

# NetApp and Nutanix

## M&A Strategic Alternatives and Analysis



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BCom 2025

November 15, 2023

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\*Note: All figures USD

# Company Overview - NetApp



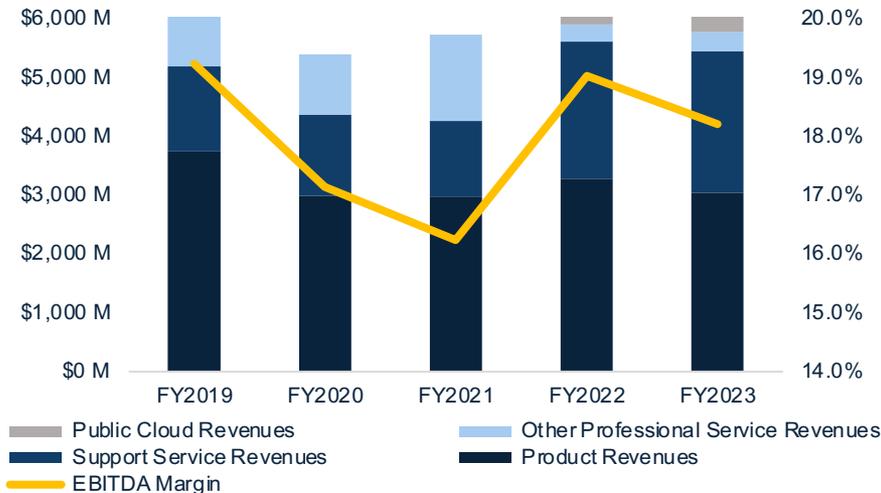
## Company Highlights

**Overview:** NetApp (NASDAQ: NTAP) is a leading provider of data management solutions and services, which includes cloud services, storage infrastructure, and access to hybrid multi-cloud environments. They differentiate themselves by being the only data-centric software company that provides hybrid cloud data and enterprise storage capabilities to the public cloud. NetApp provides a unified software, along with proprietary ransomware protection features.

**Current Strategy:** NetApp maintains market share through strong R&D investments and strategic acquisitions, accelerating innovation and growth. In FY22, NetApp invested \$881 million in R&D and \$525 million in the acquisition of two privately-held corporations, Instaclustr and Fylamynt.

**M&A Rationale:** NetApp's CEO, George Kurian, continues to rely on acquisitions to accelerate growth and innovation, looking at complementary products and industries that can expand NetApp's product portfolio. Year to date, they have acquired 22 companies (\$4.22B) and continue to look for companies to expand.

## Revenue Breakdown (FY19-FY23)

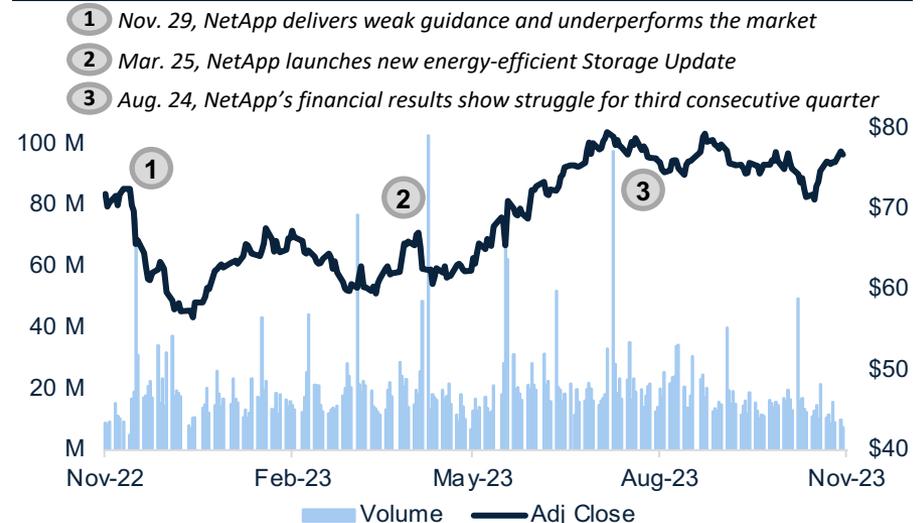


## Key Valuation Metrics & Performance

<b>Market Cap</b>	\$16,413M	<b>Debt (LTM)</b>	\$95.23M
<b>Enterprise Value</b>	\$16,089M	<b>EV / Revenue</b>	2.6 x
<b>Revenue (LTM)</b>	\$6362M	<b>Price-earnings Ratio (P/E)</b>	13.74 x
<b>EBITDA (LTM)</b>	\$1,159M	<b>Enterprise Value / EBITDA</b>	12.4 x
<b>Share Price</b>	\$85.71	<b>Debt / Enterprise Value</b>	16.6%
<b>52-Week High</b>	\$91.78	<b>Gross Profit / R&amp;D</b>	22.7%
<b>52-Week Low</b>	\$59.73	<b>EBITDA Margin</b>	21.9%
<b>Cash (LTM)</b>	\$3,014M	<b>Return On Equity</b>	69.5%

\*\*Share price values as of February 19, 2024 and Currency in USD

## Historic Share Price



# Company Overview - Nutanix

## Company Highlights

**Overview:** Nutanix, Inc. (NASDAQ: NTNX) provides a leading enterprise cloud platform, particularly in the realm of hyper-converged infrastructure (HCI) and cloud software. Nutanix aims to simplify and streamline data center operations by integrating various components into a single, software-defined platform. These solutions allow organizations to simply run and move their workloads, between on-premises and public clouds.

**Current Strategy:** Nutanix maintains market share through R&D investments and strong OEM partnerships, investing \$581 million in R&D and partnering with Cisco to offer a hyperconverged solution – in FY23.

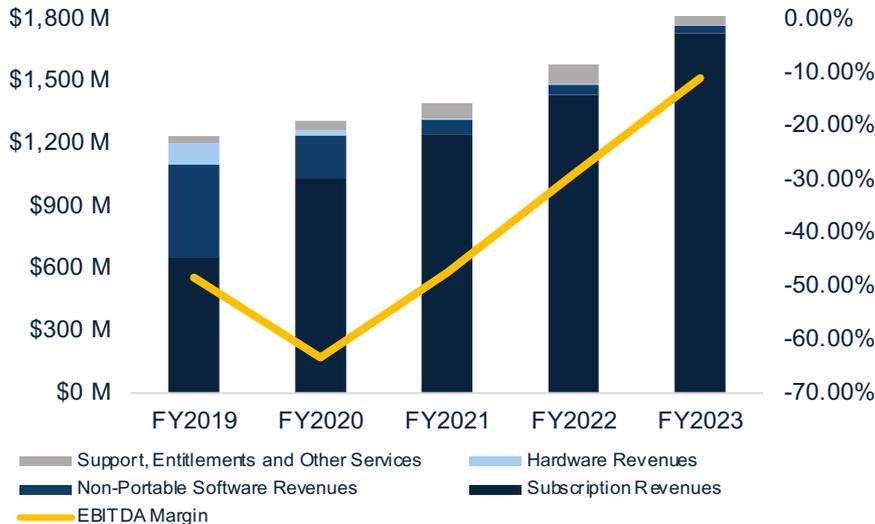
**Suited for M&A:** Nutanix is pioneer and leader in the hyperconverged infrastructure ("HCI") category and have developed strong technology solutions that make it stand out. Since 2016, Nutanix grew their revenues a total of 270% with OEM partners like Dell, Lenovo, and Fujitsu, who can sell their offerings as software-only.

## Key Valuation Metrics & Performance

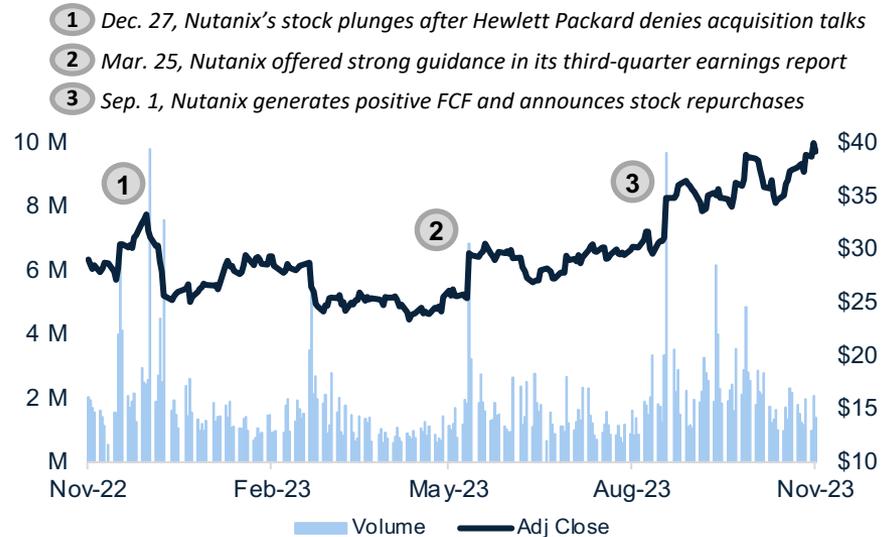
<b>Market Cap</b>	\$9,639M	<b>Debt (LTM)</b>	\$1,330M
<b>Enterprise Value</b>	\$9,746M	<b>EV / Revenue</b>	5.2 x
<b>Revenue (LTM)</b>	\$1,581M	<b>Price-earnings Ratio (P/E)</b>	46.51 x
<b>EBITDA (LTM)</b>	\$(459M)	<b>Enterprise Value / EBITDA</b>	(103.4 x)
<b>Share Price</b>	\$58.34	<b>Debt / Enterprise Value</b>	13.8%
<b>52-Week High</b>	\$59.87	<b>Gross Profit / R&amp;D</b>	38%
<b>52-Week Low</b>	\$29.34	<b>EBITDA Margin</b>	(7.5%)
<b>Cash (LTM)</b>	\$1,437M	<b>Return On Equity</b>	(20.5%)

\*\*Share price values as of February 19, 2024 and Currency in USD

## Revenue Breakdown (FY19 – FY23)



## Historic Share Price



# Industry Overview – IT Infrastructure

## Industry Key Metrics

Metric	Data Management	Hyper-converged Infrastructure (HCI)
2023E Revenue	\$1,241 B	\$4.8 B
2028E Revenue	\$198.7 B	\$19.7 B
Past 5-Year CAGR	4.6%	13.0%
Next 5-Year CAGR	12.1%	26.5%

## Key Trends

**More Affordable Usage of AI and Machine Learning (ML):** Businesses are adopting AI solutions more affordably, creating demand for automation in daily activities and product integration. AI and ML segment held revenue share of over 31.0% in 2022.

**Growing Adoption of Cloud Computing and Cloud-based Solutions:** The cloud segment held the highest share of more than 53.55% in 2022 as it confiscates the need for periodic manual upgrades and allows users to access data without difficulty, cutting operative costs.

**Increasing Need of IT infrastructure:** As the demand for cloud services is expected to grow over the next few years, the scope for IT infrastructure services from these end users is expected to grow rapidly.

With increased adoption of AI and big data, there is a growing demand for IT infrastructure that can store and display this information for businesses.

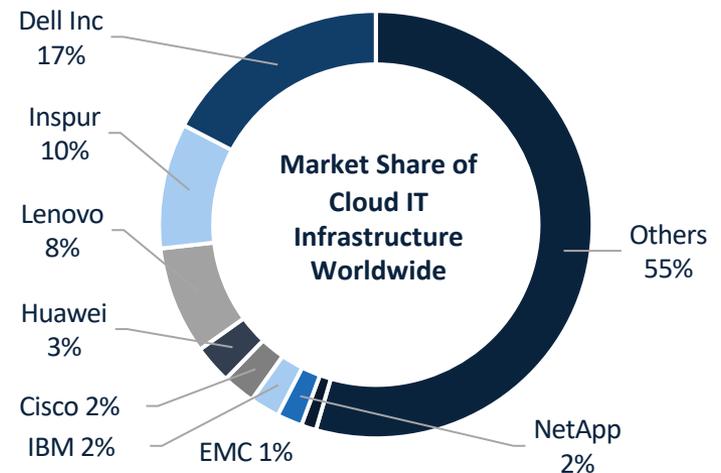
## Global IT Service M&A Trends

**Constant Product Innovation:** Innovation is a key driver in this industry. Companies invest heavily into R&D and look to acquire companies with strong technology capabilities to accelerate growth and market share. In 2022, IT software observed a record 2,278 buyouts with a 12% increase from 2021. Buyers are driven by the high-potential enterprise products and services, accompanied by recurring revenue, synergies, and high ROI opportunities.

**Infrastructure Synergy:** Acquisitions occur often in the industry due to the overlap in infrastructure that supports cloud-based solutions, creating a large opportunity for cost synergies, product development, knowledge transfer among staff.

**Proprietary Technology and Development:** M&A is the fastest way to acquire a company’s intellectual property, creating a strong driver for technological synergy and development. This accelerates product development, creating new unique selling points.

## Competitive Landscape



# M&A Rationale – NetApp and Nutanix

## NetApp Rationale

**Product Platform Expansion:** NetApp's portfolio of cloud services and storage infrastructure powers the backend of a company's enterprise software. By incorporating a HCI structure, NetApp can grow its product offering and service the front end, bring independent applications together.

**Strategy Alignment:** NetApp's core value proposition stems from its expertise in the hybrid cloud, specializing in data storage, and data protection. Nutanix specializes in creating a unified, hyperconverged infrastructure that lives in the hybrid cloud space, creating a strong alignment.

**Penetration into High-Growth Industry:** With a CAGR of 26.5%, the HCI category exhibits a lucrative opportunity for NetApp, establishing a strong market leadership in an emerging industry and creating revenue synergies.

## Nutanix Rationale

**Cost Synergies:** Nutanix continues its journey towards profitability, decreasing costs and increasing product usage. By integrating itself with NetApp, Nutanix can leverage their robust cloud infrastructure and realize significant cost synergies, accelerating profitability.

**Access to OEM network:** Through this acquisition, Nutanix can access a NetApp's network of new clients, increasing potential customer acquisition and reaching a new market. This accelerates growth and adoption for Nutanix.

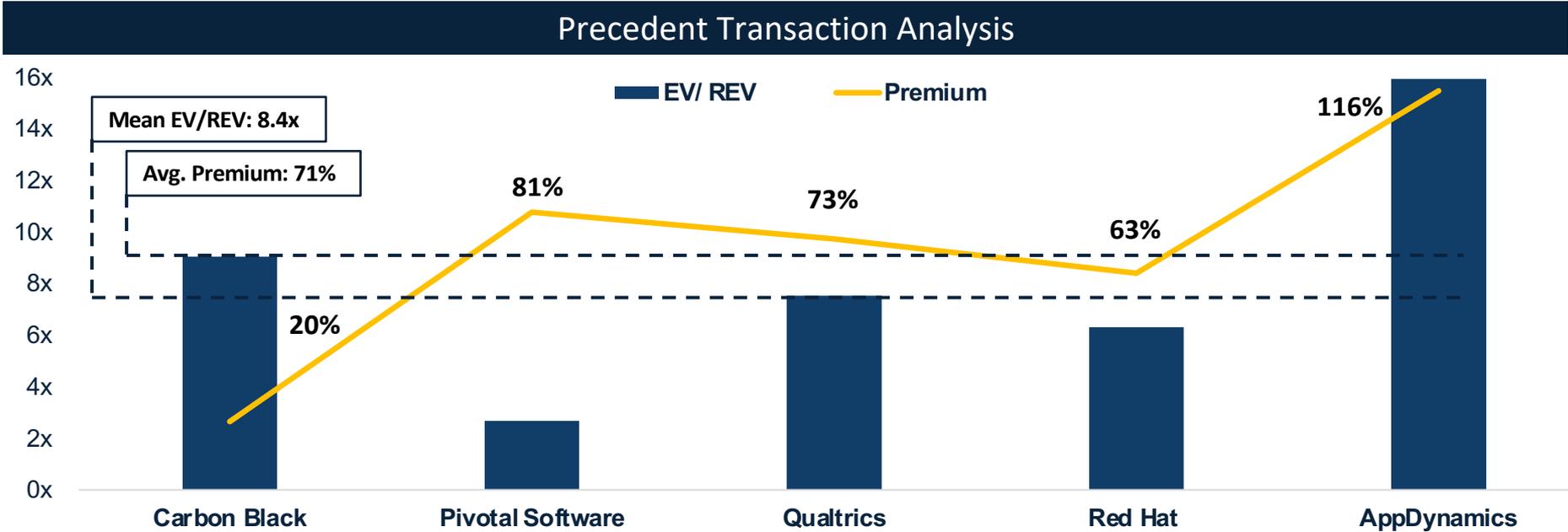
**Product Innovation:** Combined with the expertise and R&D efforts of NetApp, Nutanix can integrate new feature to its HCI, creating a more attractive product with robust data storage capabilities. Nutanix could also leverage NetApp's data protection software as well.

HCI is a rapidly growing industry, by acquiring Nutanix, NetApp expands their product offerings and increases its scale of innovation, penetrating a new industry and establishing a larger presence in the industry. Both parties reap strong cost synergies from mutual technology and expertise, accelerating growth and profitability.

## Increasing M&A Activity in the Industry

	 CORESITE <small>An American Tower Company</small>	 vmware	 CyrusOne	 splunk	 alteryx	 CIVICA
Purchase Year	Dec 2021	May 2022	Mar 2022	Sep 2023	Sep 2023	Nov 2023
Acquirer	American Tower	Broadcom	Global Infrastructure Partners	Cisco	Insight Partners	Blackstone
Purchase Price	\$9.4B	\$69.0B	\$5.0B	\$28.0B	\$4.4B	\$4.5B
Revenue	\$0.6B	\$13.4B	\$1.2B	\$3.7B	\$0.5B	\$0.8B

# Precedent Transaction Analysis



**CARBON BLACK**  
\$2.1B acquisition by  
 VMware  
Oct 2019

**Pivotal**  
\$2.7B acquisition by  
 VMware  
Feb 2021

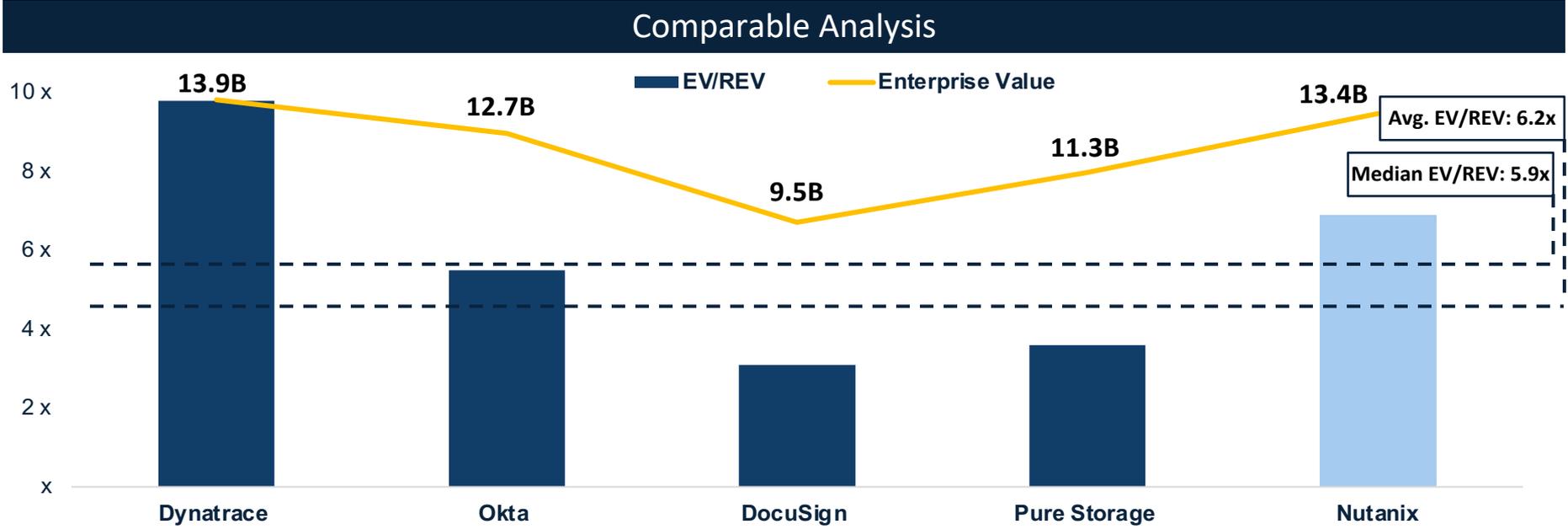
**qualtrics<sup>XM</sup>**  
\$12.5B acquisition by  
**SILVERLAKE**  
Jan 2022

**Red Hat**  
\$34.0B acquisition by  
**IBM**  
Jan 2022

**APPDYNAMICS**  
\$3.7B acquisition by  
 **CISCO**  
Jun 2022

Precedent transactions median EV / REVENUE of **8.4x** implies a price of **\$63.79** for Nutanix, representing a **17.2%** premium

# Comparable Company Analysis



	Dynatrace	Okta	DocuSign	Pure Storage	Nutanix
Equity Value	\$14.7B	\$13.4B	\$10.2B	\$12.4B	\$13.2B
Enterprise Value	\$13.9B	\$12.7B	\$9.5B	\$11.3B	\$13.4B
Revenue	\$1.4B	\$2.1B	\$5.0B	\$2.8B	\$1.9B
EBITDA	\$163.6M	\$(376.0M)	\$161.5M	\$213.6M	\$(9.7M)

Nutanix Inc. trades at a slight premium with an EV/REV multiple of 7.3x compared to the peer group mean of 6.2x, which reflects a true equity value of \$10.8B.

# Strategic Alternatives

## Strategic Partnership

**Potential Partnership:** NetApp should explore the creation of a joint development fund with VMware through a strategic partnership, funding collaborative R&D projects and creating innovative solutions that leverage the strengths of both companies.

**Rationale:** By contributing capital to the joint fund, both NetApp and VMware can align their interests and share the financial commitment to drive technological advancements. This approach not only minimizes the upfront financial burden on each company but also provides a clear mechanism for measuring the return on investment. Shareholders benefit from the potential upside of new product offerings without the immediate need for a full merger.

**Other Potential Partners:**



## Focused Product Line Acquisition

**From NetApp's Perspective:** NetApp should explore the acquisition of a focused product, rather than a full company. This ensures that NetApp strategically enhances its product portfolio, increasing profitability and customer reach.

**Rationale:** By acquiring a targeted product line, NetApp can enhance its capabilities in specific areas without taking on the entire company. This approach allows for a more focused integration effort, minimizing potential disruptions and streamlining the incorporation of new technology into NetApp's portfolio. This can also serve to acquire new licenses and expertise.

**Potential Product Lines:**

1. A *hyper-converged infrastructure software stack* that enables multi-platform integration for NetApp's cloud and hybrid solutions
2. A *data federation solution* that enables real-time access to data distributed across multiple sources, including databases, and cloud storage platforms.

## Horizontal Integration

**Recommendation:** Integrate AI for Data Management into product offerings.

**Rationale:** NetApp should horizontally integrate AI capabilities into its data management solutions. This integration aligns with NetApp's strategic vision to enhance its data management offerings through advanced technologies. The AI integration can optimize data analytics, processing, and management, offering clients a more sophisticated and streamlined solution. Given the increasing importance of AI in the data storage landscape, this move allows NetApp to stay at the forefront of technological innovation. The integration can lead to operational efficiencies, improved data insights, and enhanced customer experiences. This can be done either through acquisitions of smaller players or an in-house team.

**Potential Acquisitions:**



## Licensing and Collaboration Agreement

**Recommendation:** NetApp should explore a Licensing and Collaboration Agreement with Nutanix, a strategic move designed to harness Nutanix's innovative technologies without pursuing a full-scale acquisition. This approach allows NetApp to access specific solutions and intellectual property, facilitating the rapid integration of features into its product offerings.

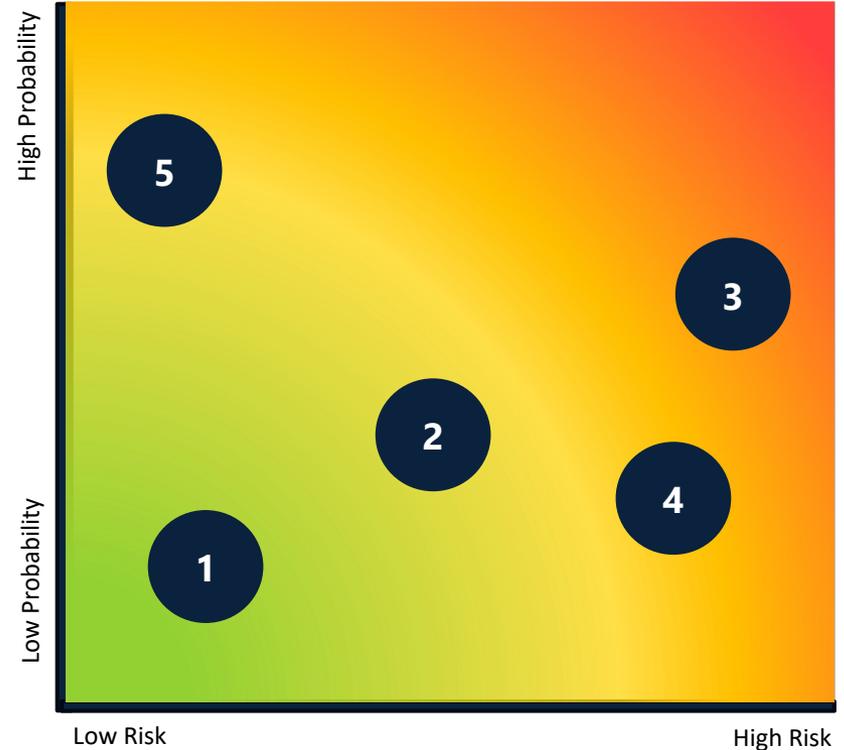
**Rationale:** By opting for a Licensing and Collaboration Agreement, NetApp can strategically tap into Nutanix's technological advancements while maintaining operational autonomy. This collaborative model allows for the efficient transfer of knowledge, enabling NetApp to enhance its product portfolio, meet evolving market demands, and stay ahead in the competitive HCI industry.

**Likelihood:** The success in this alternative depends on the ability to negotiate favorable licensing terms, establish a robust collaboration framework, and ensure that both parties derive tangible benefits from the agreement.

# Risks and Mitigants

Risks	Mitigation Strategies
<p><b>1. Company Integration:</b> Differences in corporate culture can create conflicts and hinder a smooth integration process, affecting employee productivity.</p>	<ul style="list-style-type: none"> <li>Develop a change management strategy that focuses on clear integration of teams, emphasizing workflow, culture, and talent retention.</li> <li>Evaluate team compatibility across NetApp and Nutanix functions.</li> </ul>
<p><b>2. R&amp;D Misalignment:</b> R&amp;D efforts might differ due to difference in focus and functionality.</p>	<ul style="list-style-type: none"> <li>Establish cross functional team, with a unified vision, comprised of both Nutanix and NetApp employees to leverage their respective expertise and develop integration plans that merge both technologies and infrastructures.</li> </ul>
<p><b>3. Technological Integration:</b> Technology might not be easy to integrate and harmonize, given infrastructure.</p>	<ul style="list-style-type: none"> <li>Both companies have a strong expertise and infrastructure used to developed integrated cloud systems. This can be leveraged to design a seamless integration and evaluate needed adjustments.</li> </ul>
<p><b>4. Dilutive Transaction:</b> As of today, Nutanix has negative earnings, diluting the transaction's EPS with no current synergies.</p>	<ul style="list-style-type: none"> <li>Nutanix is expected to hit profitability in 2025, mitigating the effects of dilution in the second year of transaction and realizing possible synergies.</li> <li>Delaying transaction is also a possibility.</li> </ul>
<p><b>5. System Disruption:</b> System integration might disrupt current operations, while expanding product development and growth.</p>	<ul style="list-style-type: none"> <li>Create beta tests that evaluate viability of system integration and assess the feasibility of the technology, ensuring that no problems are created within current processes.</li> </ul>

## Risk Matrix



The biggest risk for NetApp is the technological integration, which is pivotal in their expansion and innovation efforts. With over 16,702 clients using NetApp's enterprise software, they have the required talent to initiate this integration and maximize its impact.