to the respective prior year periods, the decreases in cost of product revenue were 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 13.9 percentage points, from 68.9% in fiscal 2018 to 82.8% in fiscal 2019, and by 7.9 percentage points, to 90.7% in fiscal 2020, due primarily to the higher mix of software revenue, as we continued to focus on more software-only transactions.

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

Cost of support, entitlements and other services revenue increased year-over-year for both fiscal 2019 and fiscal 2020 due primarily to higher personnel-related costs, relating to growth in our global customer support organization, and other costs associated with supporting our growing end customer base. The increases in personnel-related costs were driven primarily by increases in our customer support, entitlements and other services headcount of 40% from July 31, 2018 to July 31, 2019 and 19% from July 31, 2019 to July 31, 2020.

Support, entitlements and other services gross margin increased by 1.2 percentage points, from 58.9% in fiscal 2018 to 60.1% in fiscal 2019, and by 0.2 percentage points to 60.3% in fiscal 2020, due primarily to personnel-related costs growing at a slower rate than support, entitlements and other services revenue.

**NUTANIX, INC.**
**Management's Discussion and Analysis of  
Financial Condition and Results of Operations (Continued)**
**Operating Expenses**
**Sales and marketing**

	Fiscal Year Ended July 31,		Change		Fiscal Year Ended July 31,		Change	
	2018	2019	\$	%	2019	2020	\$	%
(in thousands, except percentages)								
Sales and marketing	\$ 649,657	\$ 909,750	\$ 260,093	40 %	\$ 909,750	\$ 1,160,389	\$ 250,639	28 %
Percent of total revenue	56.2 %	73.6 %			73.6 %	88.7 %		

Sales and marketing expense increased year-over-year both for fiscal 2019 and fiscal 2020 due primarily to higher personnel-related costs and sales commissions, as our sales and marketing headcount increased year-over-year by 36% in fiscal 2019 and 17% in fiscal 2020, as well as increased sales and marketing activities related to demand generation, brand awareness, promotions, trade shows and partner programs as part of our efforts to penetrate and expand in global markets.

**Research and development**

	Fiscal Year Ended July 31,		Change		Fiscal Year Ended July 31,		Change	
	2018	2019	\$	%	2019	2020	\$	%
(in thousands, except percentages)								
Research and development	\$ 313,777	\$ 500,719	\$ 186,942	60 %	\$ 500,719	\$ 553,978	\$ 53,259	11 %
Percent of total revenue	27.2 %	40.5 %			40.5 %	42.4 %		

Research and development expense increased year-over-year both for fiscal 2019 and fiscal 2020 due primarily to higher personnel-related costs, including stock-based compensation expense, as our R&D headcount increased year-over-year by 27% in fiscal 2019 and 13% in fiscal 2020 in an effort to continue the expansion of our product development activities, including new products. For fiscal 2019, this increase includes additional headcount and stock-based compensation expense related to employees who joined the Company through acquisitions.

**General and administrative**

	Fiscal Year Ended July 31,		Change		Fiscal Year Ended July 31,		Change	
	2018	2019	\$	%	2019	2020	\$	%
(in thousands, except percentages)								
General and administrative	\$ 86,401	\$ 119,587	\$ 33,186	38 %	\$ 119,587	\$ 135,547	\$ 15,960	13 %
Percent of total revenue	7.5 %	9.7 %			9.7 %	10.4 %		

General and administrative expense increased year-over-year both for fiscal 2019 and fiscal 2020 due primarily to higher personnel-related costs, including stock-based compensation expense, as our G&A headcount increased year-over-year by 30% in fiscal 2019 and 10% in fiscal 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**

	Fiscal Year Ended July 31,		Change		Fiscal Year Ended July 31,		Change	
	2018	2019	\$	%	2019	2020	\$	%
(in thousands, except percentages)								
Other expense, net	\$ (9,306)	\$ (15,019)	\$ 5,713	61 %	\$ (15,019)	\$ (26,300)	\$ 11,281	75 %

The increase in other expense, net for fiscal 2019 was due primarily to interest expense associated with the amortization of the debt discount and issuance costs for the 2023 Notes, as the 2023 Notes were issued during the second quarter of fiscal 2018, partially offset by interest earned on short-term investments.

## NUTANIX, INC.

**Management's Discussion and Analysis of  
Financial Condition and Results of Operations (Continued)**

The increase in other expense, net for fiscal 2020 was due primarily to higher foreign currency losses, primarily related to operating expenses denominated in foreign currencies and our increasing foreign business. The increase in other expense, net was also impacted by lower interest income due primarily to sales of investments during fiscal 2020.

**Provision for Income Taxes**

	Fiscal Year Ended July 31,		Change		Fiscal Year Ended July 31,		Change	
	2018	2019	\$	%	2019	2020	\$	%
(in thousands, except percentages)								
Provision for income taxes	\$ 7,447	\$ 8,119	\$ 672	9 %	\$ 8,119	\$ 17,662	\$ 9,543	118 %

The year-over-year increase in the provision for income taxes in fiscal 2019 and fiscal 2020 was due primarily to higher foreign taxes as a result of higher taxable earnings in foreign jurisdictions, as we continued our global expansion. The provision for income taxes in fiscal 2019 was partially offset by a one-time U.S. valuation allowance release related to a business combination and a one-time tax benefit related to the change in tax law. We continue to maintain a full valuation allowance on our U.S. federal and state deferred tax assets and a partial valuation allowance related to our foreign net deferred tax assets.

**Liquidity and Capital Resources**

As of July 31, 2020, we had \$318.7 million of cash and cash equivalents, \$3.3 million of restricted cash and \$401.0 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.

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 2023 Notes. For additional information, see Note 6 of Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K.

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.

On August 26, 2020, we entered into an investment agreement (the "Investment Agreement") with BCPE Nucleon (DE) SPV, LP ("Bain") relating to the issuance and sale to Bain of \$750 million in an initial aggregate principal amount of 2.5% Convertible Senior Notes due 2026. The transactions contemplated by the Investment Agreement are expected to close on or prior to September 24, 2020, subject to satisfaction of the customary closing conditions set forth in the Investment Agreement. For additional details, refer to Note 15 of Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K.

## NUTANIX, INC.

**Management's Discussion and Analysis of  
Financial Condition and Results of Operations (Continued)**

**Cash Flows**

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

	Fiscal Year Ended July 31,		
	2018	2019	2020
	(in thousands)		
Net cash provided by (used in) operating activities	\$ 92,540	\$ 42,168	\$ (159,885)
Net cash (used in) provided by investing activities	(503,555)	(16,850)	24,559
Net cash provided by financing activities	578,616	67,104	57,797
Net increase (decrease) in cash, cash equivalents and restricted cash	<u>\$ 167,601</u>	<u>\$ 92,422</u>	<u>\$ (77,529)</u>

We retrospectively adopted Accounting Standards Update ("ASU") 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents, effective August 1, 2018. Our statement of cash flows for the fiscal year ended July 31, 2018 has been adjusted to conform to the new standard.

**Cash Flows from Operating Activities**

Net cash generated from operating activities was \$92.5 million and \$42.2 million and net cash used in operating activities was \$159.9 million for fiscal 2018, 2019 and 2020, respectively, representing an increase of \$77.8 million and decreases of \$50.4 million and \$202.1 million, respectively, as compared to the respective prior year periods. The generation of cash during fiscal 2018 and 2019 was due primarily to increasing billings and collections, partially offset by higher operating expenses as we continue to invest in the long-term growth of our business. The use of cash during fiscal 2020 was due primarily to our higher net loss from operations.

**Cash Flows from Investing Activities**

Net cash used in investing activities of \$503.6 million for fiscal 2018 primarily consisted of \$716.4 million of short-term investment purchases, using a significant portion of the proceeds from the 2023 Notes, \$62.4 million of purchases of property and equipment and \$22.2 million of net payments for business combinations, partially offset by \$297.5 million of maturities of short-term investments.

Net cash used in investing activities of \$16.9 million for fiscal 2019 primarily consisted of \$468.1 million of short-term investment purchases, \$118.5 million of purchases of property and equipment and \$19.0 million of net payments for business combinations, partially offset by \$588.8 million of maturities of short-term investments.

Net cash provided by investing activities of \$24.6 million for fiscal 2020 primarily consisted of \$645.8 million of maturities of short-term investments and \$75.4 million of sales of short-term investments, partially offset by \$607.2 million of short-term investment purchases and \$89.5 million of purchases of property and equipment.

**Cash Flows from Financing Activities**

Net cash provided by financing activities of \$578.6 million for fiscal 2018 primarily consisted of \$563.6 million of net proceeds from the 2023 Notes, after deducting the initial purchasers' discount and debt issuance costs, \$88.0 million of proceeds from the sale of the warrants in connection with the 2023 Notes and \$72.0 million of net proceeds from the sale of shares through employee equity incentive plans, partially offset by \$143.2 million of cash used to purchase bond hedges in connection with the 2023 Notes and a \$1.7 million debt payment in conjunction with a business combination.

Net cash provided by financing activities of \$67.1 million for fiscal 2019 primarily consisted of \$69.2 million of net proceeds from the sale of shares through employee equity incentive plans, partially offset by a \$1.0 million acquisition-related contingent consideration payment and a \$1.0 million debt payment in conjunction with a business combination.

**NUTANIX, INC.****Management's Discussion and Analysis of  
Financial Condition and Results of Operations (Continued)**

Net cash provided by financing activities of \$57.8 million for fiscal 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 July 31, 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>	182,585	46,007	94,272	38,113	4,193
Other commitments <sup>(3)</sup>	62,453	59,722	2,131	600	—
Guarantees with OEMs	81,215	51,215	30,000	—	—
<b>Total</b>	<b>\$ 901,253</b>	<b>\$ 156,944</b>	<b>\$ 701,403</b>	<b>\$ 38,713</b>	<b>\$ 4,193</b>

(1) For additional information regarding our convertible senior notes, refer to Note 6 of Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K.

(2) For additional information regarding our operating leases, refer to Note 7 of Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K.

(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 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 July 31, 2020, we had accrued liabilities related to uncertain tax positions, which are reflected on our 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. Uncertain tax positions are further discussed in Note 12 of Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K.

**Off-Balance Sheet Arrangements**

As of July 31, 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 consolidated financial statements are prepared in accordance with U.S. GAAP. The preparation of these 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 consolidated financial statements, which, in turn, could change the results from those reported.

The critical accounting estimates, assumptions and judgments that we believe have the most significant impact on our consolidated financial statements are described below.

**Management's Discussion and Analysis of  
Financial Condition and Results of Operations (Continued)**

**Revenue Recognition**

Some of our contracts with customers contain multiple performance obligations. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment. 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.

If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on a relative SSP. We determine SSP based on the price at which the performance obligation is sold separately. If the SSP is not observable through past transactions, we estimate the SSP, taking into account available information such as market conditions and internally approved pricing guidelines related to the performance obligations. Refer to Note 1 and Note 3 of Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K for additional information on revenue recognition.

**Income Taxes**

The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns. We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. We recognize uncertain tax positions only if it is more likely than not to be sustained based solely on its technical merits as of the reporting date. We consider many factors when evaluating and estimating our tax positions and tax benefits, which may require periodic adjustments and which may not accurately anticipate actual outcomes. Judgment is required in assessing the future tax consequences of events that have been recognized in our consolidated financial statements or tax returns. Variations in the actual outcome of these future tax consequences could materially impact our consolidated financial statements.

**Stock-Based Compensation**

We measure and recognize compensation expense for all stock-based awards, including stock options and purchase rights issued to employees under our 2016 Employee Stock Purchase Plan ("2016 ESPP"), based on the estimated fair value of the awards on the grant date. We use the Black-Scholes-Merton ("Black-Scholes") option pricing model to estimate the fair value of stock options and 2016 ESPP purchase rights. The fair value of restricted stock units ("RSUs"), is measured using the fair value of our common stock on the date of the grant. The fair value of stock options and RSUs is recognized as expense on a straight-line basis over the requisite service period, which is generally four years. For stock-based awards granted to employees with a performance condition, we recognize stock-based compensation expense using the accelerated attribution method over the requisite service period when management determines it is probable that the performance condition will be satisfied. The fair value of the 2016 ESPP purchase rights is recognized as expense on a straight-line basis over the offering period. We account for forfeitures of all share-based awards when they occur.

Our use of the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the fair value of the underlying common stock, expected term of the option, expected volatility of the price of our common stock, risk-free interest rates and the expected dividend yield of our common stock. The assumptions used in our option pricing model represent management's best estimates. These estimates involve inherent uncertainties and the application of management's judgment. If factors change and different assumptions are used, our stock-based compensation expense could be materially different in the future.

**NUTANIX, INC.**

**Management's Discussion and Analysis of  
Financial Condition and Results of Operations (Continued)**

***Business Combinations***

We account for our acquisitions using the acquisition method. Goodwill is measured at the acquisition date as the excess of the purchase price over the fair value of the assets acquired and liabilities assumed. Significant estimates and assumptions are made by management to value such assets and liabilities. Although we believe that those estimates and assumptions are reasonable and appropriate, they are inherently uncertain and subject to refinement. Additional information related to the acquisition date fair value of acquired assets and assumed liabilities obtained during the measurement period, not to exceed one year, may result in changes to the recorded values of such assets and liabilities, resulting in an offsetting adjustment to the goodwill associated with the business acquired.

Uncertain tax positions and tax-related valuation allowances are initially established in connection with a business combination as of the acquisition date. We continue to collect information and reevaluate these estimates and assumptions quarterly. We will record any adjustments to our preliminary estimates to goodwill, provided that we are within the one-year measurement period.

Any contingent consideration payable is recognized at fair value at the acquisition date. Liability-classified contingent consideration is remeasured each reporting period, with changes in fair value recognized in earnings until the contingent consideration is settled.

***Goodwill, Intangible Assets and Impairment Assessment***

Goodwill represents the excess of the purchase price over the fair value of the assets acquired and liabilities assumed, if any, in a business combination, and is allocated to our single reporting unit. We review our goodwill and other intangible assets determined to have an indefinite useful life for impairment at least annually, during the fourth quarter, or more frequently whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Goodwill is tested for impairment by comparing the reporting unit's carrying value, including goodwill, to the fair value of the reporting unit. We operate under one reporting unit and for our annual goodwill impairment test, we determine the fair value of our reporting unit based on our enterprise value. We may elect to utilize a qualitative assessment to determine whether it is more likely than not that the fair value of our reporting unit is less than its carrying value. If, after assessing the qualitative factors, we determine that it is more likely than not that the fair value of our reporting unit is less than its carrying value, an impairment analysis will be performed. We will compare the fair value of our reporting unit with its carrying amount and if the carrying value of the reporting unit exceeds its fair value, an impairment loss will be recognized.

Assessing whether impairment indicators exist or if events or changes in circumstances have occurred, including market conditions, operating fundamentals, competition and general economic conditions, requires significant judgment. Additionally, changes in the technology industry occur frequently and quickly. Therefore, there can be no assurance that a charge to operating expenses will not occur as a result of future goodwill, intangible assets and other long-lived assets impairment tests. To date, we have not recorded any impairment charges related to our goodwill and intangible assets.

***Legal and Other Contingencies***

The outcomes of legal proceedings and claims brought against us are subject to significant uncertainty. An estimated loss from a loss contingency such as a legal proceeding or claim is accrued by a charge to income if it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. In determining whether a loss should be accrued, we evaluate, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. Changes in these factors could materially impact our consolidated financial statements.

***Recent Accounting Pronouncements***

Refer to "Recent Accounting Pronouncements" in Note 1 of Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K.

## **Item 7A. 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 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 consolidated financial statements. Foreign currency transaction gains and losses and exchange rate fluctuations have not been material to our 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 \$31.2 million, \$38.4 million and \$46.1 million for fiscal 2018, 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 8. Financial Statements and Supplementary Data**

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of Nutanix, Inc.

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Nutanix, Inc. and subsidiaries (the "Company") as of July 31, 2020 and 2019, the related consolidated statements of operations, comprehensive loss, shareholders' equity (deficit), and cash flows, for each of the three years in the period ended July 31, 2020, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of July 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended July 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of July 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated September 23, 2020 expressed an unqualified opinion on the Company's internal control over financial reporting.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

### Revenue Recognition — Refer to Notes 1 and 3 to the financial statements

#### Critical Audit Matter Description

The Company recognizes revenue upon transfer of control of promised products or services to customers in an amount that reflects the consideration the Company expects to receive in exchange for those products or services. The Company offers customers an enterprise cloud platform, which can be pre-installed on hardware or delivered separately, as well as related support subscriptions and professional services. Product revenue was \$765.8 million and support, entitlements, and other services was \$541.9 million for the year ended July 31, 2020.

Significant judgment is exercised by the Company in determining revenue recognition for the Company's customer contracts, and includes the following:

- Determination of whether promised goods or services, such as hardware and software licenses, are capable of being distinct and are distinct in the context of the Company's customer contracts which leads to whether they should be accounted for as individual or combined performance obligations.

- Determination of standalone selling prices for each distinct performance obligation and for products and services that are not sold separately.
- Determination of the timing of when revenue is recognized for each distinct performance obligation either over time or at a point in time.

We identified revenue recognition as a critical audit matter because of these significant judgments required by management. This required a high degree of auditor judgment and an increased extent of effort when performing audit procedures to evaluate whether revenue was recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services.

*How the Critical Audit Matter Was Addressed in the Audit*

Our audit procedures related to the Company's revenue recognition for the Company's customer contracts included the following, among others:

- We tested the effectiveness of controls related to the identification of distinct performance obligations, determination of the standalone selling prices, and the determination of the timing of revenue recognition.
- We evaluated management's significant accounting policies related to revenue recognition for reasonableness.
- We selected a sample of recorded revenue transactions and performed the following procedures:
  - Obtaining and reading customer source documents and the contract for each selection, including master agreements and related amendments to evaluate if relevant contractual terms have been appropriately considered by management.
  - Evaluating management's application of their accounting policy and tested revenue recognition for specific performance obligations by comparing management's conclusions to the underlying master agreement and any related amendments.
  - Testing the mathematical accuracy of management's calculations of revenue and the associated timing of revenue recognized in the financial statements.
- For a selection of arrangements with original equipment manufacturers ("OEMs"), we confirmed accounts receivable and total billings as of and for the year ended July 31, 2020, respectively, directly with the OEM. In addition, we confirmed a sample of individual revenue orders for the year ended July 31, 2020, to evaluate the accuracy of management's records.
- We evaluated the reasonableness of management's estimate of standalone selling prices for products and services that are not sold separately by performing the following:
  - Assessing the appropriateness of the Company's methodology and mathematical accuracy of the determined standalone selling prices.
  - Testing the completeness and accuracy of the source data utilized in management's calculations.

*/s/ DELOITTE & TOUCHE LLP*

San Jose, California  
September 23, 2020

We have served as the Company's auditor since 2013.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of Nutanix, Inc.

### Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Nutanix, Inc. and subsidiaries (the "Company") as of July 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of July 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended July 31, 2020, of the Company and our report dated September 23, 2020, expressed an unqualified opinion on those financial statements.

### Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ DELOITTE & TOUCHE LLP

San Jose, California  
September 23, 2020

**NUTANIX, INC.**  
**CONSOLIDATED BALANCE SHEETS**

	As of July 31,	
	2019	2020
(in thousands, except per share data)		
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 396,678	\$ 318,737
Short-term investments	512,156	401,041
Accounts receivable, net of allowance of \$379 and \$804 as of July 31, 2019 and 2020	245,475	242,516
Deferred commissions—current	46,238	68,694
Prepaid expenses and other current assets	74,665	63,032
Total current assets	1,275,212	1,094,020
Property and equipment, net	136,962	143,172
Operating lease right-of-use assets <sup>(1)</sup>	—	127,326
Deferred commissions—non-current	107,474	146,834
Intangible assets, net	66,773	49,392
Goodwill	185,180	185,260
Other assets—non-current	14,441	22,543
<b>Total assets</b>	<b>\$ 1,786,042</b>	<b>\$ 1,768,547</b>
<b>Liabilities and Stockholders' Equity (Deficit)</b>		
Current liabilities:		
Accounts payable	\$ 74,047	\$ 54,029
Accrued compensation and benefits	99,804	109,109
Accrued expenses and other current liabilities <sup>(1)</sup>	28,797	25,924
Deferred revenue—current	396,667	534,572
Operating lease liabilities—current <sup>(1)</sup>	—	36,569
Total current liabilities	599,315	760,203
Deferred revenue—non-current	513,377	648,869
Operating lease liabilities—non-current <sup>(1)</sup>	—	116,794
Convertible senior notes, net	458,910	490,222
Other liabilities—non-current <sup>(1)</sup>	27,547	27,436
Total liabilities	1,599,149	2,043,524
Commitments and contingencies (Note 8)		

**NUTANIX, INC.**  
**CONSOLIDATED BALANCE SHEETS**

## Stockholders' equity (deficit):

Preferred stock, par value of \$0.000025 per share— 200,000 shares authorized as of July 31, 2019 and 2020; no shares issued and outstanding as of July 31, 2019 and 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 2020; 188,595 (168,155 Class A, 20,440 Class B) and 201,949 (186,846 Class A, 15,103 Class B) shares issued and outstanding as of July 31, 2019 and 2020	5	5
Additional paid-in capital	1,835,528	2,245,180
Accumulated other comprehensive income	669	2,030
Accumulated deficit	(1,649,309)	(2,522,192)
Total stockholders' equity (deficit)	186,893	(274,977)
Total liabilities and stockholders' equity (deficit)	<u>\$ 1,786,042</u>	<u>\$ 1,768,547</u>

- 
- (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 the consolidated financial statements.

**NUTANIX, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	Fiscal Year Ended July 31,		
	2018	2019	2020
	(in thousands, except per share data)		
Revenue:			
Product	\$ 887,989	\$ 832,419	\$ 765,822
Support, entitlements and other services	267,468	403,724	541,860
Total revenue	<u>1,155,457</u>	<u>1,236,143</u>	<u>1,307,682</u>
Cost of revenue:			
Product	276,127	143,078	71,312
Support, entitlements and other services	109,903	161,050	215,377
Total cost of revenue	<u>386,030</u>	<u>304,128</u>	<u>286,689</u>
Gross profit	<u>769,427</u>	<u>932,015</u>	<u>1,020,993</u>
Operating expenses:			
Sales and marketing	649,657	909,750	1,160,389
Research and development	313,777	500,719	553,978
General and administrative	86,401	119,587	135,547
Total operating expenses	<u>1,049,835</u>	<u>1,530,056</u>	<u>1,849,914</u>
Loss from operations	<u>(280,408)</u>	<u>(598,041)</u>	<u>(828,921)</u>
Other expense, net	(9,306)	(15,019)	(26,300)
Loss before provision for income taxes	<u>(289,714)</u>	<u>(613,060)</u>	<u>(855,221)</u>
Provision for income taxes	7,447	8,119	17,662
Net loss	<u>\$ (297,161)</u>	<u>\$ (621,179)</u>	<u>\$ (872,883)</u>
Net loss per share attributable to Class A and Class B common stockholders—basic and diluted	<u>\$ (1.81)</u>	<u>\$ (3.43)</u>	<u>\$ (4.48)</u>
Weighted average shares used in computing net loss per share attributable to Class A and Class B common stockholders—basic and diluted	<u>164,091</u>	<u>181,031</u>	<u>194,719</u>

See the accompanying notes to the consolidated financial statements.

**NUTANIX, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

	Fiscal Year Ended July 31,		
	2018	2019	2020
	(in thousands)		
Net loss	\$ (297,161)	\$ (621,179)	\$ (872,883)
Other comprehensive (loss) income, net of tax:			
Change in unrealized (loss) gain on available-for-sale securities, net of tax	(896)	1,671	1,361
Comprehensive loss	<u>\$ (298,057)</u>	<u>\$ (619,508)</u>	<u>\$ (871,522)</u>

See the accompanying notes to the consolidated financial statements.

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

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount				
	(in thousands)					
Balance - July 31, 2017	154,637	\$ 4	\$ 948,134	\$ (106)	\$ (730,969)	\$ 217,063
Issuance of common stock through employee equity incentive plans, net of repurchases	14,493	—	33,037	—	—	33,037
Issuance of common stock from ESPP purchase	2,418	—	39,009	—	—	39,009
Issuance of common stock in connection with business combinations	1,310	—	63,780	—	—	63,780
Vesting of early exercised stock options	—	—	681	—	—	681
Stock-based compensation	—	—	177,868	—	—	177,868
Equity component of convertible senior notes, net	—	—	148,598	—	—	148,598
Purchase of bond hedges related to the convertible senior notes	—	—	(143,175)	—	—	(143,175)
Sale of warrants related to the convertible senior notes	—	—	87,975	—	—	87,975
Other comprehensive loss	—	—	—	(896)	—	(896)
Net loss	—	—	—	—	(297,161)	(297,161)
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	11,272	—	12,187	—	—	12,187
Issuance of common stock from ESPP purchase	2,008	1	57,217	—	—	57,218
Issuance of common stock in connection with a business combination	2,457	—	103,305	—	—	103,305
Stock-based compensation	—	—	306,729	—	—	306,729
Vesting of early exercised stock options	—	—	183	—	—	183
Other comprehensive income	—	—	—	1,671	—	1,671
Net loss	—	—	—	—	(621,179)	(621,179)
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	10,034	—	7,024	—	—	7,024
Issuance of common stock from ESPP purchase	3,320	—	50,630	—	—	50,630
Stock-based compensation	—	—	351,998	—	—	351,998
Other comprehensive income	—	—	—	1,361	—	1,361
Net loss	—	—	—	—	(872,883)	(872,883)
Balance - July 31, 2020	201,949	\$ 5	\$ 2,245,180	\$ 2,030	\$ (2,522,192)	\$ (274,977)

See the accompanying notes to the consolidated financial statements.

**NUTANIX, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Fiscal Year Ended July 31,		
	2018	2019	2020
	(in thousands)		
<b>Cash flows from operating activities:</b>			
Net loss	\$ (297,161)	\$ (621,179)	\$ (872,883)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	50,302	77,612	93,773
Stock-based compensation	177,868	306,729	351,998
Amortization of debt discount and issuance cost	14,685	29,313	31,313
Change in fair value of contingent consideration	(2,423)	(832)	—
Operating lease cost, net of accretion	—	—	30,374
Impairment of lease-related assets	—	—	3,002
Other	(962)	(2,786)	324
Changes in operating assets and liabilities:			
Accounts receivable, net	(79,273)	15,704	4,334
Deferred commissions	(40,852)	(39,333)	(61,816)
Prepaid expenses and other assets <sup>(1)</sup>	(37,374)	(12,037)	10,089
Accounts payable	(16,469)	13,508	(16,574)
Accrued compensation and benefits	27,877	14,406	18,765
Accrued expenses and other liabilities	34,295	(17,454)	3,400
Operating leases, net	—	—	(28,394)
Deferred revenue	262,027	278,517	272,410
Net cash provided by (used in) operating activities <sup>(1)</sup>	<u>92,540</u>	<u>42,168</u>	<u>(159,885)</u>
<b>Cash flows from investing activities:</b>			
Purchases of investments	(716,417)	(468,144)	(607,194)
Maturities of investments	297,461	588,763	645,828
Sales of investments	—	—	75,413
Purchases of property and equipment	(62,372)	(118,452)	(89,488)
Payments for business combinations, net of cash and restricted cash acquired	(22,227)	(19,017)	—
Net cash (used in) provided by investing activities	<u>(503,555)</u>	<u>(16,850)</u>	<u>24,559</u>
<b>Cash flows from financing activities:</b>			
Proceeds from sales of shares through employee equity incentive plans, net of repurchases	72,010	69,210	57,797
Payment of contingent consideration associated with a business combination	—	(1,040)	—
Payment of debt in conjunction with business combinations	(1,696)	(991)	—
Proceeds from issuance of convertible senior notes, net	563,587	(75)	—
Payments for convertible note hedges	(143,175)	—	—
Proceeds from issuance of warrants	87,975	—	—
Payments of offering costs	(85)	—	—
Net cash provided by financing activities	<u>578,616</u>	<u>67,104</u>	<u>57,797</u>
Net increase (decrease) in cash, cash equivalents and restricted cash <sup>(1)</sup>	<u>\$ 167,601</u>	<u>\$ 92,422</u>	<u>\$ (77,529)</u>

**NUTANIX, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Fiscal Year Ended July 31,		
	2018	2019	2020
	(in thousands)		
Cash, cash equivalents and restricted cash—beginning of period <sup>(1)</sup>	139,497	307,098	399,520
Cash, cash equivalents and restricted cash—end of period <sup>(1)</sup>	\$ 307,098	\$ 399,520	\$ 321,991
Restricted cash <sup>(1)(2)</sup>	1,123	2,842	3,254
Cash and cash equivalents—end of period	\$ 305,975	\$ 396,678	\$ 318,737
<b>Supplemental disclosures of cash flow information:</b>			
Cash paid for income taxes	\$ 10,116	\$ 28,999	\$ 16,625
<b>Supplemental disclosures of non-cash investing and financing information:</b>			
Issuance of common stock for business combinations	\$ 63,780	\$ 103,305	\$ —
Purchases of property and equipment included in accounts payable and accrued liabilities	\$ 13,444	\$ 8,074	\$ 4,630
Vesting of early exercised stock options	\$ 681	\$ 183	\$ —

(1) During the first quarter of fiscal 2019, we adopted Accounting Standards Update ("ASU") No. 2016-18, which requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents and restricted cash. We adopted the standard retrospectively for the prior period presented. Our adoption of ASU 2016-18 did not have any significant impact on our consolidated statements of cash flows.

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

See the accompanying notes to the consolidated financial statements.

**NUTANIX, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 1. OVERVIEW AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****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, which we call the Nutanix Cloud Platform, that consists of software solutions and cloud services that power our customers' hybrid cloud and multicloud strategies. 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 allows enterprises to simplify the complexities of a multicloud 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**

The accompanying 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"). All intercompany accounts and transactions have been eliminated in consolidation. Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. These reclassifications had no impact on the previously reported net loss or accumulated deficit.

**Use of Estimates**

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the 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 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 COVID-19 pandemic, 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 OEMs and impairment of long-lived assets, right-of-use assets, and deferred commissions.

**Concentration Risk**

*Credit Risk*—Financial instruments that potentially subject us to concentrations of credit risk consist of cash and cash equivalents and accounts receivable. We invest only in high-quality credit instruments and maintain our cash and cash equivalents and available-for-sale investments in fixed income securities. Management believes that the financial institutions that hold our investments are financially sound and, accordingly, are subject to minimal credit risk. Our deposits are with multiple institutions, however such deposits may exceed federally insured limits. We provide credit, in the normal course of business, to a number of companies and perform credit evaluations of our customers.

*Concentration of Revenue and Accounts Receivable* — We sell our products primarily through our Partners and occasionally directly to end customers. For the fiscal years ended July 31, 2018, 2019 and 2020, no end customer accounted for more than 10% of total revenue or accounts receivable.

## NUTANIX, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 July 31,	
	Fiscal Year Ended July 31,			2019	2020
	2018	2019	2020		
Partner A	18 %	24 %	29 %	27 %	33 %
Partner B	13 %	13 %	14 %	18 %	16 %
Partner C	10 %	10 %	(1)	(1)	(1)
Partner D	20 %	10 %	(1)	(1)	(1)

(1) Less than 10%

### Summary of Significant Accounting Policies

#### Cash, Cash Equivalents and Short-Term Investments

We classify all highly liquid investments with original maturities of three months or less from the date of purchase as cash equivalents and all highly liquid investments with stated maturities of greater than three months as marketable securities.

We determine the appropriate classification of our marketable securities at the time of purchase and reevaluate such designation as of each balance sheet date. We classify and account for our marketable securities as available-for-sale securities. We classify our marketable securities with stated maturities greater than twelve months as short-term investments due to our intent and ability to use these securities to support our current operations.

Our marketable securities are recorded at their estimated fair value. Unrealized gains or losses on available-for-sale securities are reported in other comprehensive income (loss). We periodically review whether our securities may be other-than-temporarily impaired, including whether or not (i) we have the intent to sell the security or (ii) it is more likely than not that we will be required to sell the security before its anticipated recovery. If one of these factors is met, we will record an impairment loss associated with our impaired investment. The impairment loss will be recorded as a write-down of investments in the consolidated balance sheets and a realized loss within other expense in the consolidated statements of operations.

#### Fair Value Measurement

We define fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities, which are required to be recorded at fair value, we consider the principal or most advantageous market in which to transact and the market-based risk. We apply fair value accounting for all assets and liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. The carrying amounts reported in the consolidated financial statements for cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair values due to their short-term nature. The fair value of the 0% Convertible Senior Notes, due in January 2023 (the "2023 Notes") is determined based on the closing trading price per \$100 of the 2023 Notes as of the last day of trading for the period.

#### Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded at the invoiced amount, net of an allowance for doubtful accounts. Credit is extended to customers based on an evaluation of their financial condition and other factors. We generally do not require collateral or other security to support accounts receivable. We perform ongoing credit evaluations of our customers and maintain an allowance for doubtful accounts.

## NUTANIX, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The allowance for doubtful accounts is based on the best estimate of the amount of probable credit losses in existing accounts receivable. We evaluate the collectability of our accounts receivable based on known collection risks and historical experience. In circumstances where we are aware of a specific customer's inability to meet its financial obligations (e.g., bankruptcy filings or substantial downgrading of credit ratings), we record an allowance for doubtful accounts in order to reduce the net recognized receivable to the amount we reasonably believe will be collected. For all other customers, we record an allowance for doubtful accounts based on the length of time the receivable is past due and our historical experience of collections and write-offs.

The changes in the allowance for doubtful accounts are as follows:

	Fiscal Year Ended July 31,		
	2018	2019	2020
	(in thousands)		
Allowance for doubtful accounts—beginning balance	\$ 132	\$ 815	\$ 379
Charged to allowance for doubtful accounts	815	437	822
Recoveries	—	(290)	(22)
Write-offs	(132)	(583)	(375)
Allowance for doubtful accounts—ending balance	<u>\$ 815</u>	<u>\$ 379</u>	<u>\$ 804</u>

**Property and Equipment**

Property and equipment, including leasehold improvements, are stated at cost, less accumulated depreciation and amortization. We include the cost to acquire demonstration units and the related accumulated depreciation in property and equipment as such units are generally not available for sale. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the related assets.

**Leases**

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 consolidated balance sheet as of July 31, 2020. We did not have any material financing leases in the periods presented.

Operating lease right-of-use assets ("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. 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 Accounting Standards Update ("ASU") 2016-02, Leases ("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 consolidated statements of operations. We present lease payments within cash flows from operations within the 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 consolidated balance sheet that have a lease term of 12 months or less at the lease commencement date.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Business Combinations**

We account for our acquisitions using the acquisition method. Goodwill is measured at the acquisition date as the excess of the purchase price over the fair value of the assets acquired and liabilities assumed. Significant estimates and assumptions are made by management to value such assets and liabilities. Although we believe that those estimates and assumptions are reasonable and appropriate, they are inherently uncertain and subject to refinement. Additional information related to the acquisition date fair value of acquired assets and assumed liabilities obtained during the measurement period, not to exceed one year, may result in changes to the recorded values of such assets and liabilities, resulting in an offsetting adjustment to the goodwill associated with the business acquired.

Uncertain tax positions and tax-related valuation allowances are initially established in connection with a business combination as of the acquisition date. We continue to collect information and reevaluate these estimates and assumptions quarterly. We will record any adjustments to our preliminary estimates to goodwill, provided that it is within the one-year measurement period. Any contingent consideration payable is recognized at fair value at the acquisition date. Liability-classified contingent consideration is remeasured each reporting period, with changes in fair value recognized in earnings until the contingent consideration is settled.

Acquisition related costs incurred in connection with a business combination, other than those associated with the issuance of debt or equity securities, are expensed as incurred.

**Goodwill, Intangible Assets and Other Long-Lived Assets**

Goodwill represents the future economic benefits arising from other assets acquired in a business combination or an acquisition that are not individually identified and separately recorded. The excess of the purchase price over the estimated fair value of net assets of businesses acquired in a business combination is recognized as goodwill.

Intangible assets consist of identifiable intangible assets, including developed technology, customer relationships and trade names, resulting from business combinations. Finite-lived intangible assets are recorded at fair value, net of accumulated amortization. Finite-lived intangible assets are amortized on a straight-line basis over their estimated useful lives. Amortization expense is included as a component of cost of product revenue and sales and marketing expense in the accompanying consolidated statements of operations. Amounts included in sales and marketing expense relate to customer relationships.

Goodwill and other intangible assets acquired in a business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually, as of May 1 of each year. Such goodwill and other intangible assets may also be tested for impairment between annual tests in the presence of impairment indicators such as, but not limited to: (i) a significant adverse change in legal factors or in the business climate; (ii) a substantial decline in our market capitalization; (iii) an adverse action or assessment by a regulator; (iv) unanticipated competition; (v) loss of key personnel; (vi) a more likely-than-not expectation of the sale or disposal of a reporting unit or a significant portion thereof; (vii) a realignment of our resources or restructuring of our existing businesses in response to changes to industry and market conditions; (viii) testing for recoverability of a significant asset group within a reporting unit; or (ix) a higher discount rate used in the impairment analysis as impacted by an increase in interest rates.

Goodwill is tested for impairment by comparing the reporting unit's carrying value, including goodwill, to the fair value of the reporting unit. We operate under one reporting unit and for our annual goodwill impairment test, we determine the fair value of our reporting unit based on our enterprise value. We may elect to utilize a qualitative assessment to determine whether it is more likely than not that the fair value of our reporting unit is less than its carrying value. If, after assessing the qualitative factors, we determine that it is more likely than not that the fair value of our reporting unit is less than its carrying value, an impairment analysis will be performed. We compare the fair value of our reporting unit with its carrying amount and if the carrying value of the reporting unit exceeds its fair value, an impairment loss will be recognized.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Long-lived assets, such as property and equipment and finite-lived intangible assets subject to depreciation and amortization, are evaluated for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Among the factors and circumstances we consider in determining recoverability are: (i) a significant decrease in the market price of a long-lived asset; (ii) a significant adverse change in the extent or manner in which a long-lived asset is being used or in its physical condition; (iii) a significant adverse change in legal factors or in the business climate that could affect the value of a long-lived asset, including an adverse action or assessment by a regulator; (iv) an accumulation of costs significantly in excess of the amount originally expected for the acquisition; and (v) current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset.

There have been no indicators of impairment of goodwill, intangible assets or other long-lived assets and we did not record any material impairment losses during fiscal 2018, 2019 or 2020.

**Revenue Recognition**

The core principle of ASC 606 is to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services. This principle is achieved by applying the following five-step approach:

- *Identification of the contract, or contracts, with a customer* — A contract with a customer exists when (i) we enter into an enforceable contract with a customer that defines each party's rights regarding the goods or services to be transferred and identifies the payment terms related to these goods or services, (ii) the contract has commercial substance and (iii) we determine that collection of substantially all consideration for goods or services that are transferred is probable based on the customer's intent and ability to pay the promised consideration. We apply judgment in determining the customer's ability and intention to pay, which is based on a variety of factors, including the customer's historical payment experience or, in the case of a new customer, published credit and financial information pertaining to the customer.
- *Identification of the performance obligations in the contract* — Performance obligations promised in a contract are identified based on the goods or services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the goods or services either on their own or together with other resources that are readily available from third parties or from us, and are distinct in the context of the contract, whereby the transfer of the goods or services is separately identifiable from other promises in the contract. To the extent a contract includes multiple promised goods or services, we apply judgment to determine whether promised goods or services are capable of being distinct and distinct in the context of the contract. If these criteria are not met, the promised goods or services are accounted for as a combined performance obligation.
- *Determination of the transaction price* — The transaction price is determined based on the consideration to which we will be entitled in exchange for transferring goods or services to the customer.
- *Allocation of the transaction price to the performance obligations in the contract* — If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on a relative standalone selling price ("SSP"). We determine SSP based on the price at which the performance obligation is sold separately. If the SSP is not observable through past transactions, we estimate the SSP, taking into account available information such as market conditions and internally approved pricing guidelines related to the performance obligations.
- *Recognition of revenue when, or as, performance obligations are satisfied* — We satisfy performance obligations either over time or at a point in time. Revenue is recognized at the time the related performance obligation is satisfied with the transfer of a promised good or service to a customer. For additional details on revenue recognition, refer to Note 3 of Notes to Consolidated Financial Statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

*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 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 2020 is presented in the accompanying 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 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 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 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 consolidated balance sheet date.

**Cost of Revenue**

Cost of revenue consists of cost of product revenue and cost of support, entitlements and other services revenue. Personnel costs associated with our operations and global customer support organizations consist of salaries, benefits and stock-based compensation. Allocated costs consist of certain facilities, depreciation and amortization, recruiting and information technology costs allocated based on headcount.

**Warranties**

We generally provide a one-year warranty on hardware sold by us and a 90-day warranty on software licenses. The hardware warranty provides for parts replacement for defective components and the software warranty provides for bug fixes. With respect to the hardware warranty obligation, we have a warranty agreement with our contract manufacturers under which the OEMs are generally required to replace defective hardware within three years of shipment. Furthermore, our post-contract customer support ("PCS") agreements provide for the same parts replacement that customers are entitled to under the warranty program, except that replacement parts are delivered according to targeted response times to minimize disruption to the customers' critical business applications. Substantially all customers purchase PCS agreements.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Given the warranty agreement with our OEMs and considering that substantially all products are sold together with PCS agreements, we generally have very limited exposure related to warranty costs and therefore no warranty reserve has been recognized.

**Research and Development**

Our research and development expense consists primarily of product development personnel costs, including salaries and benefits, stock-based compensation and allocated facilities costs. Research and development costs are expensed as incurred.

**Stock-Based Compensation**

Stock-based compensation expense is measured based on the grant date fair value of share-based awards. The fair value of the purchase rights under our 2016 Employee Stock Purchase Plan ("2016 ESPP") is estimated using the Black-Scholes-Merton ("Black-Scholes") option pricing model, which is impacted by the fair value of our common stock, as well as changes in assumptions regarding a number of subjective variables. These variables include the expected common stock price volatility over the term of the awards, the expected term of the awards, risk-free interest rates and expected dividend yield. The fair value of restricted stock units ("RSUs") is determined using the fair value of our common stock on the date of grant.

We grant stock awards with service conditions only and with both service and performance conditions. We recognize stock-based compensation expense for employee stock awards with a service condition only using the straight-line method over the requisite service period of the awards, which is generally the vesting period. We use the accelerated attribution method to recognize stock-based compensation expense related to employee stock awards that contain both service and performance conditions. The fair value of the 2016 ESPP purchase rights is recognized as expense on a straight-line basis over the offering period. We account for forfeitures of all share-based awards when they occur.

**Foreign Currency**

The functional currency of our foreign subsidiaries is the U.S. dollar. Transactions denominated in currencies other than the functional currency are remeasured at the average exchange rate in effect during the reporting period. At the end of each reporting period all monetary assets and liabilities of our subsidiaries are remeasured at the current U.S. dollar exchange rate at the end of the reporting period. Remeasurement gains and losses are included within other expense, net in the accompanying consolidated statements of operations. During the fiscal years ended July 31, 2018, 2019 and 2020, we recognized foreign currency losses of \$3.6 million, \$2.5 million and \$9.4 million, respectively. To date, we have not undertaken any hedging transactions related to foreign currency exposure.

**Segments**

Our chief operating decision maker is a group which is comprised of our Chief Executive Officer and Chief Financial Officer. This group allocates resources and assesses financial performance based upon discrete financial information at the consolidated level. Accordingly, we have determined that we operate as a single operating and reportable segment.

**Income Taxes**

We account for income taxes using the asset and liability method. Deferred income taxes are recognized by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance on amounts that are more likely than not to be realized.

We record a liability for uncertain tax positions if it is not more likely than not to be sustained based solely on its technical merits as of the reporting date. We consider many factors when evaluating and estimating our tax positions and tax benefits, which may require periodic adjustments and may not accurately anticipate actual outcomes.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Advertising Costs**

Advertising costs are charged to sales and marketing expenses as incurred in the consolidated statements of operations. During the fiscal years ended July 31, 2018, 2019 and 2020, advertising expense was \$14.6 million, \$26.7 million and \$38.7 million, respectively.

**Recently Adopted Accounting Pronouncements**

In February 2016, the Financial Accounting Standards Board (the "FASB") issued ASC 842, which requires the recognition of ROU assets and lease liabilities on the 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 continued 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 consolidated balance sheet, but did not have an impact on our 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 consolidated balance sheet on August 1, 2019, which included reclassifying lease incentives, prepaid rent and deferred rent as components of the ROU asset. The difference between the total ROU assets and total lease liabilities recorded as of August 1, 2019 was 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. Refer to Note 7 for additional details.

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 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 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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In August 2020, the FASB issued ASU 2020-06, Accounting for Convertible Instruments and Contracts in an Entity's Own Equity ("ASU 2020-06"). Under ASU 2020-06 the embedded conversion features are no longer separated from the host contract for convertible instruments with conversion features that are not required to be accounted for as derivatives under Topic 815, Derivatives and Hedging, or that do not result in substantial premiums accounted for as paid-in capital. Consequently, a convertible debt instrument will be accounted for as a single liability measured at its amortized cost and a convertible preferred stock will be accounted for as a single equity instrument measured at its historical cost, as long as no other features require bifurcation and recognition as derivatives. By removing those separation models, the interest rate of convertible debt instruments typically will be closer to the coupon interest rate. ASU 2020-06 also provides for certain disclosures with regard to convertible instruments and associated fair values. ASU 2020-06 is effective for us in the first quarter of fiscal 2023. Early adoption is permitted, but no earlier than fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. The FASB specified that an entity should adopt the guidance as of the beginning of its annual fiscal year. As such, we can early adopt this standard beginning in the first quarter of fiscal 2022. We are currently evaluating the potential impact of adoption of this guidance on our consolidated financial statements.

**NOTE 2. BUSINESS COMBINATIONS**

We completed one acquisition in fiscal 2019. We did not complete any acquisitions in fiscal 2020. The purchase price allocation for the fiscal 2019 acquisition, discussed in detail below, reflects various fair value estimates and analyses, including certain tangible assets acquired and liabilities assumed, the valuation of intangible assets acquired, income taxes and goodwill, which were subject to change within the measurement period as preliminary valuations were finalized. Measurement period adjustments are recorded in the reporting period in which the estimates are finalized and adjustment amounts are determined. We determined the fair values of the intangible assets with the assistance of a valuation firm. The estimation of the fair value of the intangible assets required the use of valuation techniques and entailed consideration of all the relevant factors that might affect the fair value, such as present value factors and estimates of future revenues and costs.

Our consolidated financial statements for the fiscal years ended July 31, 2019 and 2020 include the operations of the acquired company from the date the deal closed. Pro forma results of operations have not been presented because they are not material to our consolidated financial statements. Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired. The goodwill recognized in this acquisition is primarily attributable to the synergies expected from the expanded market opportunities with our offerings and the knowledgeable and experienced workforce that joined us as part of the acquisition. Goodwill will not be amortized, but will instead be tested for impairment annually, or more frequently if certain indicators of impairment are present.

**Mainframe2, Inc.**

On August 24, 2018, we completed the acquisition of Mainframe2, Inc. ("Frame"), a privately held Delaware corporation with its principal offices in San Mateo, California ("Frame Acquisition"). Frame provides a cloud-based Windows desktop and application delivery service. The aggregate purchase price of approximately \$130.0 million consisted of approximately \$26.7 million in cash and 1,813,321 shares of our Class A common stock, with an aggregate fair value of approximately \$103.3 million. The fair value of the shares of common stock issued was determined to be \$56.97 per share, the closing price of our stock on August 24, 2018. Certain portions of the consideration for the acquisition, both cash and shares of our Class A common stock, were placed in escrow to secure the indemnification obligations of certain Frame security holders.

## NUTANIX, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We also entered into employee holdback or deferred payment arrangements with certain employees of Frame who joined Nutanix after the acquisition, totaling approximately \$43.3 million, of which \$6.6 million will be paid in cash ("cash holdback") and \$36.7 million will be satisfied by issuing shares of our Class A common stock ("share holdback"). As the earning of the share holdback and payment of the cash holdback are contingent upon the continuous service of the employees, they are being accounted for as post-combination compensation expense over the required service period of three years. The 643,746 shares of our Class A common stock related to the \$36.7 million share holdback have a fair value of \$56.97 per share, the closing price of our Class A common stock on August 24, 2018, and had been issued at closing and are currently being held in escrow. This holdback is being accounted for as stock-based compensation over the required three-year service period. On September 21, 2018, we filed a Form S-3 registration statement with the SEC for the 2,451,322 shares of our Class A common stock that were issued as partial consideration in the Frame Acquisition.

The purchase price allocation primarily included approximately \$97.3 million of goodwill and \$38.2 million of intangible assets, including \$31.8 million related to developed technology and \$2.2 million related to customer relationships, which are being amortized over an estimated economic life of five years, and \$4.2 million related to trade name, which is being amortized over an estimated economic life of four years. Goodwill was not deductible for income tax purposes.

Acquisition-related costs were expensed as incurred as general and administrative expenses on our consolidated statement of operations. We recognized approximately \$1.1 million of acquisition-related costs in connection with the Frame Acquisition.

The following table presents the aggregate purchase price allocation related to the Frame acquisition:

	<b>As of July 31, 2019</b>
	<b>(in thousands)</b>
Goodwill	\$ 97,328
Amortizable intangible assets	38,180
Tangible assets acquired	10,811
Liabilities assumed	(16,293)
Total consideration	<u>\$ 130,026</u>

**NOTE 3. 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 in some cases 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.

## NUTANIX, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Fiscal Year Ended July 31,		
	2018	2019	2020
	(in thousands)		
Subscription	\$ 330,645	\$ 648,415	\$ 1,030,180
Non-portable software	543,952	449,131	208,158
Hardware	257,314	105,321	23,455
Professional services	23,546	33,276	45,889
Total revenue	\$ 1,155,457	\$ 1,236,143	\$ 1,307,682

Prior to the first quarter of fiscal 2019, we disaggregated revenue into the following categories: software revenue, hardware revenue and support, entitlements and other services revenue. Software revenue included non-portable software and term-based software licenses. Under the new disaggregated revenue categories, included in the table above, term-based software licenses are included within subscription revenue and non-portable software is presented separately. Support, entitlements and other services revenue included software entitlement and support subscriptions and professional services. Under the new disaggregated revenue categories, software entitlement and support subscriptions are included within subscription revenue and professional services revenue is presented separately. There was no change to the presentation of hardware revenue.

*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 \$243.9 million, \$376.4 million and \$508.8 million of our subscription revenue for fiscal 2018, 2019 and 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 \$86.7 million, \$272.0 million and \$521.3 million of our subscription revenue for fiscal 2018, 2019 and 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 CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Deferred Revenue	Deferred Commissions
	(in thousands)	
Balance as of July 31, 2018	\$ 631,207	\$ 114,379
Additions	682,241	158,062
Revenue/commissions recognized	(403,724)	(118,729)
Assumed in a business combination	320	—
Balance as of July 31, 2019	910,044	153,712
Additions	815,257	233,917
Revenue/commissions recognized	(541,860)	(172,101)
Balance as of July 31, 2020	\$ 1,183,441	\$ 215,528

During the fiscal year ended July 31, 2019, we recognized revenue of approximately \$275.0 million pertaining to amounts deferred as of July 31, 2018. During the fiscal year ended July 31, 2020, we recognized revenue of approximately \$371.8 million pertaining to amounts deferred as of July 31, 2019.

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 \$1.2 billion as of July 31, 2020, of which we expect to recognize approximately 46% over the next 12 months, and the remainder thereafter.

**NOTE 4. FAIR VALUE MEASUREMENTS**

The authoritative guidance on fair value measurements establishes a three-tier fair value hierarchy based on the observability of the inputs available in the market used to measure fair value as follows:

- *Level I* — Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date;
- *Level II* — Inputs are observable, unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the related assets or liabilities; and
- *Level III* — Unobservable inputs that are significant to the measurement of the fair value of the assets or liabilities that are supported by little or no market data.

**Assets and Liabilities Measured at Fair Value on a Recurring Basis*****Cash equivalents and short-term investments***

Our money market funds are classified within Level I due to the highly liquid nature of these assets and have unadjusted inputs, quoted prices in active markets for these assets at the measurement date from the financial institution that carries these investment securities. Our investments in available-for-sale debt securities such as commercial paper, corporate bonds and U.S. government securities are classified within Level II. The fair value of these securities is priced by using inputs based on non-binding market consensus prices that are corroborated by observable market data, quoted market prices for similar instruments, or pricing models such as discounted cash flow techniques.

NUTANIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	As of July 31, 2019			
	Level I	Level II	Level III	Total
	(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	\$ 33,156	\$ 745,114	\$ —	\$ 778,270
Cash				130,564
Total cash, cash equivalents and short-term investments				\$ 908,834

	As of July 31, 2020			
	Level I	Level II	Level III	Total
	(in thousands)			
<b>Financial Assets:</b>				
Cash equivalents:				
Money market funds	\$ 142,936	\$ —	\$ —	\$ 142,936
Commercial paper	—	8,999	—	8,999
Short-term investments:				
Corporate bonds	—	345,265	—	345,265
Commercial paper	—	29,702	—	29,702
U.S. government securities	—	26,074	—	26,074
Total measured at fair value	\$ 142,936	\$ 410,040	\$ —	\$ 552,976
Cash				166,802
Total cash, cash equivalents and short-term investments				\$ 719,778

**NUTANIX, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

We report our financial instruments at fair value, with the exception of the 2023 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 July 31, 2020	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
	(in thousands)			
Convertible senior notes, net	\$ 458,910	\$ 527,275	\$ 490,222	\$ 529,385

The carrying value of the 2023 Notes as of July 31, 2019 and 2020 was net of the unamortized debt discount of \$110.0 million and \$80.3 million, respectively, and unamortized debt issuance costs of \$6.1 million and \$4.5 million, respectively.

The total estimated fair value of the 2023 Notes was determined based on the closing trading price per \$100 of the 2023 Notes as of the last day of trading for the period. We consider the fair value of the 2023 Notes to be a Level 2 measurement due to the limited trading activity.

**NOTE 5. BALANCE SHEET COMPONENTS**

**Short-Term Investments**

The amortized cost of our short-term investments approximates their fair value. As of July 31, 2019 and 2020, unrealized gains and losses from our short-term investments were not material. As of July 31, 2019 and 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 2020, we did not record any other-than-temporary impairments for these investments.

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

	As of July 31, 2020 (in thousands)
Due within one year	\$ 298,074
Due in one to two years	102,967
Total	\$ 401,041

**Prepaid Expenses and Other Current Assets**

Prepaid expenses and other current assets consists of the following:

	As of July 31,	
	2019	2020
	(in thousands)	
Prepaid operating expenses	\$ 37,864	\$ 31,690
Tenant improvement allowance receivables	—	8,557
VAT receivables	5,068	8,381
Prepaid income taxes	19,690	—
Other current assets	12,043	14,404
Total prepaid expenses and other current assets	\$ 74,665	\$ 63,032

## NUTANIX, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The decrease in prepaid expenses and other current assets from July 31, 2019 to July 31, 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 \$8.6 million of tenant improvement allowances, which are recorded within prepaid expenses and other current assets on the consolidated balance sheet as of July 31, 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:

	Estimated Useful Life (in months)	As of July 31,	
		2019	2020
		(in thousands)	
Computer, production, engineering and other equipment	36	\$ 200,762	\$ 245,245
Demonstration units	12	59,981	66,569
Leasehold improvements	(1)	46,520	65,557
Furniture and fixtures	60	12,868	17,026
Total property and equipment, gross		320,131	394,397
Less: accumulated depreciation <sup>(2)</sup>		(183,169)	(251,225)
Total property and equipment, net		\$ 136,962	\$ 143,172

(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 7.

Depreciation expense related to our property and equipment was \$43.7 million, \$60.8 million and \$76.4 million for the fiscal years ended July 31, 2018, 2019 and 2020, respectively.

**Intangible Assets, Net**

Intangible assets, net consists of the following:

	As of July 31,	
	2019	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)	(35,987)
Accumulated amortization of customer relationships	(3,392)	(4,953)
Accumulated amortization of trade name	(955)	(1,998)
Total accumulated amortization	(25,557)	(42,938)
Total intangible assets, net	\$ 66,773	\$ 49,392

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

## NUTANIX, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The changes in the net book value of intangible assets, net are as follows:

	As of July 31,	
	2019	2020
	(in thousands)	
Intangible assets, net—beginning balance	\$ 45,366	\$ 66,773
Acquired intangible assets	38,180	—
Amortization of intangible assets <sup>(1)</sup>	(16,773)	(17,381)
Intangible assets, net—ending balance	<u>\$ 66,773</u>	<u>\$ 49,392</u>

(1) Represents amortization expense related to intangible assets recognized during the year in the consolidated statements of operations, within product cost of revenue and sales and marketing expense.

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

**Fiscal Year Ending July 31:**

	Amount
	(in thousands)
2021	\$ 17,380
2022	16,183
2023	10,856
2024	3,210
2025	1,763
Total	<u>\$ 49,392</u>

**Goodwill**

The changes in the carrying amount of goodwill are as follows:

	Carrying Amount
	(in thousands)
Balance at July 31, 2018	\$ 87,759
Acquired in Frame Acquisition	97,328
Other	93
Balance at July 31, 2019	185,180
Other	80
Balance at July 31, 2020	<u>\$ 185,260</u>

**NUTANIX, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
**Accrued Compensation and Benefits**

Accrued compensation and benefits consists of the following:

	As of July 31,	
	2019	2020
(in thousands)		
Accrued commissions	\$ 31,703	\$ 33,503
Accrued vacation	15,475	24,006
Contributions to ESPP withheld	20,778	16,563
Payroll taxes payable	8,504	10,742
Accrued benefits	6,819	8,426
Accrued bonus	11,413	5,568
Other	5,112	10,301
Total accrued compensation and benefits	<u>\$ 99,804</u>	<u>\$ 109,109</u>

**Accrued Expenses and Other Current Liabilities**

Accrued expenses and other current liabilities consists of the following:

	As of July 31,	
	2019	2020
(in thousands)		
Income taxes payable	\$ 9,651	\$ 9,703
Accrued professional services	2,996	3,006
Other	16,150	13,215
Total accrued expenses and other current liabilities	<u>\$ 28,797</u>	<u>\$ 25,924</u>

**NOTE 6. 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, in a private placement to qualified institutional buyers pursuant to Rule 144A under the Securities Act. This included \$75.0 million in aggregate principal amount of the 2023 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 2023 Notes. The total net proceeds from the 2023 Notes are as follows:

	Amount
	(in thousands)
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 2023 Notes do not bear any interest and will mature on January 15, 2023, unless earlier converted or repurchased in accordance with their terms. The 2023 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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Each \$1,000 of principal of the 2023 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 2023 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 \$22.19 on July 31, 2020, the if-converted value of the 2023 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 July 31, 2020. As such, the 2023 Notes are not convertible for the fiscal quarter commencing after July 31, 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 2023 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 2023 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 2023 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.

We may not redeem the 2023 Notes prior to the maturity date, and no sinking fund is provided for the 2023 Notes.

In accounting for the issuance of the 2023 Notes, we separated the 2023 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 2023 Notes. The difference between the principal amount of the 2023 Notes and the liability component (the "debt discount") is amortized to interest expense using the effective interest method over the term of the 2023 Notes. The equity component of the 2023 Notes is included in additional paid-in capital in the consolidated balance sheets and is not remeasured as long as it continues to meet the conditions for equity classification.

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

We incurred transaction costs related to the issuance of the 2023 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 2023 Notes. Transaction costs attributable to the liability component were approximately \$8.5 million, recorded as debt issuance costs (presented as contra debt in the consolidated balance sheets), and are being amortized to interest expense over the term of the 2023 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 2023 Notes consisted of the following:

	As of July 31,	
	2019	2020
	(in thousands)	
Principal amounts:		
Principal	\$ 575,000	\$ 575,000
Unamortized debt discount <sup>(1)</sup>	(109,956)	(80,298)
Unamortized debt issuance costs <sup>(1)</sup>	(6,134)	(4,480)
Net carrying amount	<u>\$ 458,910</u>	<u>\$ 490,222</u>
Carrying amount of equity component <sup>(2)</sup>	<u>\$ 148,598</u>	<u>\$ 148,598</u>

(1) Included in the consolidated balance sheets within "convertible senior notes, net" and amortized over the remaining life of the 2023 Notes using the effective interest rate method. The effective interest rate is 6.62%.

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

As of July 31, 2020, the remaining life of the 2023 Notes was approximately 29 months.

The following table sets forth the total interest expense recognized related to the 2023 Notes:

	Fiscal Year Ended July 31,		
	2018	2019	2020
	(in thousands)		
Interest expense related to amortization of debt discount	\$ 13,909	\$ 27,764	\$ 29,658
Interest expense related to amortization of debt issuance costs	776	1,549	1,654
Total interest expense	<u>\$ 14,685</u>	<u>\$ 29,313</u>	<u>\$ 31,312</u>

**Note Hedges and Warrants**

Concurrently with the offering of the 2023 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 2023 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 consolidated balance sheets as of July 31, 2019 and 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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Impact to Earnings per Share**

The 2023 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 2023 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 2023 Notes when the price of our Class A common stock exceeds the conversion price. Under this method, the cumulative dilutive effect of the 2023 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 2023 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 2023 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 7. 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 \$39.1 million for the fiscal year ended July 31, 2020, 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 \$19.0 million and \$37.0 million for the fiscal years ended July 31, 2018 and 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 consolidated statements of operations for the fiscal year ended July 31, 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 CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Supplemental balance sheet information related to leases is as follows:

	<b>As of July 31, 2020</b>
	<b>(in thousands)</b>
<b>Operating leases:</b>	
Operating lease right-of-use assets, gross	\$ 159,292
Accumulated amortization	(31,966)
Operating lease right-of-use assets, net	<u>\$ 127,326</u>
Operating lease liabilities—current	\$ 36,569
Operating lease liabilities—non-current	116,794
Total operating lease liabilities	<u>\$ 153,363</u>
Weighted average remaining lease term (in years):	3.7
Weighted average discount rate:	5.3 %

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

	<b>Fiscal Year Ended July 31, 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	\$ 42,231
<b>Lease liabilities arising from obtaining right-of-use assets:</b>	
Operating leases	\$ 45,278

The undiscounted cash flows for our operating lease liabilities as of July 31, 2020 were as follows:

<b><u>Fiscal Year Ending July 31:</u></b>	<b>Amount</b>
	<b>(in thousands)</b>
2021	\$ 43,874
2022	44,953
2023	43,313
2024	30,762
2025	5,158
Thereafter	3,414
Total lease payments	<u>171,474</u>
Less: imputed interest	(18,111)
Total lease obligation	<u>153,363</u>
Less: current lease obligations	(36,569)
Long-term lease obligations	<u>\$ 116,794</u>

As of July 31, 2020, we have additional operating lease commitments of approximately \$11.1 million on an undiscounted basis for certain office leases that have not yet commenced. These operating leases will commence during fiscal 2021 and fiscal 2022, with lease terms of two to six years.

## NUTANIX, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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:

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

**NOTE 8. COMMITMENTS AND CONTINGENCIES****Purchase Commitments**

In the normal course of business, we make commitments with our 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 July 31, 2020, we had up to approximately \$62.5 million of non-cancelable purchase obligations and other commitments pertaining to our daily business operations, and up to approximately \$81.2 million in the form of guarantees to certain of our OEMs.

**Guarantees and Indemnifications**

We have entered into agreements with some of our Partners and customers that contain indemnification provisions in the event of claims alleging that our products infringe the intellectual property rights of a third party. The scope of such indemnification varies, and may include, in certain cases, the ability to cure the indemnification by modifying or replacing the product at our own expense, requiring the return and refund of the infringing product, procuring the right for the partner and/or customer to continue to use or distribute the product, as applicable, and/or defending the partner or customer against and paying any damages from third-party actions based upon claims of infringement. Other guarantees or indemnification arrangements include guarantees of product and service performance.

We have also agreed to indemnify our directors, executive officers and certain other officers for costs associated with any fees, expenses, judgments, fines and settlement amounts incurred by any of these persons in any action or proceeding to which any of those persons is, or is threatened to be, made a party by reason of the person's service as a director or officer, including any action by us, arising out of that person's services as a director or officer of our company or that person's services provided to any other company or enterprise at our request. We maintain director and officer insurance coverage that may enable us to recover a portion of any future amounts paid.

The fair value of liabilities related to indemnifications and guarantee provisions are not material and have not had any material impact on the consolidated financial statements to date.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****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. On May 22, 2020, the Company and the individual defendants filed a motion to dismiss the Current Complaint, which was denied on September 11, 2020. The litigation is still in early stages, and we plan to continue to vigorously defend against the allegations and we are not able to determine what, if any, liabilities will attach to the Current Complaint.

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 designated complaint in the matter. On April 22, 2020, (i) the individual defendants filed a motion to dismiss the designated complaint on the grounds that it fails to state a claim, and (ii) we filed a motion to dismiss the designated complaint on the grounds that the plaintiffs failed to make a demand on our Board of Directors before filing the designated complaint. In response, the plaintiffs filed an amended complaint on June 17, 2020. The defendants filed motions to dismiss the amended complaint on July 17, 2020. A hearing on the motions to dismiss is scheduled for September 23, 2020. 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 9. STOCKHOLDERS' EQUITY**

We have two classes of authorized common stock, Class A common stock and Class B common stock. As of July 31, 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 July 31, 2020, we had 186.8 million shares of Class A common stock issued and outstanding and 15.1 million shares of Class B common stock issued and outstanding.

## NUTANIX, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

**Common Stock Reserved for Issuance**

As of July 31, 2020, we had reserved shares of common stock for future issuance as follows:

	<b>As of July 31, 2020</b>
	<b>(in thousands)</b>
Shares reserved for future equity grants	12,724
Shares underlying outstanding stock options	7,546
Shares underlying outstanding restricted stock units	22,632
Shares reserved for future employee stock purchase plan awards	9,169
<b>Total</b>	<b>52,071</b>

**NOTE 10. 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.

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, 2018 and 2019, the number of shares of Class A common stock available for issuance under the 2016 Plan increased by 8.6 million and 9.4 million shares, respectively, pursuant to these provisions. As of July 31, 2020, we had reserved a total of 42.9 million shares for the issuance of equity awards under the Stock Plans, of which 12.7 million shares were still available for grant. On August 1, 2020, the number of shares of Class A common stock available for issuance under the 2016 Plan increased by 10.1 million shares pursuant to the automatic increase provisions.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**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.

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 July 31, 2020, 375,000 MSUs remained outstanding.

**NUTANIX, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

	Fiscal Year Ended July 31,			
	2019		2020	
	Number of Shares	Grant Date Fair Value per Share	Number of Shares	Grant Date Fair Value per Share
	(in thousands)		(in thousands)	
Outstanding at beginning of period	23,597	\$ 31.20	22,136	\$ 36.72
Granted	11,204	\$ 42.23	13,502	\$ 27.31
Released	(8,717)	\$ 30.15	(8,807)	\$ 33.86
Forfeited	(3,948)	\$ 33.86	(4,199)	\$ 34.82
Outstanding at end of period	<u>22,136</u>	<u>\$ 36.72</u>	<u>22,632</u>	<u>\$ 32.70</u>

**Stock Options**

The Board determines the period over which stock options become exercisable and stock options generally vest over a four-year period. Stock options generally expire 10 years from the date of grant. The term of an ISO grant to a 10% stockholder will not exceed five years from the date of the grant. The exercise price of an ISO will not be less than 100% of the estimated fair value of the shares of common stock underlying the stock option (or 110% of the estimated fair value in the case of an ISO granted to a 10% stockholder) on the date of grant. The exercise price of an NSO is determined by the Board at the time of grant and is generally not less than 100% of the estimated fair value of the shares of common stock underlying the stock option on the date of grant.

Below is a summary of stock option activity under the Stock Plans:

	Fiscal Year Ended July 31,							
	2019				2020			
	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
(in thousands)		(in years)	(in thousands)	(in thousands)		(in years)	(in thousands)	
Outstanding at beginning of period	11,333	\$ 5.12	5.6	\$ 496,022	8,740	\$ 5.20	4.6	\$ 153,000
Options granted	—	\$ —			—	\$ —		
Options exercised	(2,555)	\$ 4.77			(1,192)	\$ 5.83		
Options canceled/forfeited	(38)	\$ 10.09			(2)	\$ 26.21		
Outstanding at end of period	<u>8,740</u>	<u>\$ 5.20</u>	<u>4.6</u>	<u>\$ 153,000</u>	<u>7,546</u>	<u>\$ 5.10</u>	<u>3.6</u>	<u>\$ 129,010</u>
Exercisable at end of period	<u>8,721</u>	<u>\$ 5.18</u>	<u>4.6</u>	<u>\$ 152,837</u>	<u>7,545</u>	<u>\$ 5.09</u>	<u>3.7</u>	<u>\$ 129,004</u>
Vested and expected to vest at end of period	<u>8,740</u>	<u>\$ 5.20</u>	<u>4.6</u>	<u>\$ 153,000</u>	<u>7,546</u>	<u>\$ 5.10</u>	<u>3.6</u>	<u>\$ 129,010</u>

Stock options exercisable as of July 31, 2019 includes 8.0 million vested options and 0.7 million unvested options with an early exercise provision. Stock options exercisable as of July 31, 2020 includes 7.0 million vested options and 0.5 million unvested options with an early exercise provision. There were no options granted during fiscal 2019 or 2020.

The aggregate intrinsic value of stock options exercised during the fiscal years ended July 31, 2018, 2019 and 2020 was \$289.4 million, \$90.3 million and \$23.4 million, respectively. Aggregate intrinsic value represents the difference between the exercise price of the options and the estimated fair value of our common stock. Cash received from option exercises was \$33.1 million, \$12.2 million and \$6.9 million for the fiscal years ended July 31, 2018, 2019 and 2020, respectively. The total grant date fair value of stock options vested was \$11.5 million, \$4.4 million and \$1.0 million for the fiscal years ended July 31, 2018, 2019 and 2020, respectively.

## NUTANIX, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**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 fiscal year ended July 31, 2020, 3.3 million shares of common stock were purchased under the 2016 ESPP for an aggregate amount of \$50.6 million. As of July 31, 2020, 9.2 million shares were available for future issuance under the 2016 ESPP.

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:

	Fiscal Year Ended July 31,		
	2018	2019	2020
Expected term (in years)	0.75	0.84	0.92
Risk-free interest rate	1.4 %	2.5 %	0.1 %
Volatility	49.8 %	69.0 %	73.4 %
Dividend yield	— %	— %	— %

**Stock-Based Compensation**

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

	Fiscal Year Ended July 31,		
	2018	2019	2020
	(in thousands)		
Cost of revenue:			
Product	\$ 2,580	\$ 3,535	\$ 5,334
Support, entitlements and other services	8,945	15,326	22,014
Sales and marketing	65,060	107,751	126,015
Research and development	74,389	140,519	153,252
General and administrative	26,894	39,598	45,383
<b>Total stock-based compensation expense</b>	<b>\$ 177,868</b>	<b>\$ 306,729</b>	<b>\$ 351,998</b>

As of July 31, 2020, unrecognized stock-based compensation expense related to outstanding stock awards was approximately \$689.9 million and is expected to be recognized over a weighted average period of approximately 2.5 years.

**NUTANIX, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
**NOTE 11. NET LOSS PER SHARE**

Basic and diluted net loss per share attributable to common stockholders is presented in conformity with the two-class method required for participating securities. Our Convertible Preferred Stock is considered a participating security. Participating securities do not have a contractual obligation to share in our losses. As such, for the periods we incur net losses, there is no impact on the calculated net loss per share attributable to common stockholders in applying the two-class method.

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:

	<b>Fiscal Year Ended July 31,</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
<b>(in thousands, except per share data)</b>			
<b>Numerator:</b>			
Net loss	\$ (297,161)	\$ (621,179)	\$ (872,883)
<b>Denominator:</b>			
Weighted average shares—basic and diluted	164,091	181,031	194,719
Net loss per share attributable to common stockholders—basic and diluted	\$ (1.81)	\$ (3.43)	\$ (4.48)

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

	<b>As of July 31,</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
<b>(in thousands)</b>			
Outstanding stock options and RSUs	34,930	30,876	30,178
Employee stock purchase plan	1,311	1,659	4,368
Contingently issuable shares pursuant to business combinations	277	749	506
Common stock subject to repurchase	47	—	—
Common stock warrants	34	34	—
Total	36,599	33,318	35,052

Shares that will be issued in connection with our stock awards and shares that will be 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 the common stock warrants are converted into shares of our Class B common stock and are voluntarily convertible into shares of Class A common stock at the option of the holder.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**NOTE 12. INCOME TAXES**
**Income Taxes**

Loss before provision for income taxes by fiscal year consisted of the following:

	Fiscal Year Ended July 31,		
	2018	2019	2020
	(in thousands)		
Domestic	\$ (201,666)	\$ (658,938)	\$ (905,840)
Foreign	(88,048)	45,878	50,619
Loss before provision for income taxes	<u>\$ (289,714)</u>	<u>\$ (613,060)</u>	<u>\$ (855,221)</u>

Provision for income taxes by fiscal year consisted of the following:

	Fiscal Year Ended July 31,		
	2018	2019	2020
	(in thousands)		
Current:			
U.S. federal	\$ 2,059	\$ (1,998)	\$ 175
State and local	429	312	79
Foreign	8,541	17,270	18,033
Total current taxes	<u>11,029</u>	<u>15,584</u>	<u>18,287</u>
Deferred:			
U.S. federal	(3,387)	(4,949)	80
State and local	(718)	(770)	—
Foreign	523	(1,746)	(705)
Total deferred taxes	<u>(3,582)</u>	<u>(7,465)</u>	<u>(625)</u>
Provision for income taxes	<u>\$ 7,447</u>	<u>\$ 8,119</u>	<u>\$ 17,662</u>

The income tax provision differs from the amount of income tax determined by applying the applicable U.S. federal statutory income tax rate of 21% to pre-tax loss. The reconciliation of the statutory federal income tax and our effective income tax is as follows:

	Fiscal Year Ended July 31,		
	2018	2019	2020
	(in thousands)		
U.S. federal income tax at statutory rate	\$ (75,779)	\$ (128,680)	\$ (179,514)
Change in valuation allowance	25,274	142,273	145,244
Stock-based compensation	(73,631)	(23,378)	30,913
Effect of foreign operations	26,117	14,305	12,676
Non-deductible expenses	2,115	4,651	5,393
Change in unrecognized tax benefit	653	727	1,709
State income taxes	(290)	(458)	79
Transfer pricing adjustments	4,584	(3)	7
U.S. tax reform impact	93,352	—	—
Intangible asset migration	4,461	(2,027)	—
Other	591	709	1,155
Total	<u>\$ 7,447</u>	<u>\$ 8,119</u>	<u>\$ 17,662</u>

**NUTANIX, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

During the fiscal year ended July 31, 2018, our provision for income taxes was primarily attributable to the alternative minimum tax in the U.S. related to the migration of certain intangible assets and foreign tax provisions in certain foreign jurisdictions in which we conduct business, partially offset by a partial valuation allowance release in the U.S. due to acquisitions completed during fiscal 2018.

During the fiscal year ended July 31, 2019, our provision for income taxes was primarily attributable to foreign tax provisions in certain foreign jurisdictions in which we conduct business, partially offset by a partial valuation release in the U.S. due to an acquisition completed during fiscal 2019 and a tax benefit related to the change in tax law.

During the fiscal year ended July 31, 2020, our provision for income taxes was primarily attributable to foreign tax provisions in certain foreign jurisdictions in which we conduct business.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was enacted by the United States government. However, the CARES Act did not have a material impact on our provision for income taxes for the fiscal year ended July 31, 2020.

In June 2020, the U.S. Supreme Court denied *certiorari* in the case of *Altera Corp. v. Commissioner* ("Altera"). We have concluded that the law remains unsettled and continue to record unrecognized tax benefits as we exclude stock-based compensation costs from our cost sharing arrangements. Any potential impact of a final adverse decision would result in adjustments to deferred tax assets and corresponding adjustments to the valuation allowance. We will continue to monitor developments and the potential effect on our consolidated financial statements and tax filings.

## NUTANIX, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The temporary differences that give rise to significant portions of deferred tax assets and liabilities are as follows:

	As of July 31,	
	2019	2020
	(in thousands)	
Deferred tax assets:		
Net operating loss carryforward	\$ 294,577	\$ 412,110
Tax credit carryforward	109,921	152,330
Deferred revenue	71,859	122,236
Leases	—	48,270
Intangible assets	35,764	31,119
Stock-based compensation expense	27,493	24,177
Accruals and reserves	14,825	13,401
Property and equipment	633	2,234
Other assets	24,258	29,022
Total deferred tax assets	579,330	834,899
Deferred tax liabilities:		
Deferred commission expense	(35,814)	(50,344)
Leases	—	(44,502)
Acquisition-related	(11,515)	(8,003)
Property and equipment	(9,174)	(5,629)
Foreign branch taxes	(4,607)	(5,175)
Prepaid expenses	(2,303)	(2,140)
Other	(1,621)	(1,991)
Total deferred tax liabilities	(65,034)	(117,784)
Valuation allowance	(509,764)	(712,093)
Net deferred tax assets	\$ 4,532	\$ 5,022

Management believes that based on available evidence, both positive and negative, it is more likely than not that the U.S. deferred tax assets will not be utilized and as such, a full valuation allowance has been recorded.

The valuation allowance for deferred tax assets was \$712.1 million as of July 31, 2020. The net increase in the total valuation allowance for the fiscal years ended July 31, 2019 and 2020 was \$282.8 million and \$202.3 million, respectively.

As of July 31, 2020, we had approximately \$1.9 billion of federal net operating loss carryforwards and \$1.1 billion of state net operating loss carryforwards available to reduce future taxable income, which will begin to expire in fiscal 2029. In addition, we had approximately \$97.2 million of federal research credit carryforwards, \$65.5 million of state research credit carryforwards and \$26.0 million of foreign tax credit carryforwards. The federal credits will begin to expire in fiscal 2030 and the state credits can be carried forward indefinitely. The foreign credits will begin to expire in fiscal 2027.

Utilization of the net operating loss and tax credit carryforwards may be subject to an annual limitation due to the ownership change limitations provided by the Internal Revenue Code of 1986, as amended, and similar state provisions. Any annual limitation may result in the expiration of net operating losses and credits before utilization. If an ownership change occurred, utilization of the net operating loss and tax credit carryforwards could be significantly reduced.

## NUTANIX, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of July 31, 2020, we held an aggregate of \$173.7 million in cash and cash equivalents in our foreign subsidiaries, of which \$114.7 million was denominated in U.S. dollars. We attribute net revenue, costs and expenses to domestic and foreign components based on the terms of our agreements with our subsidiaries. We do not provide for federal income taxes on the undistributed earnings of our foreign subsidiaries, as such earnings are to be reinvested offshore indefinitely. The income tax liability would be insignificant if these earnings were to be repatriated.

The income tax benefit and provision for the fiscal year ended July 31, 2020 are based on the assumption that foreign undistributed earnings are indefinitely reinvested. We will continue to evaluate whether or not to continue to assert indefinite reinvestment on part or all of our foreign undistributed earnings. In the event we determine not to continue to assert the permanent reinvestment of part or all of our foreign undistributed earnings, such a determination could result in the accrual and payment of additional foreign, state and local taxes.

We recognize uncertain tax positions in our financial statements if that position will more likely than not be sustained on audit, based on the technical merits of the position. A reconciliation of our unrecognized tax benefits, excluding accrued interest and penalties, is as follows:

	Fiscal Year Ended July 31,	
	2019	2020
	(in thousands)	
Balance at the beginning of the year	\$ 91,716	\$ 81,250
Increases related to current year tax positions	13,736	3,897
Increases related to prior year tax positions	301	491
Decreases related to prior year tax positions	(23,782)	(381)
Settlements with tax authorities	(721)	—
Balance at the end of the year	<u>\$ 81,250</u>	<u>\$ 85,257</u>

During the fiscal year ended July 31, 2020, the net increase in unrecognized tax positions was primarily attributable to federal and state research and development credits and intercompany charges.

As of July 31, 2020, if uncertain tax positions are fully recognized in the future, it would result in a \$14.5 million impact to our effective tax rate, and the remaining amount would result in adjustments to deferred tax assets and corresponding adjustments to the valuation allowance.

We recognize interest and/or penalties related to income tax matters as a component of income tax expense. As of July 31, 2020, we had recognized \$3.1 million accrued interest and penalties related to uncertain tax positions.

We file income tax returns in the U.S. federal jurisdiction as well as various U.S. states and foreign jurisdictions. The tax years 2009 and forward remain open to examination by the major jurisdictions in which we are subject to tax. These fiscal years outside the normal statute of limitation remain open to audit by tax authorities due to tax attributes generated in those early years, which have been carried forward and may be audited in subsequent years when utilized. We are subject to the continuous examination of income tax returns by various tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of the provision for income taxes. We believe that adequate amounts have been reserved for any adjustments that may ultimately result from these examinations. A final determination of Altera is possible within the next 12 months. If the Altera opinion stands, it would result in a \$36.2 million reduction of our gross unrecognized tax benefits. There is no impact to our effective tax rate and this would result in adjustments to deferred tax assets and corresponding adjustments to the valuation allowance. Other than Altera, we do not anticipate a significant impact to the unrecognized tax benefits within the next 12 months.

## NUTANIX, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**NOTE 13. 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:

	Fiscal Year Ended July 31,		
	2018	2019	2020
	(in thousands)		
U.S.	\$ 648,805	\$ 682,340	706,110
Europe, the Middle East and Africa	224,392	238,356	277,489
Asia Pacific	240,247	271,712	265,092
Other Americas	42,013	43,735	58,991
Total revenue	<u>\$ 1,155,457</u>	<u>\$ 1,236,143</u>	<u>\$ 1,307,682</u>

As of July 31, 2019 and 2020, \$161.9 million and \$136.7 million, respectively, of our long-lived assets, net were located in the United States.

**NUTANIX, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
**NOTE 14. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)**

The following sets forth selected unaudited quarterly consolidated statements of operations data for each of the eight quarters in the period ended July 31, 2020. The information for each of these quarters has been prepared on a basis consistent with our audited annual consolidated financial statements included elsewhere in this report and, in the opinion of management, includes all adjustments of a normal, recurring nature that are necessary for the fair presentation of the results of operations for these periods in accordance with U.S. GAAP. This data should be read in conjunction with our audited consolidated financial statements and related notes included elsewhere in this report. These historical quarterly operating results are not necessarily indicative of the results that may be expected for a full fiscal year or any future period.

	Three Months Ended							
	October 31, 2018	January 31, 2019	April 30, 2019	July 31, 2019	October 31, 2019	January 31, 2020	April 30, 2020	July 31, 2020
	(unaudited, in thousands, except per share amounts)							
Revenue:								
Product	\$ 224,346	\$ 236,932	\$ 184,794	\$ 186,347	\$ 192,444	\$ 213,547	\$ 180,756	\$ 179,075
Support, entitlements and other services	88,937	98,428	102,830	113,529	122,324	133,220	137,517	148,799
Total revenue	<u>313,283</u>	<u>335,360</u>	<u>287,624</u>	<u>299,876</u>	<u>314,768</u>	<u>346,767</u>	<u>318,273</u>	<u>327,874</u>
Cost of revenue:								
Product <sup>(2)(3)</sup>	39,261	45,966	29,528	28,323	21,233	20,676	15,990	13,413
Support, entitlements and other services <sup>(2)</sup>	34,845	40,016	45,549	40,640	50,968	54,547	56,304	53,558
Total cost of revenue	<u>74,106</u>	<u>85,982</u>	<u>75,077</u>	<u>68,963</u>	<u>72,201</u>	<u>75,223</u>	<u>72,294</u>	<u>66,971</u>
Gross profit	<u>239,177</u>	<u>249,378</u>	<u>212,547</u>	<u>230,913</u>	<u>242,567</u>	<u>271,544</u>	<u>245,979</u>	<u>260,903</u>
Operating expenses:								
Sales and marketing <sup>(2)(3)</sup>	196,497	213,707	245,703	253,843	291,838	304,936	299,162	264,453
Research and development <sup>(2)</sup>	110,531	123,037	137,982	129,169	138,206	139,088	141,346	135,338
General and administrative <sup>(2)</sup>	27,339	28,788	33,040	30,420	32,860	34,579	35,644	32,464
Total operating expenses	<u>334,367</u>	<u>365,532</u>	<u>416,725</u>	<u>413,432</u>	<u>462,904</u>	<u>478,603</u>	<u>476,152</u>	<u>432,255</u>
Loss from operations	(95,190)	(116,154)	(204,178)	(182,519)	(220,337)	(207,059)	(230,173)	(171,352)
Other expense, net	(2,703)	(4,399)	(3,212)	(4,705)	(5,040)	(5,863)	(5,640)	(9,757)
Loss before (benefit from) provision for income taxes	(97,893)	(120,553)	(207,390)	(187,224)	(225,377)	(212,922)	(235,813)	(181,109)
(Benefit from) provision for income taxes	(3,628)	2,210	2,423	7,114	3,923	4,642	4,858	4,239
Net loss	<u>\$ (94,265)</u>	<u>\$ (122,763)</u>	<u>\$ (209,813)</u>	<u>\$ (194,338)</u>	<u>\$ (229,300)</u>	<u>\$ (217,564)</u>	<u>\$ (240,671)</u>	<u>\$ (185,348)</u>
Net loss per share attributable to Class A and Class B common stockholders—basic and diluted <sup>(1)</sup>	\$ (0.54)	\$ (0.68)	\$ (1.15)	\$ (1.04)	\$ (1.21)	\$ (1.13)	\$ (1.23)	\$ (0.93)

(1) Basic and diluted earnings per share are computed independently for each of the quarters presented. Therefore, the sum of quarterly basic and diluted per share amounts may not equal annual basic and diluted per share amounts.

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

(2) Includes stock-based compensation as follows:

	Three Months Ended							
	October 31, 2018	January 31, 2019	April 30, 2019	July 31, 2019	October 31, 2019	January 31, 2020	April 30, 2020	July 31, 2020
	(unaudited, in thousands)							
Product cost of sales	\$ 698	\$ 872	\$ 953	\$ 1,012	\$ 1,112	\$ 1,458	\$ 1,367	\$ 1,397
Support, entitlements and other services cost of sales	3,157	3,373	4,542	4,254	4,751	5,140	5,959	6,164
Sales and marketing	22,606	23,462	35,257	26,426	27,775	31,185	33,177	33,878
Research and development	31,009	34,679	42,265	32,566	37,563	36,459	39,462	39,768
General and administrative	8,455	10,179	11,815	9,149	10,225	11,373	12,131	11,654
Total	\$ 65,925	\$ 72,565	\$ 94,832	\$ 73,407	\$ 81,426	\$ 85,615	\$ 92,096	\$ 92,861

(3) Includes amortization of intangible assets as follows:

	Three Months Ended							
	October 31, 2018	January 31, 2019	April 30, 2019	July 31, 2019	October 31, 2019	January 31, 2020	April 30, 2020	July 31, 2020
	(unaudited, in thousands)							
Product cost of sales	\$ 3,168	\$ 3,692	\$ 3,694	\$ 3,694	\$ 3,694	\$ 3,694	\$ 3,694	\$ 3,695
Sales and marketing	550	666	661	651	651	651	651	650
Total	\$ 3,718	\$ 4,358	\$ 4,355	\$ 4,345	\$ 4,345	\$ 4,345	\$ 4,345	\$ 4,345

**NOTE 15. SUBSEQUENT EVENTS**
**Issuance and Sale of Convertible Senior Notes**

On August 26, 2020, we entered into an investment agreement (the "Investment Agreement") with BCPE Nucleon (DE) SPV, LP ("Bain") relating to the issuance and sale to Bain of \$750 million in an initial aggregate principal amount of 2.50% Convertible Senior Notes due 2026 (the "2026 Notes"). The transactions contemplated by the Investment Agreement (the "Transaction") are expected to close on or prior to September 24, 2020, subject to satisfaction of the customary closing conditions set forth in the Investment Agreement (the date on which the closing occurs, the "Closing").

The 2026 Notes will be governed by an indenture (the "Indenture") between the us and U.S. Bank National Association, as trustee. The 2026 Notes will bear interest at a rate of 2.50% per annum, with such interest to be paid in kind on the 2026 Notes held by Bain through an increase in the principal amount of the 2026 Notes, and in cash on the 2026 Notes transferred to entities not affiliated with Bain. Interest on the 2026 Notes will accrue from the date of issuance and be added to the principal amount on a semi-annual basis thereafter. The 2026 Notes will mature on September 15, 2026, subject to earlier conversion, redemption or repurchase.

The 2026 Notes are convertible at the option of the holder at any time until the close of business on the scheduled trading day immediately preceding the maturity date, subject to all applicable conversion restrictions. The 2026 Notes will be convertible into shares of our Class A Common Stock ("Common Stock") based on an initial conversion rate of 36.0360 shares of Common Stock per \$1,000 principal amount of the 2026 Notes (which is equal to an initial conversion price of \$27.75 per share), in each case subject to customary anti-dilution and other adjustments, including in connection with any make-whole adjustment (as described in the Indenture) as a result of certain extraordinary transactions. In addition, at the one-year anniversary of the date of the 2026 Notes, depending on the achievement of financial milestones, the conversion price may be subject to an additional, one-time adjustment, to an amount in the range of \$25.25 to \$27.75 per share.

**NUTANIX, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

On or after September 15, 2025, the 2026 Notes will be redeemable by us, at our option, for cash, shares of Common Stock, or a combination of both at the election of the holder of the 2026 Notes, for all or any portion of the 2026 Notes in the event that the closing sale price per share of our Common Stock has been at least 150% of the conversion price then in effect for at least 20 trading days (whether or not consecutive), including at least one of the five trading days immediately preceding the date on which we provide the redemption notice in accordance with the Indenture, during any 30 consecutive trading day period (including the last trading day of such period) ending on, and including, the trading day immediately preceding the date on which we provide the redemption notice at a redemption price of 100% of the principal amount of such 2026 Notes, plus any accrued and unpaid interest to, but excluding, the redemption date.

With certain exceptions, upon a Fundamental Change (as defined in the Indenture), which includes, among other things, change of control of Nutanix or the failure of our Common Stock to be listed on a certain stock exchange, the holders of the 2026 Notes may require that we repurchase all or part of their 2026 Notes in principal amount of \$1,000 or an integral multiple thereof at purchase price equal to 100% of the principal amount thereof, plus accrued and unpaid interest thereon to, but excluding, the Fundamental Change repurchase date.

The Indenture will include customary "events of default," which may result in the acceleration of the maturity of the 2026 Notes under the Indenture. The Indenture will also include customary covenants for convertible notes of this type.

**Stock Repurchase Program**

In August 2020, our Board of Directors authorized the repurchase of up to \$125.0 million of our Class A common stock. Repurchases may be made from time to time through open market purchases or through privately negotiated transactions subject to market conditions, applicable legal requirements and other relevant factors. The repurchase program does not obligate us to acquire any particular amount of our common stock, and may be suspended at any time at our discretion.

**CEO Succession Plan**

On August 27, 2020, our Board of Directors announced that it has initiated a CEO succession plan to identify a candidate to succeed Dheeraj Pandey, given Mr. Pandey's plans to retire as Chief Executive Officer. Mr. Pandey intends to continue as Chairman of the Board and Chief Executive Officer until his successor has been selected and appointed.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**Item 9A. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended ("Exchange Act")) prior to the filing of this Annual Report on Form 10-K. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this Annual Report on Form 10-K, our disclosure controls and procedures were, in design and operation, effective at the reasonable assurance level.

**Management's Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) and Rule 15d-15(f) of the Exchange Act. Internal control over financial reporting consists of policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) are designed and operated to provide reasonable assurance regarding the reliability of our financial reporting and our process for the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements. Our management evaluated the effectiveness of our internal control over financial reporting using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control - Integrated Framework (2013). Based on the results of our evaluation, our management has concluded that our internal control over financial reporting was effective as of July 31, 2020.

The effectiveness of our internal control over financial reporting as of July 31, 2020 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report, which appears in Part II, Item 8 of this Annual Report on Form 10-K.

**Limitations on the Effectiveness of Controls**

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements and projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

**Changes in Internal Control over Financial Reporting**

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. Other Information**

None.

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance**

The information required by this item is incorporated herein by reference to our definitive proxy statement for our 2020 annual meeting of stockholders ("2020 Proxy Statement"), which will be filed not later than 120 days after the end of our fiscal year ended July 31, 2020.

**Item 11. Executive Compensation**

The information required by this item is incorporated herein by reference to our 2020 Proxy Statement.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required by this item is incorporated herein by reference to our 2020 Proxy Statement.

**Item 13. Certain Relationships and Related Transactions and Director Independence**

The information required by this item is incorporated herein by reference to our 2020 Proxy Statement.

**Item 14. Principal Accountant Fees and Services**

The information required by this item is incorporated herein by reference to our 2020 Proxy Statement.

**PART IV**

**Item 15. Exhibits and Financial Statement Schedules**

**(a)(1) Consolidated Financial Statements**

We have filed the consolidated financial statements listed in the Index to Consolidated Financial Statements included in Part II, Item 8, "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

**(a)(2) Financial Statement Schedules**

All financial statement schedules have been omitted because they are not applicable, not material, or the required information is shown in the consolidated financial statements or the notes thereto.

**(a)(3) Exhibits**

See the Exhibit Index below in this Annual Report on Form 10-K.

**Item 16. Form 10-K Summary**

None.

**EXHIBIT INDEX**

Number	Exhibit Title	Form	Incorporated by Reference		Filing Date	Filed Herewith
			File No.	Exhibit		
3.1	<a href="#">Amended and Restated Certificate of Incorporation.</a>	10-Q	001-37883	3.1	12/8/2016	
3.2	<a href="#">Amended and Restated Bylaws.</a>	S-1/A	333-208711	3.4	5/27/2016	
4.1	<a href="#">Amended and Restated Investors' Rights Agreement, dated as of August 26, 2014, as amended, by and among the Registrant and certain of its stockholders.</a>	S-1	333-208711	4.1	12/22/2015	
4.2	<a href="#">Specimen Class A Common Stock Certificate of the Registrant.</a>	S-1/A	333-208711	4.2	4/4/2016	
4.3	<a href="#">Form of Warrant to Purchase Shares of Capital Stock by and between the Registrant and certain of its investors.</a>	S-1	333-208711	4.3	12/22/2015	
4.4	<a href="#">Indenture, dated as of January 22, 2018, by and between the Registrant and U.S. Bank National Association and Form of 0% Convertible Senior Notes due 2023.</a>	8-K	001-37883	4.1	1/23/2018	
4.5	<a href="#">Description of Class A Common Stock.</a>	10-K	001-37883	4.5	9/24/2019	
10.1†	<a href="#">Memorandum of Understanding by and between the Registrant and Flextronics Telecom Systems Limited, executed on March 13, 2017.</a>	10-Q	001-37883	10.1	6/5/2019	
10.2	<a href="#">Form of Indemnification Agreement by and between the Registrant and each of its directors and executive officers.</a>	S-1	333-208711	10.1	12/22/2015	
10.3+	<a href="#">2010 Stock Plan and forms of equity agreements thereunder.</a>	S-1/A	333-208711	10.2	8/16/2016	
10.4+	<a href="#">2011 Stock Plan and forms of equity agreements thereunder.</a>	S-1	333-208711	10.3	12/22/2015	
10.5+	<a href="#">2016 Equity Incentive Plan and forms of equity agreements thereunder.</a>	S-1/A	333-208711	10.4	9/19/2016	
10.6+	<a href="#">Amended and Restated 2016 Employee Stock Purchase Plan and forms of equity agreements thereunder.</a>	10-Q	001-37883	10.1	3/5/2020	
10.7+	<a href="#">Employment Agreement, dated as of February 26, 2015, by and between the Registrant and Dheeraj Pandey.</a>	S-1	333-208711	10.6	12/22/2015	
10.8+	<a href="#">Offer Letter, dated as of April 26, 2014, by and between the Registrant and Duston Williams.</a>	S-1	333-208711	10.7	12/22/2015	
10.9+	<a href="#">Offer Letter, dated as of October 17, 2011, by and between the Registrant and David Sangster.</a>	S-1	333-208711	10.11	12/22/2015	
10.10+	<a href="#">Offer Letter, dated as of December 11, 2013, by and between the Registrant and Michael P. Scarpelli.</a>	S-1	333-208711	10.12	12/22/2015	
10.11+	<a href="#">Offer Letter, dated as of July 24, 2015, by and between the Registrant and John McAdam.</a>	S-1	333-208711	10.13	12/22/2015	
10.12+	<a href="#">Executive Incentive Compensation Plan.</a>	S-1	333-208711	10.14	12/22/2015	
10.13	<a href="#">Office Lease, dated as of August 5, 2013, as amended to date, by and between the Registrant and CA-1740 Technology Drive Limited Partnership.</a>	S-1/A	333-208711	10.15	8/16/2016	
10.14	<a href="#">Office Lease, dated as of April 23, 2014, as amended to date, by and between the Registrant and CA-Metro Plaza Limited Partnership.</a>	S-1/A	333-208711	10.16	8/16/2016	
10.15†	<a href="#">Original Equipment Manufacturer (OEM) Purchase Agreement, dated as of May 16, 2014, by and among the Registrant, Nutanix Netherlands B.V. and Super Micro Computer Inc., as amended by Amendment One to Original Equipment Manufacturer (OEM) Purchase Agreement, dated as of November 13, 2017 and Amendment Two to Original Equipment Manufacturer (OEM) Purchase Agreement dated as of October 31, 2018.</a>	10-Q	001-37883	10.2	6/5/2019	
10.16†	<a href="#">Amendment Two to Original Equipment Manufacturer (OEM) Purchase Agreement, dated as of October 31, 2018, by and between the Registrant and Super Micro Computer, Inc.</a>	10-Q	001-37883	10.3	12/10/2018	
10.17+	<a href="#">Change of Control and Severance Policy.</a>	S-1/A	333-208711	10.21	9/12/2016	
10.18†	<a href="#">Integration Services Agreement, dated as of May 19, 2016, by and among the Registrant, Nutanix Netherlands B.V., Avnet, Inc. and Avnet Europe Comm. VA.</a>	S-1/A	333-208711	10.18	5/27/2016	
10.19+	<a href="#">Amended and Restated Outside Director Compensation Policy.</a>	10-Q	001-37883	10.4	12/10/2018	
10.20+	<a href="#">Offer Letter, dated as of November 20, 2017, by and between the Registrant and Tyler Wall</a>	10-Q	001-37883	10.1	3/15/2018	
10.21†	<a href="#">Manufacturing Services Agreement, by and among the Registrant, Nutanix Netherlands B.V. and Flextronics Telecom Systems Limited, entered into on November 1, 2017, as amended by Amendment #1 to Manufacturing Services Agreement entered into on December 19, 2017.</a>	10-Q	001-37883	10.3	6/5/2019	
10.22	<a href="#">Sixth Amendment to the Office Lease dated as of January 29, 2018, by and between the Registrant and Hudson 1740 Technology, LLC.</a>	10-Q	001-37883	10.1	6/12/2018	
10.23	<a href="#">Seventh Amendment to the Office Lease dated as of April 4, 2018, by and between the Registrant and Hudson 1740</a>	10-Q	001-37883	10.2	6/12/2018	

	<a href="#">Technology, LLC.</a>					
10.24	<a href="#">Fourth Amendment to the Office Lease dated as of April 4, 2018, by and between the Registrant and Hudson Metro Plaza, LLC.</a>	10-Q	001-37883	10.3	6/12/2018	
10.25	<a href="#">Fifth Amendment to the Office Lease dated as of October 1, 2018, by and between the Registrant and Hudson Metro Plaza, LLC.</a>	10-Q	001-37883	10.1	12/10/2018	
10.26	<a href="#">Sixth Amendment to the Office Lease dated as of April 5, 2019, by and between the Registrant and Hudson Metro Plaza, LLC.</a>	10-K	001-37883	10.28	9/24/2019	
10.27	<a href="#">Seventh Amendment to the Office Lease dated as of April 25, 2019, by and between the Registrant and Hudson Metro Plaza, LLC.</a>	10-K	001-37883	10.29	9/24/2019	
10.28	<a href="#">Office Lease, dated as of April 4, 2018, by and between the Registrant and Hudson Concourse, LLC.</a>	10-Q	001-37883	10.4	6/12/2018	
10.29††	<a href="#">First Amendment to the Office Lease dated as of September 5, 2018, by and between the Registrant and the Hudson Concourse, LLC.</a>	10-K	001-37883	10.31	9/24/2019	
10.30	<a href="#">Office Lease for 1741 Technology Dr., dated as of September 5, 2018, by and between the Registrant and Hudson Concourse, LLC.</a>	10-Q	001-37883	10.2	12/10/2018	
10.31	<a href="#">Purchase Agreement, dated January 17, 2018, by and among the Registrant and Morgan Stanley &amp; Co. LLC, Merrill Lynch, Pierce, Fenner &amp; Smith Incorporated and Goldman Sachs &amp; Co. LLC, as representatives of the initial purchasers named therein, Form of Convertible Note Hedge Confirmation and Form of Warrant Confirmation.</a>	8-K	001-37883	10.1	1/23/2018	
10.32††	<a href="#">Eighth Amendment to the Office Lease, dated as of September 17, 2019, by and between the Registrant and Hudson Metro Plaza, LLC.</a>	10-Q	001-37883	10.1	12/5/2019	
10.33	<a href="#">First Amendment to the Office Lease, dated as of October 22, 2019, by and between the Registrant and Hudson Concourse, LLC.</a>	10-Q	001-37883	10.2	12/5/2019	
10.34††	<a href="#">Confirmation Letter, dated as of November 12, 2019, relating to the Office Lease by and between the Registrant and Hudson Concourse, LLC.</a>	10-Q	001-37883	10.3	12/5/2019	
10.35††	<a href="#">Amendment Four to the Manufacturing Services Agreement, entered into as of September 4, 2019, by and between the Registrant, Nutanix Netherlands B.V. and Flextronics Telecom Systems Limited.</a>	10-Q	001-37883	10.4	12/5/2019	
10.36	<a href="#">Participation Agreement to the Original Equipment Manufacturer Purchase Agreement, entered into as of September 26, 2019, by and between the Registrant, Nutanix Netherlands B.V. and Super Micro Computer, Inc.</a>	10-Q	001-37883	10.5	12/5/2019	
10.37+	<a href="#">Offer Letter, dated as of October 29, 2019, by and between the Registrant and Tarkan Maner.</a>	10-Q	001-37883	10.2	3/5/2020	
10.38	<a href="#">Investment Agreement, dated as of August 26, 2020, by and among Nutanix, Inc. and BCPE Nucleon (DE) SPV, LP.</a>	8-K	001-37883	10.1	8/27/2020	
21.1	<a href="#">List of subsidiaries of the Registrant.</a>					X
23.1	<a href="#">Consent of Deloitte &amp; Touche LLP, Independent Registered Accounting Firm.</a>					X
24.1	<a href="#">Power of Attorney (included on the Signatures page of this Annual Report on Form 10-K).</a>					X
31.1	<a href="#">Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14a and 15d-14a, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>					X
31.2	<a href="#">Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14a and 15d-14a, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>					X
32.1	<a href="#">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.*</a>					X
32.2	<a href="#">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.*</a>					X
101.INS	XBRL Instance 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

† Confidential treatment has been requested for portions of this exhibit. These portions have been omitted and have been filed separately with the Securities and Exchange Commission.

†† Certain confidential information contained in this Exhibit was omitted by means of marking such portions with brackets because the identified confidential information (i) is not material and (ii) would be competitively harmful if publicly disclosed.

\* These exhibits are furnished with this Annual Report on Form 10-K 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.

+Indicates a management contract or compensatory plan or arrangement.



## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereto duly authorized.

### NUTANIX, INC.

Date: September 23, 2020

By: /s/ Dheeraj Pandey  
Dheeraj Pandey  
Chief Executive Officer and Chairman

### POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Dheeraj Pandey and Duston M. Williams, jointly and severally, his attorneys-in-fact, each with the power of substitution, for him in any and all capacities, to sign any amendments to this report, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Dheeraj Pandey</u> Dheeraj Pandey	Chief Executive Officer and Chairman (Principal Executive Officer)	September 23, 2020
<u>/s/ Duston M. Williams</u> Duston M. Williams	Chief Financial Officer (Principal Financial Officer)	September 23, 2020
<u>/s/ Aaron Boynton</u> Aaron Boynton	Chief Accounting Officer (Principal Accounting Officer)	September 23, 2020
<u>/s/ Sohaib Abbasi</u> Sohaib Abbasi	Director	September 23, 2020
<u>/s/ Susan L. Bostrom</u> Susan L. Bostrom	Director	September 23, 2020
<u>/s/ Craig Conway</u> Craig Conway	Director	September 23, 2020
<u>/s/ Virginia Gambale</u> Virginia Gambale	Director	September 23, 2020
<u>/s/ Steven J. Gomo</u> Steven J. Gomo	Director	September 23, 2020
<u>/s/ Ravi Mhatre</u> Ravi Mhatre	Director	September 23, 2020
<u>/s/ Jeffrey T. Parks</u> Jeffrey T. Parks	Director	September 23, 2020
<u>/s/ Brian M. Stevens</u> Brian M. Stevens	Director	September 23, 2020

**SUBSIDIARIES OF NUTANIX, INC.**

<u><b>Name</b></u>	<u><b>Jurisdiction</b></u>
Nutanix Netherlands B. V.	Netherlands

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement Nos. 333- 227491 and 333- 227513 on Form S-3 and Registration Statement Nos. 333- 213888, 333- 220517, 333- 227490, 333- 233499, and 333- 236925 on Form S-8 of our reports dated September 23, 2020, relating to the financial statements of Nutanix, Inc. and its subsidiaries (the "Company") and the effectiveness of the Company's internal control over financial reporting appearing in this Annual Report on Form 10-K for the year ended July 31, 2020.

*/s/ DELOITTE & TOUCHE LLP*

San Jose, California  
September 23, 2020

**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 Annual Report on Form 10-K 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: September 23, 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 Annual Report on Form 10-K 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: September 23, 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 Annual Report on Form 10-K of Nutanix, Inc. for the year ended July 31, 2020, fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act and that information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Nutanix, Inc.

Date: September 23, 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 Annual Report on Form 10-K of Nutanix, Inc. for the period ended July 31, 2020, fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act and that information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Nutanix, Inc.

Date: September 23, 2020

/s/ Duston M. Williams

Duston M. Williams  
Chief Financial Officer  
*(Principal Financial Officer)*