



Matthew Danziger - VP of Investor Relations

Thank you, and good afternoon. Welcome to the Pure Storage Third Quarter Fiscal 2020 earnings conference call.

Joining me today are our CEO, Charlie Giancarlo, our COO Pual Mountford, our Vice Chair David Hatfield, and our VP of Strategy 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 various 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 - CEO

Thank you, Matt, and good afternoon everyone. Thank you for joining us on today's earnings call. I will begin by sharing our high-level results and highlights from the quarter, Hat will provide a go-to-market update, and I will close with our guidance for the remainder of FY20.

Revenue for Q3 was \$428 million, up 15% year-over-year, significantly faster than our major competitors and the market as a whole.

Continued pricing declines, which were higher than we expected, accounted for the gap to our revenue expectations at the beginning of the quarter, although we are also seeing signs of a more challenging global business environment as commented on by other large infrastructure suppliers.



Despite these in-quarter headwinds, Pure achieved all-time-high gross margins this quarter of 71.7%, well above our guided range of 66-69%. Operating margin for the quarter was 6.8%, at the high end of our guided range. These results speak to the resiliency of our model in the current environment.

Turning to Executive Leadership, we recently announced important changes to our leadership team at Pure.

After almost seven years, David Hatfield is starting a new chapter at Pure, transitioning to Vice Chair and serving as a strategic advisor to Pure, reporting to me. Hat is moving into a role where he can leverage his passion: focusing on delivering Pure's value and vision to new customers and partners, globally.

I am very excited that Paul Mountford joined Pure as Chief Operating Officer on November 4th. Paul was most recently CEO at Riverbed Technology, and earlier held the role of Chief Sales Officer. His deep knowledge and experience makes him the right person to drive Pure's next stage of growth and extend our market leadership. Paul assumes responsibility for all Go-to-Market activities, including Sales, Channels, Alliances, and Marketing; as well as Customer Experience, including Support and Professional Services.

Third, we announced today that Kevan Kryslar will be joining Pure as our new CFO in early December. Most recently Kevan was Senior Vice President of Finance and Chief Accounting Officer at VMware. He will bring a wealth of experience both in Finance and in building scale, and has highly relevant industry experience. Prior to VMware, Kevan was a partner with KPMG, where he served both multi-national and emerging software and technology companies. He will participate in our next Earnings call.

These changes and additions to our team will set us up for an incredibly successful second decade.

Turning to highlights from the quarter, we hosted our largest-ever //Accelerate user conference in Austin this past quarter. We introduced almost a dozen new products and services, which were all immediately available. We also shared our vision, which will power the next decade of Pure's innovation and growth. We call this vision the Modern Data Experience.

In Pure's first decade we redefined what a modern data storage array looked like – fundamentally resetting the bar for the competitive landscape. Despite these advances, data storage still remains the least cloud-like layer of technology in the data center. Delivering data storage in an enterprise is still an extraordinarily manual process with storage arrays highly customized and dedicated to particular workloads.

It is data that powers digital transformation but data storage remains one of its biggest obstacles because of the limitations of today's 30-year old storage architecture.

Pure is transforming storage to a modern, more cloud-like model – helping our customers to run their operations as a true, automated, storage-as-a-service cloud, delivering consistent data services seamlessly across on-prem and public cloud infrastructure.



Pure delivers this modern data experience through our products, solutions, and services, built around four key tenets:

- First, we believe **FAST MATTERS**. Whether we're helping customers launch rockets, detect real-time threats, or compile code and push releases, fast matters. When looking to deliver data for high-performance applications, or enabling multiple applications to access data on one consistent platform, fast matters. We deliver solutions that push the boundaries on low latency (with our new FlashArray with DirectMemory); high bandwidth for big data (with our new 2X larger FlashBlade); and greater efficiency (with our end-to-end QLC-optimized FlashArray//C).
- Second, we believe in **CLOUD EVERYWHERE**. Organizations want to both transform their on-prem operations to the cloud model, and seamlessly link the public cloud for IT agility. Customers also want a single, consistent, data storage architecture for all clouds, public and private. Cloud Block Store provides multi-cloud consistent operations, including migration, test/dev, disaster recovery, and protection for all applications. Our offering on AWS was made Generally Available this past quarter, and we recently previewed Pure Cloud Block Store on Microsoft Azure at the Microsoft Ignite conference.
- Third, is a core belief that **SIMPLE IS SMART**. As we all know, making things ridiculously complex is standard practice in IT. Making things simple is hard work. Pure has built a reputation for delivering products that manage themselves, and for those elements that don't we leverage increasing intelligence from our Pure1 Meta AI Engine to deliver a self-driving, self-managing storage experience, preventing problems and enabling as-a-service automation. We are leveraging these capabilities to simplify the entire enterprise storage experience.
- And finally, a **SUBSCRIPTION TO INNOVATION**. Unlike other products on the market, Pure products look and act like a SaaS service in terms of continual upgrades and new functionality. With Pure's Evergreen storage, every product a customer has bought in the past, and every product they buy today, will always be new, and will constantly evolve toward an ever more modern data experience - all without service downtime or paying for the same storage twice. Pure is leading the industry in both delivering the Modern Data Experience as well as allowing customers to consume as a true 100% OPEX service. We have seen strong traction and adoption for Pure as-a-Service, formerly ES2, signaling a trend from customers for this type of consumption model. Unlike other offerings in the market, Pure makes its entire portfolio available as-a-Service.

We have reimaged the box-based enterprise storage environment as an integrated enterprise-wide storage experience. We're delivering storage-as-a-service to fuel our customer's digital transformation. Pure's Modern Data Experience sets us up well to continue to grow our share of the large data storage market.

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



David Hatfield - Vice Chair

Thanks, Charlie.

We believe that our Modern Data Experience is the way forward, enabling digital businesses to extract more value from their data while improving performance and reducing the complexity and expense of managing infrastructure. Pure's modern approach helps companies deliver on their most strategic initiatives, empowering them to achieve outcomes that were not previously possible.

Because of this, Pure is taking market share and at our Investor Day, we shared that Pure was growing 10x faster than our closest competitor. Customers are being done a disservice by others in the industry who still require forklift upgrades and who are NOT innovating, while Pure's customers benefit from our expanding technology portfolio, industry-leading customer satisfaction, and differentiated Evergreen ownership model.

Pure is being chosen because we enable customers to modernize their existing applications and accelerate their adoption of multi-cloud, containers, and real-time analytics. Our focus on the Cloud, Enterprise, Commercial and Government segments continues to progress nicely. We finished the quarter with more than 7000 total customers, adding approximately six net-new customers per day, equating to nearly 400 new customers in Q3. The Government segment, in particular, continued to be a bright spot in Q3, with business doubling on a year to date basis.

Turning to momentum in our portfolio. Our ability to make the Modern Data Experience a reality for customers today and into the future has never been more evident. Our industry-leading Pure1 SaaS platform makes it extremely easy for customers to manage their hybrid cloud environments across our portfolio including FlashArray//X, FlashArray//C, FlashBlade, and Cloud Data Services. Pure's simple and automated platform allows customers to consolidate their primary and secondary workloads, delivering faster access to more of their data at a much lower total cost of ownership and is an ideal fit for next-generation data analytics and Rapid Restore use cases.

Following our announcement at Accelerate, we have seen the fastest growth of any product we have ever launched with the introduction of our FlashArray//C targeted for tier two. In the quarter, ServiceNow, a leading SaaS company and an existing customer of FlashArray//X and FlashBlade, has now added the all-NVMe FlashArray//C to their environment, with the goal of eliminating spinning disk for tier two workloads. We share their vision of creating an all-flash data center for better reliability, cost, and performance, so they can continue to deliver world-class service levels for their customers.

Pure's Cloud Data Services, including Cloud Block Store on AWS, enables data mobility and empowers customers to achieve on-prem economics in the public cloud. And, as part of our multi-cloud strategy, we recently launched our technical preview of Cloud Block Store on Microsoft Azure at the recent Microsoft Ignite conference. With the growing set of products and unique Pure as-a-Service subscription model, customers can take advantage of our innovation on-prem or in their preferred



public cloud whenever and however they want, today or in the future. We have always been the most innovative and now we are also the safest choice for customers.

Lastly, on a personal note, I want to take a moment to thank our customers, partners, and the Pure team for the past seven years. They have been the most fulfilling and rewarding of my career. Together, we changed the industry with Evergreen Storage, built an incredible company culture and we grew the business from \$0 to more than \$1.5B -- as fast as any Enterprise IT company in history.

I'll be staying on in my new role to help with transition, planning, and strategy. I am excited that Paul has joined the team as COO and I look forward to partnering closely with him to help set-up 2020 and beyond for incredible success.

While my role is changing, what will never waver is my excitement and enthusiasm in our ability to make an impact on our customers every day. We are as optimistic as ever to execute on our long-term vision to deliver the Modern Data Experience and provide freedom for organizations to build for today and tomorrow. We truly are just getting started.

And with that, I will now turn it back over to Charlie, Charlie?

Charlie Giancarlo - CEO

Thank you, Hat. Moving to key financial highlights, we finished the quarter with cash and investments of \$1.2 billion, an increase of \$59 million from the previous quarter. Free cash flow in Q3 was strong at positive \$43 million.

We delivered strong deferred revenue again in the quarter. At the end of the quarter, deferred revenue was \$643 million, an increase of 39% over the same period a year ago, and included a record amount of Pure as-a-Service deals (formerly ES2).

Now I will turn to guidance. In setting our guidance for the remainder of the year, we have taken into account the pricing declines we've seen in the past two quarters, as well as a more challenging global environment. We are highly differentiated as evidenced by our industry-leading growth and gross margins, and accordingly we remain focused on continuing to invest in a fiscally prudent manner as evidenced by our operating profit guide which is within the range that we offered last quarter.

For Q4 of fiscal 2020, we expect:

- Revenues in the range of \$484 to \$496 million, \$490 at the midpoint;
 - Gross margin in the range of between 67.5% to 70.5%; and
 - Operating margin in the range of between 10% to 14%, or 12% at the midpoint.
-



For the full year of fiscal 2020, we now expect:

- Revenues in the range of between \$1.635 billion and \$1.647 billion, or \$1.641 billion at the midpoint;
- Gross margin in the range of between 69.2% to 70.1%; and
- Operating margin in the range of between 2.6% to 3.9%, or 3.2% at the midpoint.

With that, we'll open it up for questions. Operator?
