Nutanix stock heads for worst day on record, analysts say cloud specialist is spread too thin

Shares of former Wall Street darling Nutanix Inc. are on pace to lose almost a third of their value Friday, after the cloud-computing company delivered an extremely downbeat forecast.

Nutanix NTNX, -32.72% shares fell 31% in morning trading and were on track for their worst single-day slide in history, as the company's latest outlook prompted several analysts to head for the hills. If the losses hold, the plunge could erase $2.9 billion from Nutanix's market value, based on the share count from the company's latest filing.

"Ultimately, we think Nutanix has tried to do too much (massive portfolio 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," wrote Oppenheimer's Ittai Kidron, who cut his rating to perform from outperform on Friday.

The company's weak forecast is the reflection of an "emptied pipeline" and too few additions to the sales team, per Kidron. While the company seems "correctly focused" on hiring sales and engineering talent, he sees investments poised to "meaningfully rise" in the year ahead. Stifel's Brad Reback also cited the company's issues with sales execution while downgrading the stock to hold from buy.

"With the installed base accounting for about 70% to 75% of new bookings over the last two years it seems that penetration rates for the company's core [hyperconverged-infrastructure] solution may be higher than we anticipated and newer solutions have yet to reach the necessary scale to drive overall revenue growth rates," he wrote. Reback, who lowered his target price to $39 from $55, warned that Nutanix faces tough comparisons on billings in the coming quarters.

At least 13 analysts cut their price targets on Nutanix shares after the report, according to FactSet. Of the 22 analysts surveyed by FactSet who track the stock, 15 have buy ratings, six have hold ratings, and one has a sell rating. The average price target is $51.63, nearly 50% above current levels. Susquehanna's Mehdi Hosseini said that the company's commentary validated his bearish call on the shares.

"Soft billings guidance and increased operating expenditures supports our negative view, as sales productivity needs to accelerate (not soften) in order for the company to hit its $3 billion target in fiscal 2021, which we believe is increasingly challenging, particularly given an intensifying competitive landscape with end-market demand growth decelerating," wrote Hosseini, who has a $33 target on the stock.

William Blair's Jason Ader is keeping the faith, writing that he remains a believer in the long-term story and thinks that the company's execution-related issues are fixable, including through a recently completed management change in sales, though the process will take a few quarters.

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