



Welcome to the Pure Storage Q4 Fiscal 2019 earnings conference call.

Joining me today are our CEO, Charlie Giancarlo, our CFO, Tim Riitters, our President David Hatfield, and our VP of Products Matt Kixmoeller. Before we begin, I would like to remind you that during this call, management will make forward-looking statements, which are subject to various risks and uncertainties.

These include statements regarding:

- competitive, industry and technology trends
- our strategy, positioning, and opportunity
- our current and future products
- business and operations - including our operating model
- growth prospects, and revenue and margin guidance for future periods.

Any forward-looking statements that we make are based on assumptions as of today, and we undertake no obligation to update them.

Our actual results may differ materially from the results predicted, and reported results should not be considered as an indication of future performance. A discussion of risks and uncertainties relating to our business is contained in our filings with the SEC, and we refer you to these public filings.

During this call, we will discuss non-GAAP measures in talking about the company's performance, and reconciliations to the most directly comparable GAAP measures are provided in our earnings press release and slides.

This call is being broadcast live on the Pure Storage Investor Relations website and is being recorded for playback purposes. An archive of the webcast will be available on the IR website for at least 45 days and is the property of Pure Storage.

With that, I'll turn the call over to our CEO, Charlie Giancarlo.

Charlie Giancarlo, Chairman & CEO

Thank you, Matt, and good afternoon everyone. Thank you for joining us on today's earnings call. I will begin the call with a summary of our fiscal year results, a look at Q4, and share our excitement for the future; Hat will provide a go-to-market update; and finally, Tim will give a detailed review of our financials and updated outlook.

Looking back at FY19, I believe we made excellent progress on our key company initiatives outlined this time last year. We invested in key markets and growth areas: the Global 2000, the Cloud 1000, and next-generation analytics and AI. Our international revenue grew from 26% of sales in FY18 to 28% of sales in FY19. We achieved profitability for the full year. We continued our industry-leading delivery of important new products opening up new TAM. We now provide hybrid-cloud offerings, solutions for rapid restore, and over 80% of our system capacity now ships as NVMe. Lastly, with our leading software and increasingly subscription-oriented business model, we continued to deliver industry-leading customer delight, as evidenced by our NPS score of 86.6.

Now, our results. Full year results were strong with revenue of \$1.36 billion, growing 33% year-over-year. Gross margin was 67.6%, and operating margin was 3.7%. Gross margin remained at the high-end of our long-term model. And, we delivered our first full year of profitability, which we will continue to grow in the years ahead.



Q4 was a good quarter. Revenue was \$422 million, growing 24% year over year. Gross Margin remained strong at 67.6% in Q4 and operating margin was 7.4%. While we were below our guided range on revenue and profits, these gaps were the result of two distinct, unanticipated items:

First, there was a process breakdown at one of our contract manufacturers. This resulted in a number of orders that were expected to ship in the quarter, not shipping until the days following our quarter end. We have now addressed these process deficiencies.

Second, as you know we launched our Enterprise Storage Service (ES2) offering last year focused on enabling our customers to have a cloud experience on-premises with a true subscription model. We are pleased to say that in Q4, we exceeded our expectations with ES2. Increasing subscription services drives better economics and value for Pure in the long term, but, of course, creates less revenue in the quarter in which it is booked.

Except for these two items, we would have been within our guided range.

As we look ahead to FY20 and beyond, we're excited with Pure's market-leading momentum. We will continue to invest in the strategy we outlined last year:

- Driving growth in our key markets
- Growing the contribution of international revenue
- Driving scale and efficiency
- Leading our market in important innovations
- And finally, continuing our focus on delighting our customers, partners, employees, and long term investors

As one proof point for our optimism, I am pleased to announce that just this week we signed a deal valued at over \$100,000,000 spread out over approximately two years.

Our new product and service offerings have positioned Pure strategically in front of four major growth trends reshaping our industry and growing in importance for CIOs. These are:

1. Hybrid cloud;
2. Fast, consolidated data architectures;
3. AI and analytics; and
4. The transition from slow data backup to rapid restore.

Importantly, most of our new offerings in these areas are based primarily on a subscription revenue model. Let me go into a little more detail on these growth trends.

First, Hybrid Cloud

Customers want a Hybrid Cloud solution that enables them to move mission-critical applications to and from the cloud with ease and agility. Customers also want to have the same data services and APIs available in the cloud that are common today on-prem. Our Cloud Data Services, running Pure software



natively on AWS, are designed to enable our customers to do just that. The response from beta and prospective customers has been very positive.

Second, Fast, Consolidated Compute and Data Architectures

As cloud and enterprise customers deploy modern, data-centric applications, they are demanding faster, consolidated data architectures. They want hyperscale efficiency and performance.

Last week we announced our DirectFlash Fabric, now available on FlashArray, which promises to revolutionize the way modern computing is deployed. Once again, Pure is leading the industry; first charting the path to all-flash, and now transforming the computing stack, enabling direct access performance with shared storage. This innovation brings hyperscale efficiency and performance to everyone.

Third, AI and Analytics

We continue to pioneer data solutions for AI across multiple use cases, thus broadening the accessibility of AI solutions in the market. With fast, consolidated data as a key enabler of AI and analytics, we are well-positioned as the first-mover in this \$6B market.

Fourth, Data Protection or, as we have now redefined it - Rapid Restore

As announced last week, ObjectEngine (formerly StorReduce) is the biggest architectural change to data protection in more than a decade. Delivering on our vision that customers want immediate restoration of services rather than just backup. ObjectEngine is built with a Flash-to-Flash-to-Cloud approach, replacing disk and tape. Customers can now recover data in minutes rather than hours or days by using ObjectEngine with FlashBlade. And ObjectEngine uses the cloud as a cost-effective archive destination for data, eliminating tape and enabling additional uses of their data in the cloud.

Considering all of our new offerings introduced in the past year, we believe we have grown our addressable market from \$35B to more than \$50B. As we embark on our 10th year, we're focused on continued industry-leading growth, expansion of our solutions, and advancing what makes Pure great: unrelenting innovation and a laser focus on customer delight.

With that, I'll turn it over to Hat.

David Hatfield, President

Thanks, Charlie. Momentum was strong for the fiscal year with 33 percent year-over-year annual revenue growth at scale, nearly 1,500 new customers, a productive and expanding partner ecosystem, and excellent traction across our innovative and differentiated product portfolio.

Let me dive into the three areas that contributed to our progress in the year and the quarter.

First, we finished the year with 5,850 total customers, continuing our momentum with more than 400 additions in the quarter. We also made progress in the largest enterprises, governments and cloud-native organizations. We



now have 40 percent of the Fortune 500, we added multi-million dollar government sector wins in both the US and EMEA, and our cloud customers continue to contribute more than 30 percent of our total business.

We are also seeing strong demand within our existing customer base as evidenced by a record number of million-dollar expansion wins in this quarter.

Second, our partner ecosystem continues to expand and deliver real value to our GTM engine. During the quarter, we had excellent traction across our national channel partners, technology alliances and Global Systems Integrators.

Our largest national partners are increasingly choosing to lead with Pure. Most recently, Pure received a number of accolades including Data Center Partner of the Year from SHI, CDW UK Silver Partner of the Year, CRN's Data Center Vendor of the Year, and Best Vendor Channel Program from SVC Awards.

Additionally, we have made significant progress with a number of strategic alliances. Our partnership with Splunk to advance big data analytics continues to thrive, and our joint customer base more than doubled in the year. We signed Rackspace as one of the largest Managed Service Providers and see continued advancement with NVIDIA and Cisco, including the expansion of our converged offerings to include FlashStack for AI and FlashStack as a Service.

Finally, GSIs are growing rapidly and becoming an increasing contributor to our go-to-market efforts and Accenture, DXC and HCL are all now working with Pure. Our leading technology, together with our Evergreen business model are a perfect fit for GSIs, enabling them to reduce costs while improving their service levels to customers. As Charlie mentioned, the progress in and our commitment to this segment is underscored by our recent nine-figure, multi-year agreement with one of the largest GSIs.

Third, our relentless focus to drive value to our customers has changed the nature of the conversations we're having with them. Pure's new innovations in the areas of hybrid cloud, next-gen analytics/AI and Rapid Restore, together with our unique subscription model, has enabled us to become more relevant in their digital transformation journey.

As Charlie noted, we launched our new Cloud Data Services to enable customers to make the most of their data - whether they choose to house it on-prem, in the cloud, or increasingly a mix of both. Enterprises that benefited from Pure's differentiated approach of automation, simplicity, and the Evergreen business model can now seamlessly extend that experience to the cloud. In fact, our 100 percent software/subscription based Cloud Block Store offering, which we launched for beta access in Q4, is oversubscribed and early customer feedback has been overwhelmingly positive.

FlashBlade delivered another great quarter, as we have achieved consistent repeatability and grew our use cases around next-gen analytics, AI and Rapid Restore. Looking forward, we're very excited about our recently announced ObjectEngine solution, a revolutionary, subscription-based approach to data protection that we believe will enable Pure to capture a large portion of this roughly \$8B market. This cloud-first solution leverages FlashBlade to deliver 10X faster recovery for our customers' *most critical data*, while the deduplication and native cloud integration of ObjectEngine protects *the entirety of customers' data* in the public cloud -- all for less money than they are spending on legacy backup appliances.



Lastly, as customers are increasingly looking to consume data solutions as a service, our teams are seeing success in selling our core portfolio as a subscription with our Evergreen Storage Service or ES2. We were pleased with our momentum in this area, which included several multi-million dollar deals globally. We believe that the continued momentum of ES2 together with our new subscription-based products uniquely positions Pure to deliver the industry's leading data solutions on-prem and in the cloud -- in the way that customers want.

In summary, the fundamentals of our business remain strong and with our customer, partner, and employee momentum, we continue to take share in the overall storage market. Our portfolio has never been stronger and now includes new innovations across major growth trends including hybrid cloud, next-generation analytics/AI and modern data protection. We had a great year, we're enthusiastic about 2019, and it truly feels like we are only just getting started.

With that, I'll now turn the call over to Tim. Tim?

Tim Riitters, CFO

Thanks, Hat. Fiscal Year 2019 was a strong year for Pure as we continued our march towards \$2 Billion dollars, growing 33% Year on Year and delivering our first full year of profitability.

Before I dive into the specifics, I'll make my usual note that the Gross Margin, Operating Margin, Opex, Net Income, and Free Cash Flow numbers I will use are non-GAAP unless otherwise noted. Reconciliations of these non-GAAP metrics to the GAAP comparables, as well as our full Q4 results and presentation, are available on our website at investor.purestorage.com.

For the quarter, total revenue grew 24% year-on-year to \$422 million. Product revenue grew 19.7% year-on-year to \$340 million & support revenue grew 47% year-on-year to \$82 million.

As Charlie mentioned, we had two unanticipated items that adversely impacted our Q4 results. The majority of the impact was due to an unexpected distribution issue with one of our contract manufacturers, which we have addressed. In combination with this issue, we launched our ES2 subscription offering last year to empower our customers to have more of a cloud-like experience on-prem, and we overperformed this quarter relative to our original expectations, as we shift more business to this as a service consumption model. While this resulted in lower revenue recognized this quarter due to the subscription nature of ES2, the long-term economics of our subscription-based model are compelling, and we look forward to continuing to grow this business in the new fiscal year.

Except for these two items we would have been within our guided range on both revenue and profits.

Geographically, 71% of sales came from the United States and 29% came from our International markets for the quarter. We grew the overall portion of our revenue that comes from international markets as we continued to scale and build our brand awareness outside of the United States.

Our gross margins continue to speak to the value and differentiation that customers see in our solutions. Margins continued to be strong in Q4. Total gross margins for the quarter were 67.6%, down 0.5 points sequentially but remaining at the high end of our long-term model of 63-68%.



Product gross margins were 67.8%, down modestly (0.3 points) quarter on quarter due to a mix shift to our lower margin FlashBlade business. Both FlashArray and FlashBlade maintained strong margin profiles in the quarter.

Support gross margins were 66.8%, down 1.3 points quarter on quarter. Q4's decrease was driven primarily by investments we are making in our support and professional services team to serve our largest enterprise customers. And lower one-time support revenue items as compared to prior periods.

Moving to operating margins, we continue to make great progress towards our long term profitability goals, achieving the key milestone of our first full year of profitability.

In Q4 operating profit was positive \$31.1 million, or positive 7.4% of revenue, and compares to an operating profit of \$24.9 million, or positive 7.3% in the year-ago quarter. Q4's profit results were directly impacted by the shipping and subscription items we discussed earlier. Excluding these items, our profits results would have been within our guided range of between 8 and 12%. We continue to invest given the positive momentum we are seeing in the business and the opportunity we have in front of us.

Q4 net income for the quarter was positive \$37.0 million or positive \$0.14 per share. This compares to the year-ago period of \$28.8 million or \$0.11 per share. The weighted-average shares used for the per share calculation were 264 million in Q4 and 251 million for the year-ago period.

Moving on to the balance sheet and cash flow, we finished Q4 with cash and investments of \$1.2 billion, an increase of \$53 million from the previous quarter.

Free cash flow in Q4 was positive \$51.4 million, which includes \$17 million of impact related to our employee stock purchase plan. The solid performance at the end of the year enabled Pure to generate positive free cash flow of \$64.3 million for the full year.

As we wrap up our review of Fiscal 2019, I'd like to highlight something that we haven't talked a lot about to date - the increasing momentum we are seeing in our Deferred revenue balance.

Our customer-first strategy has led to the highest customer satisfaction in the industry. Happy customers stay with Pure, and ultimately buy more of Pure - and we are seeing that in our accelerating deferred revenue balance. We believe a growing deferred revenue balance is an indicator of the success we are having in executing on our strategy and building long-term relationships with our customers.

As a result deferred revenue grew 43% year on year, to a record \$536 million, an acceleration from 41% growth in Q3 and was the direct result of three key trends: number one: significant year on year increases in customer renewals, number two: longer-term initial subscription commitments from customers, and number three: the shift we are seeing to our subscription-based products like ES2. These are important and positive trends for our business.

Now I will turn to our guidance.

As we look into next year we are excited about the opportunity ahead for a number of reasons. First, new products have allowed us to address new markets including hybrid-cloud, data protection, and webscale storage. Second, we have notably increased the amount of sales capacity we have at the company, and third, we are delighted about the new partners and routes to market we have developed over the last year. A proof point of



that is the recently signed \$100 million-plus deal that both Charlie and Hat talked about. These trends give us confidence that our strategy is working as we continue to invest.

For the full year of fiscal 2020, we expect:

- Revenues in the range of between \$1.735 billion and \$1.805 billion, representing 30% year-over-year growth at the midpoint
- Non-GAAP gross margin in the range of between 65% to 68%, and
- Non-GAAP operating margin in the range of between 3.0% to 7.0%

For the first fiscal quarter of fiscal 2020, we expect:

- Revenues in the range of \$327 million to \$339 million, or 30% year-over-year growth at the midpoint
- Non-GAAP gross margin in the range of between 65% to 68%, and
- Non-GAAP operating margin in the range of between -8.5% to -4.5%.

Our Q1 guidance is based on the consistent and deliberate strategy we have successfully executed on in each of the last several years - namely to invest early in the year, most notably in our go-to-market organizations, which positions us well to capture significant revenue growth in our seasonally strong second half. This strategy has resulted in year over year operating leverage in the past and based on our full year guide we anticipate year on year improvement in our operating margin again.

One final technical modeling note, as our guidance for Q1 calls for negative net income, we would move back to a basic share count number for EPS calculation purposes. We anticipate a basic Q1 EPS share count of between 240 & 250 million.

In FY19 we continued to overachieve along our path to \$2 billion dollars and beyond, driving industry-leading gross margin, taking share, driving strong operating leverage, and developing long-term meaningful relationships with our customers

With that, I will now turn the call back over to Charlie.

Charlie Giancarlo, Chairman & CEO

Thanks, Tim. Looking ahead, I'm excited about the tremendous opportunities in front of us. We have a \$50B market opportunity in key markets that are essential to powering the data of tomorrow's digital businesses: hybrid cloud, AI and modern analytics, scale-out architectures, and rapid recovery of mission-critical applications.

We continue to take market share with our world-class customer service, industry-leading innovation, and differentiated business model. We're winning in the cloud - with both a significant cloud customer-base and our introduction of new Cloud Data Services.

We're expanding our subscription-centric business model, driving retention and expansion into our growing portfolio while delivering industry-leading customer delight. And lastly, we're tracking to the financial and business goals we've outlined in the past.

Since our founding almost 10 years ago, Pure has transformed the antiquated storage industry and helped customers derive business value from investing in their data. As we look forward to our next 10 years, we are positioned to deliver the industry's next set of innovations.