



Large Call Buy in Nutanix as Transition Continues to Make Progress

Ticker/Price: NTNX (\$36.50)

Analysis:

Nutanix (NTNX) buyers of 2,500 March \$37.50 calls up to \$3 to open today and earlier some small March \$35 call buys in the name. NTNX has seen buyers in the Feb. 7th (W) \$30 calls and Feb. \$27.50 ITM calls recently as some January positioning adjusts into strength. NTNX was a chart highlight a few weeks ago as it worked out of a bull wedge and now nearing a breakout above the November highs that targets \$45. Shares are out of a long downtrend so far in 2020 and back near the 50% retracement of the decline from \$65. The \$6.44B company trades 7.25X cash and 5.16X EV sales with 25% growth expected in both FY20 and FY21. NTNX is seeing better dollar-based net expansion (132% in Q1) while customer growth at the high-end and retention are also both improving. NTNX has been a model transition story with the older 2012-2017 platform gradually transitioning into a subscription-based model and expectation for 75% of their overall mix by Q4 2020 which is up from 51% in 2019. NTNX continues to be a leader in HyperConverged tech and long-term runway for disruption in storage. Analysts have an average target for shares of \$40.50 with 13 buy ratings and 7 hold with concerns around how long it could take to be FCF positive and profitable. OTR Global upgrading to Positive in November seeing greater adoption of their HCI solutions and market leadership helping to fill Q2 2020 pipelines. The firm also thinks NTNX win rates will continue to improve in 2020 driving multiple expansion. Short interest is 6.5% and down from around 8% in July. Hedge fund ownership rose 7.6% in Q3 with Eminence Capital a top holder with 5.39M shares while Altimeter also a notable owner.

Hawk Vision:



Hawk's Perspective: NTNX extended near-term with strength today and after the recent base breakout trigger back at \$33, but continues to be a potential M&A target in the Software space and upside looks promising.

Confidence Ranking: \$\$