



Sanjot Khurana - Investor Relations

Thank you, and good afternoon. Welcome to the Pure Storage Third Quarter Fiscal 2022 earnings conference call. My name is Sanjot Khurana, Vice President of Investor Relations at Pure Storage. Joining me today are our CEO, Charlie Giancarlo, our CFO, Kevan Kryslar, and our CTO, Rob Lee.

Before we begin, I would like to remind you that during the call, management will make some forward-looking statements, which are subject to various risks and uncertainties.

These include statements regarding:

- the COVID-19 pandemic and related disruptions,
- our growth and sales prospects,
- competitive, industry and technology trends,
- our strategy and its advantages,
- our current and future product offerings, and
- our business and operations.

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

Our actual results may differ materially from the results forecasted, and reported results should not be considered as an indication of future performance. A discussion of some of the 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. Additionally, when we refer to Sales in our prepared remarks we mean total bookings excluding cancellable orders.

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 and is the property of Pure Storage.

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



Charles Giancarlo - CEO

Welcome everyone! As American families and many of you get ready for Thanksgiving, all of us at Pure extend to you our thanks for joining us today to discuss another terrific quarter.

We are very pleased with our Q3 results, which demonstrate what can be achieved when great innovation and enthusiastic customer focus work together. Our Q3 Revenue was up 37% year over year, with double digit quarter over quarter growth across all product lines, and across both US and International markets. We are also pleased with our strong profitability trend continuing through this fiscal year. With a sustained and steady growth across all key regions, products, and customer segments, Pure continues to take share in this large and growing market.

Our strategy to deliver a Modern Data Experience to our customers and partners continues to lead the industry with new firsts almost every quarter as we deliver on all aspects of the Modern Data Experience - modernizing data infrastructure, operations and applications. This quarter, we announced the latest additions to our product portfolio that bring storage and applications even closer together.

Pure Fusion, our new software-defined, multi-cloud, self-service storage environment, is a major advance that will allow customers to better manage their data in a multi-cloud environment, while enabling developers to deploy sophisticated data storage services on-demand. We also announced Portworx Data Services, which will further allow those self-same developers to quickly deploy production-grade data services on Kubernetes. Together with advances in our Pure1 Digital Experience, Pure is enabling a Cloud Operating Model for Enterprises everywhere and engagement has been strong.

Our next announcement, on December 8th, will push infrastructure modernization even further, and extend the breadth of our FlashArray platform.

Today, all of Pure's capabilities are available as-a-Service. We continue to see strong growth across Evergreen, Pure as-a-Service, and Portworx which together represent a third of our revenues.

Gartner has once again validated Pure's leadership in both of their storage Magic Quadrants, recognizing our execution and vision in primary storage and in the rapidly-growing file and object market for unstructured data.

Given our speed and breadth of innovation, it should not be a surprise that more and more customers are purchasing the full Pure portfolio. This quarter, the Commonwealth of Massachusetts chose a full Pure as-a-Service solution with

- FlashArray and FlashStack for block performance and capacity;
- FlashBlade for unified fast file and object;
- and our Portworx Suite to containerize and modernize applications.



The Commonwealth of Massachusetts said that what put Pure ahead of the competition was our ability to provide them with what they describe as a “Data Plane-as-a-Service” offering that can

- work with any data type,
- provide ransomware protection and rapid recovery,
- and scale seamlessly,
- all delivered through an SLA for transparency, reliability and cost effectiveness.

One of their first use cases will be to modernize an application for Massachusetts law enforcement. Using Pure and Portworx they will provide fast, distributed access to criminal record information with no degradation even under heavy load, increasing the safety of their law enforcement personnel and the public.

Pure continues to see strong adoption in the public sector. State and local governments and agencies have long been a strong segment for Pure. I am pleased that we are seeing steady progress and traction with US federal and international governmental agencies. For instance, we now have deployments in all three branches of the US Federal Government and three branches of the US department of defense.

Enterprise and Commercial markets continue to experience strong growth. Pure is proud to deliver our Modern Data Experience to now more than 50% of Fortune 500 companies, and almost 50% of Fortune’s Global 500 list companies which speaks to the universal appeal of our portfolio.

I will now turn briefly to two topics very much in the news and on investors’ minds.

Our global customers and prospects are beginning to appreciate the “power” and “green” advantage of Pure, ... and by “power” I am not referring to IOPS or throughput and by “green” I am not referring to our Evergreen Subscriptions. Simply speaking, Pure’s products use dramatically less energy and create far less waste than competitive offerings. We take this expanded scope and responsibility very seriously and look forward to publishing our first Environmental, Social, and Governance report early next calendar year. When customers learn how much our solutions reduce energy, space and waste in their environmental footprint, Pure becomes a true partner in helping them achieve their ESG objectives.

Supply chains are on everyone’s mind and no company is immune to this disruption. As we have reported in the past, Pure has built a very robust supply chain based on strong, open and trusted relationships with our partners. Our strategy incorporates manufacturing and operations in multiple sites and on multiple continents to enable flexibility, resilience and global responsiveness.

This past quarter, global semiconductor availability was more challenging than last quarter and we expect this environment to continue into next year. However, our operations team and the strong partnerships we’ve built with our suppliers, have continued to work well, minimizing impacts to our customers and our business.



Knowing that our products are helping people all over the world is incredibly motivating to our team. I am proud of how well Pure employees have innovated, executed, and delivered our Modern Data Experience to customers, despite the continuing Covid environment and the many other challenges they may individually face. I'd like to give a special shout out and congratulations to our new Chief Revenue Officer, Dan FitzSimons, who - in his six years at Pure - has risen to every challenge we have thrown at him, most recently leading our Americas business to increasing excellence. Dan's elevation is indicative of the deep leadership and bench strength we have across the company. Given the effectiveness of our team, the quality of our products and the strength of our customer and partner relationships, the future remains bright for Pure.

Kevan, over to you.

Kevan Kryslar - CFO

Thank you Charlie and good afternoon.

We are very pleased with the continued robust demand across our entire portfolio as well as our execution, delivering both strong revenue growth and operating profit during the quarter.

The high demand we saw this quarter was balanced across our portfolio, key geographies, and market segments and was evidenced by our sales growth of an incredibly strong 41 percent, excluding cancelable orders. Our sales growth this quarter also includes sales of FlashArray//C to one of the top 10 hyperscalers.

Our supply chain team and suppliers continue to execute, minimizing disruptions for our customers despite an increasingly supply constrained environment that is dynamic.

We are also pleased with the continued progress of our subscription business as Subscription Services revenue grew approximately 38 percent year-over-year.

Subscription ARR or Annual Recurring Revenue was \$788 million at the end of the Q3, growing at 30 percent compared to last year. Subscription ARR includes the annualized value of all active subscription contracts as of the last day of the quarter plus annualized on-demand revenue.

Remaining performance obligations, or RPO, which includes our committed and non-cancelable future revenue was over \$1.2 billion growing at 27 percent.

We saw an improvement in new customer acquisition with 345 new customers representing 12 percent year over year growth. New customer acquisitions were balanced across geography, market segment and our solutions portfolio. Our total customer count has exceeded 9,500 customers which includes over 50% of Fortune 500 companies.



Now turning to additional specific financial results for the quarter. Total revenue grew 37 percent to approximately \$563 million. Revenue in the United States grew 35 percent and International revenue grew 42 percent compared to last year.

With the strong demand this quarter, including the sale of FlashArray//C to one of the top 10 hyperscalers, product revenue was very strong, growing approximately 37 percent.

Non-GAAP total gross margins were 68.5 percent this quarter. The decline in Non-GAAP total gross margins both sequentially and compared to the last year is driven by Non-GAAP Product gross margins which were 66.7 percent in Q3. Our sale of FlashArray//C to one of the top 10 hyperscalers this quarter and to a lesser extent, increasing supply chain costs were the primary drivers we saw impacting product gross margins this quarter.

Non-GAAP subscription services margins continued to trend favorably at 72.1 percent this quarter.

We achieved nearly \$70 million of Non-GAAP operating profit and 12.3 percent of Non-GAAP operating margin this quarter. Increasing revenue growth, sales efficiency, and the effects of the COVID environment contributed to our increasing profitability.

We estimate that the effects of the COVID environment are approximately two points of benefit to our operating margin this quarter. These reduced expenses generally relate to significantly reduced travel, physical marketing events, and slower than planned hiring.

We ended the quarter with over \$1.36 billion in cash and approximately 4,000 employees.

Cash flow from operations of \$127 million were again very strong this quarter, and capital expenditures were \$25.7 million during the quarter.

We returned approximately \$56 million of capital to repurchase slightly over 2.3 million shares. At the end of the quarter, we have approximately \$70 million remaining from our \$200 million share repurchase program.

Now turning to Q4 guidance.

We expect strong demand in Q4 with estimated revenue to be approximately \$630 million, growing 25 percent. We also expect continued healthy profitability with Non-GAAP operating profit estimated to be approximately \$90 million in Q4, representing approximately 14 percent Non-GAAP operating margin.

For the full fiscal year, given the strong performance of our business in Q3 and outlook for Q4, we are also raising our annual guidance. We now expect that revenue for FY22



will be \$2.1 billion, growing approximately 25 percent. Non-GAAP operating profit is estimated to be approximately \$206 million, representing approximately 10 percent Non-GAAP operating margin.

In closing, our highly differentiated and innovative portfolio and services is why our customers are choosing Pure. I want to thank our entire Pure team and channel partners for continuing to deliver terrific results while navigating a dynamic environment.

With that, I will turn it over to the operator so we can get to your questions.