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8

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

11 RYAN SCHELLER, on behalf of himself
12 and all others similarly situated,

13 Plaintiff,

14 v.

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

17 Defendants.

Case No.

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

DEMAND FOR JURY TRIAL

CLASS ACTION

18
19 Plaintiff Ryan Scheller, by his attorneys, brings this class action on behalf of himself and
20 all other persons who purchased Nutanix, Inc. (“Nutanix” or the “Company”) Class A common
21 shares on the open market on a U.S. exchange from March 2, 2018 through February 28, 2019.

22 Plaintiff alleges the following based upon personal knowledge as to himself and his own
23 acts and upon information and belief as to all other matters. Plaintiff’s information and belief is
24 based on, among other things, the independent investigation of his undersigned counsel. This
25 investigation included, but was not limited to, a review and analysis of: (a) Nutanix’s public
26 filings with the United States Securities and Exchange Commission (“SEC”); (b) research reports
27 by securities and financial analysts; (c) transcripts of Nutanix’s earnings conference calls and
28

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

5 **I. NATURE OF THE ACTION**

6 1. This is a federal securities fraud class action on behalf of a “Class” consisting of
7 all persons who purchased or otherwise acquired Nutanix Class A common stock on the open
8 market on a U.S. stock exchange during the class period March 2, 2018 through February 28,
9 2019, both dates inclusive (the “Class Period”). Excluded from the Class are Defendants, the
10 officers and directors of the Company during the Class Period (the “Excluded D&Os”), members
11 of Defendants’ and the Excluded D&Os’ immediate families, legal representatives, heirs,
12 successors or assigns and any entity in which Defendants’ or the Excluded D&Os have or had a
13 controlling interest.

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

17 3. Contrary to these statements, and as revealed by the Defendants on February 28,
18 2019, starting with the fourth fiscal quarter of 2017 (beginning May 1, 2017) through the third
19 fiscal quarter of 2018 (ending April 30, 2018), Defendants did not increase Nutanix’s lead
20 generation spending, but rather held lead generation spending, an admitted “key component to
21 building pipeline,” flat. Further, starting with the fourth fiscal quarter of 2018 (beginning May 1,
22 2018) through the second fiscal quarter of 2019 (ending January 31, 2019), rather than either
23 increasing lead generation spending or holding that spending flat, Defendants actually decreased
24 Nutanix’s lead generation spending.

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

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

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

7 **II. JURISDICTION AND VENUE**

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

11 8. **Jurisdiction:** This Court has jurisdiction over the subject matter of this action
12 pursuant to Section 27 of the Exchange Act (15 U.S.C. § 78aa) and federal question jurisdiction
13 (28 U.S.C. § 1331).

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

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

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

24 **III. PARTIES**

25 **A. Plaintiff**

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

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

4 **B. Defendants**

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

8 14. According to Nutanix's Form 10-K for the fiscal year ended July 31, 2018 (the
9 "2018 10-K"), Nutanix "provides a leading enterprise cloud platform that powers many of the
10 world's business applications and end user services by providing software solutions that digitize
11 traditional silos of enterprise computing."

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

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

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

18 **IV. CLASS ACTION ALLEGATIONS**

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

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

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

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

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

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

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

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

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

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

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

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

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

8 **V. SUBSTANTIVE ALLEGATIONS**

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

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

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

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

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

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

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

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

23 31. Later on March 1, 2018, Nutanix held a conference call with stock research
24 analysts to discuss its financial results (the “March 1, 2018 Conference Call”). On the March 1,
25 2018 Conference Call, Pandey stated that the second fiscal quarter of 2018 was “yet another
26 strong quarter for Nutanix with billings, revenue, gross margin and EPS, all better than our
27 guidance and consensus.” March 1, 2018 Conference Call at 2. Williams stated that “Our gross
28

1 margin for the quarter was 63.5%, which was at the high end of our guidance, and compares to
2 63.2% in the year ago quarter and 61.9% in the prior quarter.” *Id.* at 5

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

5 33. On March 15, 2018, Nutanix filed its Form 10-Q for the second fiscal quarter of
6 2018 ending January 31, 2018 (“2Q 2018 Form 10-Q”). The 2Q Form 2018 10-Q was signed by
7 Williams, and included materially false and misleading statements concerning Nutanix’s
8 spending on sales and marketing. For example, the 2Q 2018 Form 10-Q stated that:

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

12 * * *

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

17 * * *

18 The increase in product revenue for the three and six months ended January 31,
19 2018 reflects increased domestic and international demand for our solutions *as we*
20 *continued to penetrate and expand in global markets through increased sales and*
21 *marketing activities*. [*Id.* at 43 (emphasis added).]

22 * * *

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

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

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

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

5 35. On May 24, 2018, after the market for Nutanix common stock had closed for the
6 day, Nutanix issued a press release announcing its financial results for the third fiscal quarter of
7 2018 ending April 30, 2018 (the “May 24, 2018 Press Release”). The May 24, 2018 Press
8 Release was filed as an exhibit to a Form 8-K filed by Nutanix with the SEC on May 24, 2018.
9 The Form 8-K was signed by Williams.

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

- 12 • Revenue: \$289.4 million, growing 41% year-over-year from \$205.7
13 million in the third quarter of fiscal 2017...
- 14 • Billings: \$351.2 million, growing 50% year-over-year from \$234.1
15 million in the third quarter of fiscal 2017
- 16 • Gross Profit: GAAP gross profit of \$193.8 million, up 58% year-over-
17 year from \$122.5 million in the third quarter of fiscal 2017; Non-GAAP
18 gross profit of \$197.8 million, up 57% year-over-year from \$125.9 million
19 in the third quarter of fiscal 2017
- 20 • Gross Margin: GAAP gross margin of 67.0%, up from 59.5% in the third
21 quarter of fiscal 2017; Non-GAAP gross margin of 68.4%, up from 61.2%
22 in the third quarter of fiscal 2017
- 23 • Net Loss: GAAP net loss of \$85.7 million, compared to a GAAP net loss
24 of \$96.8 million in the third quarter of fiscal 2017; Non-GAAP net loss of
25 \$34.6 million, compared to a non-GAAP net loss of \$45.7 million in the
26 third quarter of fiscal 2017
- 27 • Net Loss Per Share: GAAP net loss per share of \$0.51, compared to a
28 GAAP net loss per share of \$0.67 in the third quarter of fiscal 2017; Non-

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

- 3 • Cash and Short-term Investments: \$923.5 million, up 164% from the third
4 quarter of fiscal 2017
- 5 • Deferred Revenue: \$539.9 million, up 62% from the third quarter of fiscal
6 2017
- 7 • Operating Cash Flow: \$13.3 million, compared to \$(16.0) million in the
8 third quarter of fiscal 2017
- 9 • Free Cash Flow: \$(0.8) million, compared to \$(29.2) million in the third
10 quarter of fiscal 2017

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

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

23 39. On June 12, 2018, after the market for Nutanix common stock had closed for the
24 day, Nutanix filed its Form 10-Q for the third fiscal quarter of 2018 ending April 30, 2018 (the
25 “3Q 2018 Form 10-Q”). The 3Q 2018 Form 10-Q was signed by Williams, and repeated the
26 materially false and misleading statements made earlier in the Class Period:
27
28

1 of 2018 and fiscal year 2018, ending July 31, 2018 (the “August 30, 2018 Press Release”). The
2 August 30, 2018 Press Release was filed with the SEC as an attachment to a Form 8-K on August
3 30, 2018. The Form 8-K was signed by Williams.

4 43. The August 30, 2018 Press Release announced that for the fourth fiscal quarter of
5 2018, Nutanix had:

- 6 • Revenue: \$303.7 million (at 77.7% non-GAAP gross margin), up from
7 \$252.5 million (at 62.6% non-GAAP gross margin) in the fourth quarter
8 of fiscal 2017
- 9 • Software and Support Revenue: \$267.9 million, growing 49% year-over-
10 year from \$179.6 million in the fourth quarter of fiscal 2017
- 11 • Billings: \$395.1 million, growing 37% year-over-year from \$289.2
12 million in the fourth quarter of fiscal 2017
- 13 • Software and Support Billings: \$359.2 million, growing 66% year-over-
14 year from \$216.3 million in the fourth quarter of fiscal 2017
- 15 • Gross Margin: GAAP gross margin of 75.9%, up from 61.4% in the fourth
16 quarter of fiscal 2017; Non-GAAP gross margin of 77.7%, up from 62.6%
17 in the fourth quarter of fiscal 2017
- 18 • Net Loss: GAAP net loss of \$87.4 million, compared to a GAAP net loss
19 of \$66.1 million in the fourth quarter of fiscal 2017; Non-GAAP net loss
20 of \$19.0 million, compared to a non-GAAP net loss of \$26.0 million in
21 the fourth quarter of fiscal 2017
- 22 • Net Loss Per Share: GAAP net loss per share of \$0.51, compared to a
23 GAAP net loss per share of \$0.43 in the fourth quarter of fiscal 2017;
24 Non-GAAP net loss per share of \$0.11, compared to a non-GAAP net loss
25 per share of \$0.17 in the fourth quarter of fiscal 2017
- 26 • Cash and Short-term Investments: \$934.3 million, up 168% from the
27 fourth quarter of fiscal 2017

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

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

- 9 • Revenue: \$1.16 billion (at 68.1% non-GAAP gross margin), up from
- 10 \$845.9 million (at 63.1% non-GAAP gross margin) in fiscal 2017...
- 11 • Software and Support Revenue: \$898.1 million, growing 47% year-over-
- 12 year from \$609.6 million in fiscal 2017
- 13 • Billings: \$1.42 billion, growing 43% year-over-year from \$990.5 million
- 14 in fiscal 2017
- 15 • Software and Support Billings: \$1.16 billion, growing 54% year-over-
- 16 year from \$754.2 million in fiscal 2017
- 17 • Gross Margin: GAAP gross margin of 66.6%, up from 61.3% in fiscal
- 18 2017; Non-GAAP gross margin of 68.1%, up from 63.1% in fiscal 2017
- 19 • Net Loss: GAAP net loss of \$297.2 million, compared to a GAAP net loss
- 20 of \$379.6 million in fiscal 2017; Non-GAAP net loss of \$101.5 million,
- 21 compared to a non-GAAP net loss of \$120.7 million in fiscal 2017
- 22 • Net Loss Per Share: GAAP net loss per share of \$1.81, compared to a
- 23 GAAP net loss per share of \$2.96 in fiscal 2017; Non-GAAP net loss per
- 24 share of \$0.62, compared to a pro forma non-GAAP net loss per share of
- 25 \$0.85 in fiscal 2017
- 26 • Operating Cash Flow: \$92.6 million, compared to \$13.8 million in fiscal
- 27 2017
- 28

- 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 analysis 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.

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

4 *We intend to grow our base of end customers by increasing our investment in*
 5 *sales and marketing*, leveraging our network of channel partners and OEMs,
 6 furthering our international expansion and extending our enterprise cloud platform
 7 to address new customer segments. One area of continued focus is expanding our
 8 position within the Global 2000. [2018 10-K at 3 (emphasis added).]

9 * * *

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

13 * * *

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

18 * * *

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

23 * * *

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

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

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

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

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

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

- 11 • Revenue: \$313.3 million (at 78.6% non-GAAP gross margin), up from
12 \$275.6 million (at 61.9% non-GAAP gross margin) in the first quarter of
13 fiscal 2018...
- 14 • Billings: \$383.6 million, up from \$315.3 million in the first quarter of
15 fiscal 2018...
- 16 • Software and Support Revenue: \$280.7 million, growing 44% year-over-
17 year from \$194.7 million in the first quarter of fiscal 2018
- 18 • Software and Support Billings: \$351.0 million, growing 50% year-over-
19 year from \$234.5 million in the first quarter of fiscal 2018
- 20 • Gross Margin: GAAP gross margin of 76.3%, up from 60.6% in the first
21 quarter of fiscal 2018; Non-GAAP gross margin of 78.6%, up from 61.9%
22 in the first quarter of fiscal 2018
- 23 • Net Loss: GAAP net loss of \$94.3 million, compared to a GAAP net loss
24 of \$61.5 million in the first quarter of fiscal 2018; Non-GAAP net loss of
25 \$23.7 million, compared to a non-GAAP net loss of \$24.7 million in the
26 first quarter of fiscal 2018
- 27 • Net Loss Per Share: GAAP net loss per share of \$0.54, compared to a
28 GAAP net loss per share of \$0.39 in the first quarter of fiscal 2018; Non-

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

- 3 • Cash and Short-term Investments: \$965.0 million, up 164% from the first
4 quarter of fiscal 2018
- 5 • Deferred Revenue: \$701.8 million, up 72% from the first quarter of fiscal
6 2018
- 7 • Operating Cash Flow: \$49.8 million, compared to \$10.1 million in the
8 first quarter of fiscal 2018
- 9 • Free Cash Flow: \$20.0 million, compared to negative free cash flow of
10 \$7.9 million in the first quarter of fiscal 2018

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

14 54. Later that day, Nutanix convened a conference call with stock research analysis
15 to discuss its financial results (the “November 27, 2018 Conference Call”). On the November 27,
16 2018 Conference Call, Pandey stated that “*The combination of higher than guided revenue,
17 better gross margins and lower operating expenses drove our net loss per share to \$0.13 per
18 share, significantly better than our guidance of a loss between \$0.26 and \$0.28.*” November
19 27, 2018 Conference Call at 2 (emphasis added). Williams stated that “Our non-GAAP gross
20 margins grew in Q1 to 78.6% up from 61.9% in the year ago quarter and 77.7% in the prior
21 quarter.” *Id.* at 6.

22 55. On December 7, 2018, Nutanix filed its Form 10-Q for the first fiscal quarter of
23 2019 (the “1Q 2019 Form 10-Q”). The 1Q 2019 Form 10-Q was signed by Williams, and repeated
24 the false and misleading statements made earlier in the Class Period:

25 *We continue to invest heavily in the growth of our business,...* [1Q 2019 Form
26 10-Q at 31 (emphasis added).]

27 * * *

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

8 As Dheeraj discussed at the beginning of the call, *we recently identified*
9 *some imbalances in our lead generation spending that were beginning to impact*
10 *our sales pipeline. Lead generation spending is a key component to building*
11 *pipeline, which ultimately significantly impacts bookings, billings and revenue*.
12 In fiscal 2018 -- I'm sorry, in fiscal 2017, we had increased lead generation spend
13 by 75% over the prior year. This increase drove strong pipeline generation of fiscal
14 2017 and fiscal 2018, as well as improved efficiencies within the lead generation
15 spend during fiscal 2018.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4 71. Oppenheimer, in a report dated March 1, 2019, downgraded Nutanix common
5 stock to Perform, and removed a price target for Nutanix all together (from a prior price target of
6 \$70 per share), commenting that “we think Nutanix has tried to do too much (massive portfolio
7 expansion, cloud rollout, M&A, etc.) with too little (under investment in sales/go-to-market) for
8 too long (recent year) and this has caught up with it. NTNX can eventually regain its footing, yet
9 there is a greater probability that its upcoming Analyst Day will reset the growth/margin bar
10 lower, and with execution risk elevated.”

11 72. FBN Securities, in a report dated March 1, 2019, lowered its price target for
12 Nutanix common stock from \$70 per share to \$45 per share. Jefferies, in a report dated March 1,
13 2019, lowered its price target for Nutanix common stock from \$48 per share to \$42 per share.

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

18 **VI. CAUSES OF ACTION**

19 **COUNT I**

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

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

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

25 76. During the Class Period, Defendants, individually and in concert, directly or
26 indirectly, disseminated or approved the false statements specified above, which they knew or
27 deliberately disregarded were misleading in that they contained misrepresentations and failed to
28

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

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

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

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

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

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

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

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

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

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

18
19 **COUNT II**
(Against the Individual Defendants for Violations of Section 20(a) of the Exchange Act)

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

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

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

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

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

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

14 **VII. PRAYER FOR RELIEF**

15 WHEREFORE, Plaintiff demands judgment against Defendants as follows:

- 16 A. Determining that the instant action may be maintained as a class action under
17 Rule 23 of the Federal Rules of Civil Procedure, and certifying Plaintiff as the
18 Class representative;
- 19 B. Requiring Defendants to pay damages sustained by Plaintiff and the Class by
20 reason of the acts and transactions alleged herein;
- 21 C. Awarding Plaintiff and the other members of the Class prejudgment and post
22 judgment interest, as well as their reasonable attorneys’ fees, expert fees and
23 other costs; and
- 24 D. Awarding such other and further relief as this Court may deem just and proper.
- 25
26
27
28

1 **VIII. DEMAND FOR JURY TRIAL**

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

3 Dated: March 29, 2019

Respectfully submitted,

4 **BERMAN TABACCO**

5
6 By: /s/ Nicole Lavallee
Nicole Lavallee

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11 *Local Counsel for Plaintiff Ryan Scheller*

12 Robert C. Finkel (*Pro Hac Vice Motion to be*
13 *Filed*)

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20
21 *Counsel for Plaintiff Ryan Scheller*
22
23
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25
26
27
28

PLAINTIFF CERTIFICATION
UNDER THE FEDERAL SECURITIES LAWS

I, Ryan Scheller, hereby state:

1. I have reviewed a complaint against Nutanix, Inc. (“Nutanix”) and certain of its officer(s) and have authorized Wolf Popper LLP to file a class action complaint in that action or any related actions on my behalf.

2. I am willing to serve as a representative party on behalf of the Class, as defined in the above referenced complaint, including providing testimony at deposition and trial, if necessary.

3. The following includes all of my transactions in Nutanix common stock during the period March 2, 2018 through February 28, 2019.

TRADE DATE	PURCHASE OR SALE	QUANTITY	PRICE PER SHARE
9/4/18	Buy	80	\$54.70
9/5/18	Buy	100	\$52.82
9/10/18	Buy	25	\$51.18
9/17/18	Buy	50	\$50.35
12/4/18	Buy	175	\$42.86
12/7/18	Buy	10	\$44.32
12/12/18	Sale	-22	\$46.19
1/15/19	Sale	-200	\$48.52
1/16/19	Sale	-18	\$49.98
2/12/19	Sale	-50	\$53.68
2/12/19	Sale	-50	\$54.32
2/22/19	Sale	-50	\$54.38
2/25/19	Buy	100	\$51.94

4. I did not purchase these shares at the direction of counsel, or in order to participate in any private action arising under the federal securities laws.

5. During the three-year period preceding the date of signing this certification, I have not sought to serve, and have not served, as a representative on behalf of a class in any private action arising under the federal securities laws.

6. I will not accept any payment for serving as a representative party on behalf of the Class except to receive a pro rata share of any recovery, or as ordered or approved by the Court, including the award to a representative party of reasonable costs and expenses, such as lost wages relating to the representation of the Class.

7. I declare under penalty of perjury that the foregoing is true and correct.

Executed this 29th day of March, 2019

By:



Ryan Scheller