

**UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA**

PLAINTIFF, on behalf of himself and all
others similarly situated,

Plaintiff,

v.

NUTANIX, INC., DHEERAJ PANDEY,
and DUSTON M. WILLIAMS,

Defendants.

Case No.

**COMPLAINT FOR VIOLATION OF
THE FEDERAL SECURITIES LAWS**

DEMAND FOR JURY TRIAL

CLASS ACTION

Plaintiff, by his attorneys, brings this class action on behalf of himself and all other persons who purchased Nutanix, Inc. (“Nutanix” or the “Company”) Class A common shares on the open market on a U.S. exchange from March 2, 2018 through February 28, 2019.

Plaintiff alleges the following based upon personal knowledge as to himself and his own acts and upon information and belief as to all other matters. Plaintiff’s information and belief is based on, among other things, the independent investigation of his undersigned counsel. This investigation included, but was not limited to, a review and analysis of: (a) Nutanix’s public filings with the United States Securities and Exchange Commission (“SEC”); (b) research reports by securities and financial analysts; (c) transcripts of Nutanix’s earnings conference calls and

industry conferences; (d) other publicly available presentations by Nutanix; (e) Nutanix's press releases; (f) news and media reports concerning Nutanix and other facts related to this action; (g) data reflecting the pricing and trading volume of Nutanix common shares; and (h) other publicly available material and data, including as identified herein.

I. NATURE OF THE ACTION

1. This is a federal securities fraud class action on behalf of a "Class" consisting of all persons who purchased or otherwise acquired Nutanix Class A common stock on the open market on a U.S. stock exchange during the class period March 2, 2018 through February 28, 2019, both dates inclusive (the "Class Period"). Excluded from the Class are Defendants, the officers and directors of the Company during the Class Period (the "Excluded D&Os"), members of Defendants' and the Excluded D&Os' immediate families, legal representatives, heirs, successors or assigns and any entity in which Defendants' or the Excluded D&Os have or had a controlling interest.

2. During the Class Period, the Defendants made repeated statements that Nutanix was investing heavily in growth and was increasing sales and marketing activities while maintaining high profit margins.

3. Contrary to these statements, and as revealed by the Defendants on February 28, 2019, starting with the fourth fiscal quarter of 2017 (beginning May 1, 2017) through the third fiscal quarter of 2018 (ending April 30, 2018), Defendants did not increase Nutanix's lead generation spending, but rather held lead generation spending, an admitted "key component to building pipeline," flat. Further, starting with the fourth fiscal quarter of 2018 (beginning May 1, 2018) through the second fiscal quarter of 2019 (ending January 31, 2019), rather than either increasing lead generation spending or holding that spending flat, Defendants actually decreased Nutanix's lead generation spending.

4. By misrepresenting the magnitude of Nutanix's marketing spending, and failing to disclose Nutanix was pulling back on lead generation spending, Defendants were able to misrepresent that Nutanix had improved its profit margins through business acumen, rather than the truth – that Nutanix was skimping on important drivers of revenue growth.

5. As a result of Nutanix's lower lead generation spending, Nutanix's pipeline of new business was severely negatively impacted, resulting in significantly lower forecasted earnings starting in the third fiscal quarter of 2019 (ending April 30, 2019).

6. Once Defendants revealed the truth on February 28, 2019, the price of Nutanix common stock plummeted \$16.39 per share, or more than 32%, from its closing price of \$50.09 per share on February 28, 2019, to close at \$33.70 per share on March 1, 2019.

II. JURISDICTION AND VENUE

7. The claims in this class action are asserted pursuant to Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange Act") (15 U.S.C. §§ 78j(b) and 78t(a)) and SEC Rule 10b-5 promulgated thereunder (17 C.F.R. § 240.10b-5).

8. **Jurisdiction:** This Court has jurisdiction over the subject matter of this action pursuant to Section 27 of the Exchange Act (15 U.S.C. § 78aa) and federal question jurisdiction (28 U.S.C. § 1331).

9. **Venue:** Venue is proper in this District pursuant to Section 27 of the Exchange Act, 15 U.S.C. § 78aa and 28 U.S.C. §1391(b), as the Company's principal place of business is located within this District and the Company resides within this District.

10. **Exemption from Intradistrict Assignment:** This action is a Securities Class Action, and pursuant to L.R. 3-2(c) is exempt from the Intradistrict Assignment allegation requirements of L.R. 3-5(b).

11. In connection with the acts, conduct, and other wrongs alleged in this Complaint, Defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including but not limited to, the United States mail, interstate telephone communications and the facilities of a national securities exchange.

III. PARTIES

A. Plaintiff

12. Plaintiff purchased shares of Nutanix common stock in reliance on Defendants' materially false and misleading statements and omissions of material facts, and on the integrity of the market for Nutanix common stock, at artificially inflated prices during the

Class Period, and was damaged when the truth about Nutanix was revealed to the market. Plaintiff's certification, with a listing of his transactions in Nutanix common stock during the Class Period, is annexed to this Complaint.

B. Defendants

13. Nutanix is incorporated under Delaware law with its principal place of business located in San Jose, California. During the Class Period, Nutanix common stock traded on the NASDAQ Global Market ("NASDAQ") under the stock symbol "NTNX."

14. According to Nutanix's Form 10-K for the fiscal year ended July 31, 2018 (the "2018 10-K"), Nutanix "provides a leading enterprise cloud platform that powers many of the world's business applications and end user services by providing software solutions that digitize traditional silos of enterprise computing."

15. Dheeraj Pandey is, and during the Class Period was, Nutanix's Founder, Chief Executive Officer ("CEO"), and Chairman of Nutanix's Board of Directors.

16. Duston M. Williams is, and during the Class Period was, Nutanix's Chief Financial Officer ("CFO").

17. Pandey and Williams are referred to collectively herein as the "Individual Defendants"

IV. CLASS ACTION ALLEGATIONS

18. Plaintiff brings this federal securities fraud action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of a Class consisting of all persons who purchased or otherwise acquired Nutanix Class A common stock on a U.S. open market during the Class Period (March 2, 2018 through February 28, 2019). Excluded from the Class are Defendants, the Excluded D&Os, members of Defendants' and Excluded D&Os' immediate families, legal representatives, heirs, successors or assigns and any entity in which Defendants or the Excluded D&Os have or had a controlling interest.

19. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, Nutanix common stock was actively traded on the NASDAQ, an efficient market. While the exact number of Class members is unknown to Plaintiff

at this time and can be ascertained only through appropriate discovery, Plaintiff believes that there are hundreds or thousands of members in the proposed Class. During the Class Period, there were over 120.1 million shares of Nutanix Class A common stock outstanding. Also during the Class Period, over 808.4 million shares of Nutanix common stock were traded on the NASDAQ, an average of approximately 3.23 million shares traded per day. Record owners and other members of the Class may be identified from records maintained by Nutanix or its transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

20. Plaintiff's claims are typical of the claims of the members of the Class as all members of the Class are similarly affected by Defendants' wrongful conduct in violation of federal law that is complained of herein.

21. Plaintiff will fairly and adequately protect the interests of the members of the Class and has retained counsel competent and experienced in class and securities litigation. Plaintiff has no interests antagonistic to or in conflict with those of the Class.

22. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

- a. whether the federal securities laws were violated by Defendants' acts as alleged herein;
- b. whether Defendants made, issued, or caused to be made or issued untrue statements of material fact to the investing public during the Class Period;
- c. whether Defendants omitted to state material facts necessary in order to make statements made, in the light of the circumstances under which they were made, not misleading;
- d. whether Defendants acted knowingly or recklessly in issuing false and misleading statements or omitting to state material facts;

- e. whether the prices of Nutanix common stock during the Class Period were artificially inflated because of the Defendants' conduct complained of herein; and
- f. whether the members of the Class have sustained damages and, if so, what is the proper measure of damages?

23. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

24. Plaintiff will rely, in part, upon the presumption of reliance established by the fraud-on-the-market doctrine in that:

- a. Defendants made public misrepresentations or failed to disclose material facts during the Class Period;
- b. the omissions and misrepresentations were material;
- c. Nutanix common stock is traded in an efficient market;
- d. Nutanix common stock was liquid and traded with heavy volume during the Class Period;
- e. Nutanix common stock traded on the NASDAQ, an efficient market;
- f. Nutanix was covered by stock research analysts during the Class Period;
- g. the misrepresentations and omissions alleged would tend to induce a reasonable investor to misjudge the value of the Company's common stock; and
- h. Plaintiff and members of the Class purchased, acquired and/or sold Nutanix common stock between the time the Defendants failed to disclose or misrepresented material facts and the time the true facts were disclosed, without knowledge of the omitted or misrepresented facts.

25. Based upon the foregoing, the market for Nutanix stock promptly digested current material information regarding Nutanix from all publicly available sources and reflected such information in Nutanix's stock price. Under these circumstances, all purchasers of Nutanix stock during the Class Period suffered similar injury through their purchase of Nutanix stock at artificially inflated prices.

26. Based upon the foregoing, Plaintiff and the members of the Class are entitled to a presumption of reliance upon the integrity of the market.

V. **SUBSTANTIVE ALLEGATIONS**

A. **Defendants' False and Misleading Statements**

1. **Second Fiscal Quarter of 2018, Ending January 31, 2018**

27. The Class Period begins March 2, 2018. On March 1, 2018, after the market for Nutanix common stock closed for the day, Nutanix issued a press release announcing its financial results for the second fiscal quarter of 2018, ending January 31, 2018 (the "March 1, 2018 Press Release"). The March 1, 2018 Press Release was filed as an attachment to a Form 8-K filed by Nutanix with the SEC on March 1, 2018. The Form 8-K was signed by Williams.

28. For the second fiscal quarter of 2018, the press release announced:

- Revenue: \$286.7 million, growing 44% year-over-year from \$199.2 million in the second quarter of fiscal 2017
- Billings: \$355.9 million, growing 57% year-over-year from \$227.4 million in the second quarter of fiscal 2017
- Gross Profit: GAAP gross profit of \$178.2 million, up 46% year-over-year from \$122.4 million in the second quarter of fiscal 2017; Non-GAAP gross profit of \$182.2 million, up 45% year-over-year from \$126.0 million in the second quarter of fiscal 2017
- Net Loss: GAAP net loss of \$62.6 million, compared to a GAAP net loss of \$76.4 million in the second quarter of fiscal 2017; Non-GAAP net loss of \$23.2 million, compared to a non-GAAP net loss of \$23.0 million in the second quarter of fiscal 2017

- Net Loss Per Share: GAAP net loss per share of \$0.39, compared to a GAAP net loss per share of \$0.54 in the second quarter of fiscal 2017; Non-GAAP net loss per share of \$0.14, compared to a non-GAAP net loss per share of \$0.16 in the second quarter of fiscal 2017
- Cash and Short-term Investments: \$918.3 million, up 159% from the second quarter of fiscal 2017 primarily as a result of \$509 million in net proceeds from its 0% 5-year Convertible Senior Notes issued in the quarter
- Deferred Revenue: \$478.0 million, up 57% from the second quarter of fiscal 2017
- Operating Cash Flow: \$46.4 million, compared to \$19.8 million in the second quarter of fiscal 2017
- Free Cash Flow: \$32.4 million, compared to \$7.1 million in the second quarter of fiscal 2017

29. The March 1, 2018 Press Release also announced that Nutanix had a gross margin of 62.1% on a Generally Accepted Accounting Principles (“GAAP”) basis, and 63.5% on a non-GAAP basis, for the second fiscal quarter of 2018.

30. Williams was quoted in the March 1, 2018 Press Release: “Our 57% billings growth year-over-year and our 45% increase in non-GAAP gross profit year-over-year drove a better than expected bottom line.... Our strong execution on our strategic initiatives, together with our successful convertible debt offering, put us in a strong position for the future.” Pandey was also quoted in the March 1, 2018 Press Release.

31. Later on March 1, 2018, Nutanix held a conference call with stock research analysts to discuss its financial results (the “March 1, 2018 Conference Call”). On the March 1, 2018 Conference Call, Pandey stated that the second fiscal quarter of 2018 was “yet another strong quarter for Nutanix with billings, revenue, gross margin and EPS, all better than our guidance and consensus.” March 1, 2018 Conference Call at 2. Williams stated that “Our gross

margin for the quarter was 63.5%, which was at the high end of our guidance, and compares to 63.2% in the year ago quarter and 61.9% in the prior quarter.” *Id.* at 5

32. On March 2, 2018, the price of Nutanix common stock increased \$2.67 per share, or 8.3%, from its March 1, 2018 closing price of \$36.20, closing at \$38.87 per share.

33. On March 15, 2018, Nutanix filed its Form 10-Q for the second fiscal quarter of 2018 ending January 31, 2018 (“2Q 2018 Form 10-Q”). The 2Q Form 2018 10-Q was signed by Williams, and included materially false and misleading statements concerning Nutanix’s spending on sales and marketing. For example, the 2Q 2018 Form 10-Q stated that:

We continue to invest heavily in the growth of our business, including the development of our solutions and build-out of our global sales force. [2Q 2018 Form 10-Q at 33 (emphasis added).]

* * *

We plan to continue to invest in sales and marketing so that we can capitalize on our market opportunity, *and as part of this, we intend to specifically expand our focus on opportunities with major accounts and large deals*, which we define as transactions over \$500,000 in committed value. [*Id.* at 37 (emphasis added).]

* * *

The increase in product revenue for the three and six months ended January 31, 2018 reflects increased domestic and international demand for our solutions *as we continued to penetrate and expand in global markets through increased sales and marketing activities*. [*Id.* at 43 (emphasis added).]

* * *

[A]s part of our efforts to penetrate and expand in global markets, we have continually increased our marketing activities related to brand awareness, promotions, trade shows and partner programs. [*Id.* at 44 (emphasis added).]

34. Defendants’ statements in paragraphs 28 to 33 were materially false and misleading because, among other things, Defendants represented that Nutanix achieved a margin “at the high end of [] guidance” by “strong executive of strategic initiatives.” In fact, Nutanix

achieved those strong margins by keeping lead generation spending flat. As a result, Nutanix was not in a “strong position for the future,” and was not “increasing” sales and marketing activities.

2. Third Fiscal Quarter of 2018, Ending April 30, 2018

35. On May 24, 2018, after the market for Nutanix common stock had closed for the day, Nutanix issued a press release announcing its financial results for the third fiscal quarter of 2018 ending April 30, 2018 (the “May 24, 2018 Press Release”). The May 24, 2018 Press Release was filed as an exhibit to a Form 8-K filed by Nutanix with the SEC on May 24, 2018. The Form 8-K was signed by Williams.

36. The May 24, 2018 Press Release reported that for the third fiscal quarter of 2018, Nutanix had:

- Revenue: \$289.4 million, growing 41% year-over-year from \$205.7 million in the third quarter of fiscal 2017...
- Billings: \$351.2 million, growing 50% year-over-year from \$234.1 million in the third quarter of fiscal 2017
- Gross Profit: GAAP gross profit of \$193.8 million, up 58% year-over-year from \$122.5 million in the third quarter of fiscal 2017; Non-GAAP gross profit of \$197.8 million, up 57% year-over-year from \$125.9 million in the third quarter of fiscal 2017
- Gross Margin: GAAP gross margin of 67.0%, up from 59.5% in the third quarter of fiscal 2017; Non-GAAP gross margin of 68.4%, up from 61.2% in the third quarter of fiscal 2017
- Net Loss: GAAP net loss of \$85.7 million, compared to a GAAP net loss of \$96.8 million in the third quarter of fiscal 2017; Non-GAAP net loss of \$34.6 million, compared to a non-GAAP net loss of \$45.7 million in the third quarter of fiscal 2017
- Net Loss Per Share: GAAP net loss per share of \$0.51, compared to a GAAP net loss per share of \$0.67 in the third quarter of fiscal 2017; Non-

GAAP net loss per share of \$0.21, compared to a non-GAAP net loss per share of \$0.32 in the third quarter of fiscal 2017

- Cash and Short-term Investments: \$923.5 million, up 164% from the third quarter of fiscal 2017
- Deferred Revenue: \$539.9 million, up 62% from the third quarter of fiscal 2017
- Operating Cash Flow: \$13.3 million, compared to \$(16.0) million in the third quarter of fiscal 2017
- Free Cash Flow: \$(0.8) million, compared to \$(29.2) million in the third quarter of fiscal 2017

37. Pandey was quoted in the May 24, 2018 Press Release as stating “***Investment in our innovation engine is delivering strong results.***” (Emphasis added.) Williams was quoted as saying “The continued growth in our software and support billings and ***gross margin expansion in the quarter demonstrates we are successfully executing on our transition to a software-defined business model.***” (Emphasis added.)

38. Later that same day, Nutanix held a conference call with stock research analysts to discuss its financial results (the “May 24, 2018 Conference Call”). On the call, Pandey stated that “It was strong across the board with billings, revenue and gross margins all ahead of consensus.” May 24, 2018 Conference Call at 2. Williams stated on the call that “Our non-GAAP gross margin for the quarter was 68.4% compared to 61.2% in the year ago quarter, 63.5% in the prior quarter and to our guidance of 67% to 68%. ***This continued gross margin expansion is being driven by a transition to a software-defined business model.***” *Id.* at 5 (emphasis added).

39. On June 12, 2018, after the market for Nutanix common stock had closed for the day, Nutanix filed its Form 10-Q for the third fiscal quarter of 2018 ending April 30, 2018 (the “3Q 2018 Form 10-Q”). The 3Q 2018 Form 10-Q was signed by Williams, and repeated the materially false and misleading statements made earlier in the Class Period:

We continue to invest heavily in the growth of our business, including the development of our solutions and build-out of our global sales force. [3Q 2018 Form 10-Q at 33 (emphasis added).]

* * *

We plan to continue to invest in sales and marketing so that we can capitalize on our market opportunity, *and as part of this, we intend to specifically expand our focus on opportunities with major accounts and large deals*, which we define as transactions over \$500,000 in committed value. [*Id.* at 36 (emphasis added).]

* * *

The increase in product revenue for the three and nine months ended April 30, 2018 reflects increased domestic and international demand for our solutions *as we continue to penetrate and expand in global markets through increased sales and marketing activities*. [*Id.* at 42 (emphasis added).]

* * *

[A]s part of our efforts to penetrate and expand in global markets, we continue to increase our marketing activities related to brand awareness, promotions, trade shows, and partner programs. [*Id.* at 44 (emphasis added).]

40. On June 13, 2018, the price of Nutanix common stock increased \$2.85 per share, or 4.7%, from its June 12, 2018 closing price of \$60.65 per share, to close at \$63.50 per share.

41. Defendants' statements in paragraphs 36 to 39 were materially false and misleading because, among other things, Nutanix's "strong results" and "margin expansion" was not due to "successful execution" of Nutanix's "transition to a software designed business model," but because Nutanix was holding a "key" driver of pipeline – lead generation spend – flat. As such, Nutanix was not "continuing to invest heavily in the growth of the business."

3. Fourth Fiscal Quarter of 2018 and Year-End 2018, Ending July 31, 2018

42. On August 30, 2018, after the market for Nutanix common stock had closed for the day, Nutanix issued a press release announcing its financial results for the fourth fiscal quarter

of 2018 and fiscal year 2018, ending July 31, 2018 (the “August 30, 2018 Press Release”). The August 30, 2018 Press Release was filed with the SEC as an attachment to a Form 8-K on August 30, 2018. The Form 8-K was signed by Williams.

43. The August 30, 2018 Press Release announced that for the fourth fiscal quarter of 2018, Nutanix had:

- Revenue: \$303.7 million (at 77.7% non-GAAP gross margin), up from \$252.5 million (at 62.6% non-GAAP gross margin) in the fourth quarter of fiscal 2017
- Software and Support Revenue: \$267.9 million, growing 49% year-over-year from \$179.6 million in the fourth quarter of fiscal 2017
- Billings: \$395.1 million, growing 37% year-over-year from \$289.2 million in the fourth quarter of fiscal 2017
- Software and Support Billings: \$359.2 million, growing 66% year-over-year from \$216.3 million in the fourth quarter of fiscal 2017
- Gross Margin: GAAP gross margin of 75.9%, up from 61.4% in the fourth quarter of fiscal 2017; Non-GAAP gross margin of 77.7%, up from 62.6% in the fourth quarter of fiscal 2017
- Net Loss: GAAP net loss of \$87.4 million, compared to a GAAP net loss of \$66.1 million in the fourth quarter of fiscal 2017; Non-GAAP net loss of \$19.0 million, compared to a non-GAAP net loss of \$26.0 million in the fourth quarter of fiscal 2017
- Net Loss Per Share: GAAP net loss per share of \$0.51, compared to a GAAP net loss per share of \$0.43 in the fourth quarter of fiscal 2017; Non-GAAP net loss per share of \$0.11, compared to a non-GAAP net loss per share of \$0.17 in the fourth quarter of fiscal 2017
- Cash and Short-term Investments: \$934.3 million, up 168% from the fourth quarter of fiscal 2017

- ✓ Deferred Revenue: \$631.2 million, up 71% from the fourth quarter of fiscal 2017
- ✓ Operating Cash Flow: \$22.7 million, compared to \$5.9 million in the fourth quarter of fiscal 2017
- ✓ Free Cash Flow: \$6.5 million, compared to negative free cash flow of \$6.5 million in the fourth quarter of fiscal 2017

44. The August 30, 2018 Press Release also announced that for fiscal year 2018, Nutanix had:

- ✓ Revenue: \$1.16 billion (at 68.1% non-GAAP gross margin), up from \$845.9 million (at 63.1% non-GAAP gross margin) in fiscal 2017...
- ✓ Software and Support Revenue: \$898.1 million, growing 47% year-over-year from \$609.6 million in fiscal 2017
- ✓ Billings: \$1.42 billion, growing 43% year-over-year from \$990.5 million in fiscal 2017
- ✓ Software and Support Billings: \$1.16 billion, growing 54% year-over-year from \$754.2 million in fiscal 2017
- ✓ Gross Margin: GAAP gross margin of 66.6%, up from 61.3% in fiscal 2017; Non-GAAP gross margin of 68.1%, up from 63.1% in fiscal 2017
- ✓ Net Loss: GAAP net loss of \$297.2 million, compared to a GAAP net loss of \$379.6 million in fiscal 2017; Non-GAAP net loss of \$101.5 million, compared to a non-GAAP net loss of \$120.7 million in fiscal 2017
- ✓ Net Loss Per Share: GAAP net loss per share of \$1.81, compared to a GAAP net loss per share of \$2.96 in fiscal 2017; Non-GAAP net loss per share of \$0.62, compared to a pro forma non-GAAP net loss per share of \$0.85 in fiscal 2017
- ✓ Operating Cash Flow: \$92.6 million, compared to \$13.8 million in fiscal 2017

Free Cash Flow: \$30.2 million, compared to negative free cash flow of \$36.4 million in fiscal 2017

45. Pandey and Williams were quoted in the August 30, 2018 Press Release, with Williams quoted as saying “[t]he company’s strong achievement of 78 percent non-GAAP gross margin, the best in our history, is the direct result of our successful execution toward a software-defined business model.” (Emphasis added.)

46. Later that day, Nutanix convened a conference call with stock research analysts to discuss its financial results (the “August 30, 2018 Conference Call”). On the conference call, Pandey stated “We delivered record performance in several areas, including delivering non-GAAP gross margins of nearly 78%...” August 30, 2018 Conference Call at 2.

47. Williams stated on the August 30, 2018 Conference Call that “Gross margins improved to 68% in fiscal ‘18 versus 63% in fiscal ‘17. And we are also pleased that we self-funded our rapid at scale growth this year, while generating 30 million in free cash flow” (August 30, 2018 Conference Call at 6) and “[o]ur non-GAAP gross margin grew strongly in Q4 to 77.7%, up from 62.6% in the year ago quarter, 68.4% in the prior quarter and better than our guidance of 73% to 74%” (*id.* at 7).

48. Williams also answered a question on that call regarding gross margins from Kay Huberty, a stock research analyst with Morgan Stanley.

Huberty: Thank you. You hit your target around hardware run off in the fourth quarter and yet you beat gross margin by 400 basis points. So, can you just talk about the contributors to that upside? And then I have a follow-up.

Williams: Yeah. I think if you look at the support margins, there is a little bit of increase there, a couple of points probably quarter-over-quarter. The team did a nice job from a support perspective, and the infrastructure and cost there. And then even some of our internal operations cost were a little bit lower, which clearly helped too. And then there are some other things around the fringe there, but pretty much those are the driving factors anyway, Katy.

49. On September 24, 2018, Nutanix filed its 2018 10-K, which was signed by Pandey and Williams and repeated the materially false and misleading statements made earlier in the Class Period:

We intend to grow our base of end customers by increasing our investment 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 expanding our position within the Global 2000. [2018 10-K at 3 (emphasis added).]

* * *

We continue to invest heavily in the growth of our business, including the development of our solutions and build-out of our global sales force.... [*Id.* at 43 (emphasis added).]

* * *

We plan to continue to invest in sales and marketing so that we can capitalize on our market opportunity and as part of this, *we intend to specifically expand our focus on opportunities with major accounts and large deals*, which we define as transactions over \$500,000. [*Id.* at 47 (emphasis added).]

* * *

Product revenue increased year-over-year for both fiscal 2017 and fiscal 2018. The increase in product revenue reflects increased domestic and international demand for our solutions *as we continue to penetrate and expand in global markets through increased sales and marketing activities*. [*Id.* at 53 (emphasis added).]

* * *

[A]s part of our efforts to penetrate and expand in global markets, we continue to increase our marketing activities related to brand awareness, promotions, trade shows, and partner programs. [*Id.* at 54 (emphasis added).]

50. Defendants' statements in paragraphs 43 to 49 were materially false and misleading because, among other things, the increase in gross margin was not "the direct result"

of “successful execution toward a software define business model,” but of reducing lead generation spending, which was “key” to Nutanix’s pipeline growth.

4. First Fiscal Quarter of 2019, Ending October 31, 2018

51. On November 27, 2018, after the market for Nutanix common stock had closed for the day, Nutanix issued a press release announcing its financial results for the first fiscal quarter of 2019 ending October 31, 2018 (the “November 27, 2018 Press Release”). The November 27, 2018 Press Release was filed by Nutanix as an exhibit to a Form 8-K on November 27, 2018. The Form 8-K was signed by Williams.

52. In the November 27, 2018 Press Release, Nutanix announced that for the first fiscal quarter of 2019, it had:

- Revenue: \$313.3 million (at 78.6% non-GAAP gross margin), up from \$275.6 million (at 61.9% non-GAAP gross margin) in the first quarter of fiscal 2018...
- Billings: \$383.6 million, up from \$315.3 million in the first quarter of fiscal 2018...
- Software and Support Revenue: \$280.7 million, growing 44% year-over-year from \$194.7 million in the first quarter of fiscal 2018
- Software and Support Billings: \$351.0 million, growing 50% year-over-year from \$234.5 million in the first quarter of fiscal 2018
- Gross Margin: GAAP gross margin of 76.3%, up from 60.6% in the first quarter of fiscal 2018; Non-GAAP gross margin of 78.6%, up from 61.9% in the first quarter of fiscal 2018
- Net Loss: GAAP net loss of \$94.3 million, compared to a GAAP net loss of \$61.5 million in the first quarter of fiscal 2018; Non-GAAP net loss of \$23.7 million, compared to a non-GAAP net loss of \$24.7 million in the first quarter of fiscal 2018
- Net Loss Per Share: GAAP net loss per share of \$0.54, compared to a GAAP net loss per share of \$0.39 in the first quarter of fiscal 2018; Non-

GAAP net loss per share of \$0.13, compared to a non-GAAP net loss per share of \$0.16 in the first quarter of fiscal 2018

- Cash and Short-term Investments: \$965.0 million, up 164% from the first quarter of fiscal 2018
- Deferred Revenue: \$701.8 million, up 72% from the first quarter of fiscal 2018
- Operating Cash Flow: \$49.8 million, compared to \$10.1 million in the first quarter of fiscal 2018
- Free Cash Flow: \$20.0 million, compared to negative free cash flow of \$7.9 million in the first quarter of fiscal 2018

53. Pandey was quoted in the press release, stating “Our results this quarter prove that our core business continues to grow strongly and put us on a solid path to meet our goal of at least \$3 billion in software and support billings by 2021.”

54. Later that day, Nutanix convened a conference call with stock research analysis to discuss its financial results (the “November 27, 2018 Conference Call”). On the November 27, 2018 Conference Call, Pandey stated that “***The combination of higher than guided revenue, better gross margins and lower operating expenses drove our net loss per share to \$0.13 per share, significantly better than our guidance of a loss between \$0.26 and \$0.28.***” November 27, 2018 Conference Call at 2 (emphasis added). Williams stated that “Our non-GAAP gross margins grew in Q1 to 78.6% up from 61.9% in the year ago quarter and 77.7% in the prior quarter.” *Id.* at 6.

55. On December 7, 2018, Nutanix filed its Form 10-Q for the first fiscal quarter of 2019 (the “1Q 2019 Form 10-Q”). The 1Q 2019 Form 10-Q was signed by Williams, and repeated the false and misleading statements made earlier in the Class Period:

We continue to invest heavily in the growth of our business,... [1Q 2019 Form 10-Q at 31 (emphasis added).]

* * *

We plan to continue to invest in sales and marketing so that we can capitalize on our market opportunity, *and as part of this, we intend to specifically expand our focus on opportunities with major accounts and large deals*, which we define as transactions over \$500,000. [*Id.* at 35 (emphasis added).]

* * *

The increase in product revenue for the three months ended October 31, 2018 reflects increased demand for our solutions *as we continue to penetrate and expand in global markets through increased sales and marketing activities*. [*Id.* at 41 (emphasis added).]

* * *

[A]s part of our efforts to penetrate and expand in global markets, we continue to increase our marketing activities related to brand awareness, promotions, trade shows and partner programs. [*Id.* at 42 (emphasis added).]

56. Defendants' statements in paragraphs 52 through 55 were materially false and misleading because, it was not "higher than guided revenue, better gross margins and lower operating expenses" that "drove" the quarter's financial results and lower net loss per share. Rather, it was Nutanix failing to properly invest in pipeline generation by decreasing lead generation spend, which in turn "drove" higher margins.

57. During the Class Period, the price of Nutanix common stock increased from an opening price of \$36.41 per share on March 2, 2018 to a closing price of \$50.09 per share on February 28, 2019, an increase of over 37%. Nutanix common stock reached a high of \$64.87 per share during the Class Period.

B. The Truth Begins to be Revealed

58. On December 19, 2018, Louis J. Attanasio, Nutanix's Chief Revenue Officer, sold 134,499 shares of Nutanix stock, at prices between \$41.19 and \$41.68 per share, receiving more than \$5.5 million on the sales. This sale represented Attanasio's entire holdings in Nutanix.

59. On December 28, 2018, Tyler Wall, Nutanix's Chief Legal Officer, sold 34,144 shares of Nutanix at \$40.36 per share, receiving almost \$1.38 million dollars on the sale.

60. On February 28, 2019, after the market for Nutanix common stock closed for the day, Nutanix issued a press release announcing its financial results for the second fiscal quarter of 2019, ending January 31, 2019 (the “February 28, 2019 Press Release”). In the February 28, 2019 Press Release, Williams was quoted as saying “Looking ahead, our third quarter guidance reflects the impact of *inadequate marketing spending for pipeline generation* and *slower than expected sales hiring*. We took a critical look at these areas and have taken actions to address them.” (Emphasis added.)

61. Later that day, Defendants convened a conference call to discuss their financial results and the impact of their inadequate marketing spending (the “February 28, 2019 Conference Call”).

62. On the February 28, 2019 Conference Call, Pandey and Williams both revealed that, despite Defendants’ statements earlier in the Class Period that Nutanix was investing in sales and marketing and growing the business, in actuality, Nutanix had held flat or decreased the “key” driver of pipeline – lead generation. As a result, Nutanix had missed its pipeline targets and Nutanix’s financial guidance for upcoming quarters was significantly negatively impacted:

Pandey: I’d like to take you through three key areas of our business where we’re making adjustments to maximize our strong market opportunity. First, we recently identified some *imbalances in our lead generation spending that were beginning to impact our sales pipeline*. We recognized these imbalances in Q2 and have adjusted our lead generation spend accordingly. Despite these, these actions will take some time to take effect and therefore our Q3 guidance reflects the short-term impact of these imbalances. The changes we implemented are already showing early positive signs at the top of the funnel, and we expect to see increasing traction in our sales pipeline over the coming quarters. [Williams] will provide more details on these imbalances and our actions taken later in the call. [February 28, 2019 Conference Call at 2-3 (emphasis added).]

* * *

Williams: Now turning to the guidance for the third quarter. And before getting into the line item detail, let me step back a bit and provide some additional context for our Q2 performance and our third quarter guidance. In Q2, while we were pleased with our progress with moving toward recurring subscription business as well as with our large deals in EMEA performance, *we were disappointed to miss our pipeline targets*. Generally speaking, our Q2 was a quarter that should afford us to build backlog and that did not happen this year.

As Dheeraj discussed at the beginning of the call, *we recently identified some imbalances in our lead generation spending that were beginning to impact our sales pipeline. Lead generation spending is a key component to building pipeline, which ultimately significantly impacts bookings, billings and revenue*. In fiscal 2018 -- I'm sorry, in fiscal 2017, we had increased lead generation spend by 75% over the prior year. This increase drove strong pipeline generation of fiscal 2017 and fiscal 2018, as well as improved efficiencies within the lead generation spend during fiscal 2018.

Encouraged by our overall company performance, *in fiscal 2018, we reallocated some of our lead generation spending to other priorities. As a result, there was a four quarter period from Q4 2017 to Q3 2018 that we basically kept lead generation spend flat*, all while the company continued to perform quite well.

Based on the lead generation spend efficiencies we experienced in FY 2018, we assumed further efficiencies would take place *in FY 2019 and we again reallocated capital away from lead generation spend during our planning process*. In Q2, we noticed a pattern that some of our lead generation efficiencies that we had planned for were not being realized. We began taking actions to reallocate capital back to lead generation spending, while at the same time, dialing back on non-sales hiring. We have continued these actions into Q3.

Our quota-carrying sales reps also contributed to pipeline build and our pipeline targets were further impacted by a shortage of sales reps in the first half of

the fiscal year, resulting in an under-spend by several million dollars. ***It's important to note that all this shifting of spend back to lead generation is not an insignificant amount, the magnitude of the shift is in a few tens of millions.***

Although we started making this adjustment in Q2, we expect it to take a couple of quarters to show meaningful results. In the meantime, we will double down on driving further business from within our large existing enterprise customer base, while the augmented lead generation spending works its way into the pipeline. ***This brings us to our guidance for Q3, where we expect significant impact from imbalance and lead generation spending earlier in the year, and slower-than-expected sales hiring.*** [*Id.* at 5-6 (emphasis added).]

63. Williams also provided guidance for the third fiscal quarter of 2019 ***significantly below*** street estimates:

Expect the following; billings between \$360 million and \$370 million, revenue between \$290 million and \$300 million, gross margins between 75% and 76%, operating expenses between \$330 million and \$340 million, and a per-share loss of approximately \$0.60, using weighted average shares outstanding of 183 million. [February 28, 2019 Conference Call at 6.]

64. By contrast, as stated by Wells Fargo Securities in a February 28, 2019 analyst report, street consensus estimates were for revenue of \$348 million, gross margins of 79%, non-GAAP operating expenses of \$326.4 million, and non-GAAP EPS of a loss of \$0.28 per share.

65. Williams summed up the decreased spending on lead generation in response to a question from Ron Hall, an analyst with Goldman Sachs:

Now, looking back at it, we probably over rotated a bit to the existing customer base and large customers there, where those efficiency dollars are easier to get and probably underspent a little bit on new customers, which those efficiencies are little tougher to get on new customers. But the company was doing fine in FY 2018 and then we go into FY 2019 and we have a lot of spending demands and a lot of pressure on spending and a lot of people looking for leverage, and we made a

decision at that point that we figured those efficiencies would not only continue, but increase in FY 2019 and we reallocated spending away from demand gen[eration] to a certain degree into headcount. [February 28, 2019 Conference Call at 7.]

66. Defendants did not reallocate lead generation to only headcount in marketing. Rather, as confirmed by Williams, Nutanix reallocated to “headcount, a lot went to engineering, some new products and things like that.” February 28, 2019 Conference Call at 9.

67. In response to a question from stock research analyst Victor Chiu of Raymond James, Pandey confirmed that the lack of lead generation spending and sales force hiring was responsible for 80% of the lowered guidance:

Chiu: Could we isolate the impact to results exclusively to lead generation? meaning if, you hadn’t reduced the lead generation allocation, how confident are you that that you could have driven results and you had consensus expectations of like 20% ish year-over-year growth?

Pandey: I think both sales hiring and lead generation, where the two inputs that we were shy of, and most of it -- in an 80-20 kind of argument, I think 80% of it can be contributed to these two actually. 20% is obviously related to better sales execution, with the same inputs, could have better outputs. I think Americas could have done better there as well. [pp. 16-17.]

68. As a result of Defendants’ disclosure of their false and misleading statements during the Class Period, on March 1, 2019, Nutanix common stock fell \$16.39 per share from its February 28, 2019 closing price of \$50.09 per share, or more than 32%, to close at \$33.70 per share on March 1, 2019.

69. Analysts were quick to react to Nutanix’s disclosure, highlighting Nutanix’s failure to properly invest in sales personnel and lead generation, downgrading Nutanix stock, and lowering price targets.

70. For example, in a report dated February 28, 2019, Wells Fargo downgraded Nutanix to market perform, and lowered Nutanix’s price target to \$45 per share from \$70 per

share “following the company’s disappointing outlook reflective of sales under-investment...the company is now a prove-it story in our view as it relates to its plans / ability to drive incremental platform monetization.”

71. Oppenheimer, in a report dated March 1, 2019, downgraded Nutanix common stock to Perform, and removed a price target for Nutanix all together (from a prior price target of \$70 per share), commenting that “we think Nutanix has tried to do too much (massive portfolioc expansion, cloud rollout, M&A, etc.) with too little (under investment in sales/go-to-market) for too long (recent year) and this has caught up with it. NTNIX can eventually regain its footing, yet there is a greater probability that its upcoming Analyst Day will reset the growth/margin bar lower, and with execution risk elevated.”

72. FBN Securities, in a report dated March 1, 2019, lowered its price target for Nutantix common stock from \$70 per share to \$45 per share. Jefferies, in a report dated March 1, 2019, lowered its price target for Nutanix common stock from \$48 per share to \$42 per share.

73. On March 6, 2019, days after Defendants’ February 28, 2019 announcement, Attanasio (who, less than three months earlier had liquidated all of his holding in Nutanix stock) notified Nutanix that he would be leaving Nutanix effective March 8, 2019 “to pursue other opportunities.”

VI. CAUSES OF ACTION

COUNT I

(Against All Defendants for Violations of Section 10(b) and SEC Rule 10b-5)

74. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

75. This Count is asserted against Defendants and is based upon Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5 promulgated thereunder by the SEC.

76. During the Class Period, Defendants, individually and in concert, directly or indirectly, disseminated or approved the false statements specified above, which they knew or deliberately disregarded were misleading in that they contained misrepresentations and failed to

disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

77. Defendants violated Section 10(b) of the Exchange Act and Rule 10b-5 in that they:

- a. employed devices, schemes and artifices to defraud;
- b. made untrue statements of material facts or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and
- c. engaged in acts, practices and a course of business that operated as a fraud or deceit upon plaintiff and others similarly situated in connection with their purchases of Nutanix common stock during the Class Period.

78. Defendants acted with scienter in that they knew that the public documents and statements issued or disseminated in the name of Nutanix were materially false and misleading; knew that such statements or documents would be issued or disseminated to the investing public; and knowingly and substantially participated, or acquiesced in the issuance or dissemination of such statements or documents as primary violations of the securities laws.

79. These Defendants, by virtue of their receipt of information reflecting the true facts of Nutanix, their control over, and/or receipt and/or modification of the Company's allegedly materially misleading statements, and/or their associations with the Company which made them privy to confidential proprietary information concerning Nutanix, participated in the fraudulent scheme alleged herein.

80. The Individual Defendants, who were the senior officers of the Company, had actual knowledge of the material omissions and/or the falsity of the material statements set forth above, and intended to deceive Plaintiff and the other members of the Class, or, in the alternative, acted with reckless disregard for the truth when they failed to ascertain and disclose the true facts in the statements made by them or other Nutanix personnel to members of the investing public, including Plaintiff and the Class.

81. As a result of the foregoing, the market price of Nutanix common stock was artificially inflated during the Class Period. Unaware of the falsity of the statements by Defendants, Plaintiff and the other members of the Class relied on the statements described above and/or the integrity of the market price of Nutanix common stock during the Class Period in purchasing Nutanix common stock at prices that were artificially inflated as a result of the false and misleading statements by Defendants.

82. Had Plaintiff and the other members of the Class been aware that the market price of Nutanix common stock had been artificially and falsely inflated by Defendants' misleading statements and by the material adverse information which Defendants did not disclose, they would not have purchased Nutanix common stock at the artificially inflated prices that they did, or at all.

83. As a result of the wrongful conduct alleged herein, Plaintiff and other members of the Class have suffered damages in an amount to be established at trial.

84. By reason of the foregoing, Defendants have violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder and are liable to the plaintiff and the other members of the Class for substantial damages which they suffered in connection with their purchase of Nutanix common stock during the Class Period.

COUNT II

(Against the Individual Defendants for Violations of Section 20(a) of the Exchange Act)

85. Plaintiff repeats and realleges each and every allegation contained in the foregoing paragraphs as if fully set forth herein.

86. The Individual Defendants named in this count acted as controlling persons Nutanix within the meaning of Section 20(a) of the Exchange Act as alleged herein.

87. During the Class Period, the Individual Defendants participated in the operation and management of Nutanix, and conducted and participated, directly and indirectly, in the conduct of the Company's business affairs. Because of their senior positions, they knew the adverse non-public information about the Company's misstatement and false statements.

88. As officers and/or directors of a publicly owned company, the Individual Defendants had a duty to disseminate accurate and truthful information with respect to Nutanix's financial condition and results of operations, and to correct promptly any public statements issued by Nutanix which had become materially false or misleading.

89. Because of their positions of control and authority as senior officers, the Individual Defendants were able to, and did, control the contents of the various reports, press releases and public filings, which Nutanix disseminated in the marketplace during the Class Period. Throughout the Class Period, the Individual Defendants exercised their power and authority to cause Nutanix to engage in the wrongful acts complained of herein. The Individual Defendants therefore, are "controlling person" of Nutanix within the meaning of Section 20(a) of the Exchange Act.

90. By reason of the above conduct, the Individual Defendants are liable pursuant to Section 20(a) of the Exchange Act for the violations committed by Nutanix.

VII. PRAYER FOR RELIEF

WHEREFORE, Plaintiff demands judgment against Defendants as follows:

- A. Determining that the instant action may be maintained as a class action under Rule 23 of the Federal Rules of Civil Procedure, and certifying Plaintiff as the Class representative;
- B. Requiring Defendants to pay damages sustained by Plaintiff and the Class by reason of the acts and transactions alleged herein;
- C. Awarding Plaintiff and the other members of the Class prejudgment and post judgment interest, as well as their reasonable attorneys' fees, expert fees and other costs; and
- D. Awarding such other and further relief as this Court may deem just and proper.

VIII. DEMAND FOR JURY TRIAL

Plaintiff hereby request trial by jury of all claims so triable.