Paul Ziots - VP Investor Relations

Thank you. Good afternoon everyone and welcome to Pure's first quarter fiscal year 2026 earnings conference call.

On the call we have Charlie Giancarlo, Chief Executive Officer, Kevan Krysler, Chief Financial Officer, and Rob Lee, Chief Technology Officer.

Following Charlie's and Kevan's prepared remarks, we will take questions.

Our press release was issued after close of market and is posted on our website where this call is being simultaneously webcast. The slides that accompany this webcast can be downloaded at investor.purestorage.com.

On this call today, we will make forward-looking statements, which are subject to various risks and uncertainties.

These include statements regarding our financial outlook and operations, our strategy, technology and its advantages, our current and new product offerings, and competitive, industry and economic trends. Any forward-looking statements that we make today 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, all financial metrics and associated growth rates are non-GAAP measures other than revenue, remaining performance obligations or RPO, and cash and investments. 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 and is the property of Pure Storage.

Our second quarter fiscal 2026 quiet period begins at the close of business Friday, July 18, 2025.

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

Charlie Giancarlo – CEO

Thank you, Paul.

And Good afternoon everyone and welcome to our Q1 FY26 earnings call. Thank you for joining us today. Pure delivered solid performance in Q1, delivering double digit growth within a dynamic macro environment.

Our introduction of Fusion 2.0 last quarter has received an outstanding reception. Already, almost 100 customers are using or testing Fusion to manage their data infrastructure. Customers are implementing their data management policies in software and applying their governance across their global data estate, ensuring consistent policy enforcement at scale and reducing human error. As I shared last quarter, our Fusion v2 software eliminates data silos, transforming fragmented storage into a unified enterprise data cloud. At our annual //Accelerate conference, we will unveil how our latest innovations enable our customers to create their own enterprise data cloud, allowing them to focus more on their business outcomes rather than their infrastructure.

This past quarter we launched our newest FlashBlade, FlashBlade//EXA. FlashBlade//EXA will be the industry's highest-performing storage platform for AI and high-performance computing when it is delivered later this quarter. Traditional HPC storage was built for predictable workloads and demands ongoing tuning to deliver proper performance for different workloads. But modern AI environments require a wide variety of performance levels consistently delivered across tens of thousands of GPUs. FlashBlade//EXA delivers ultra-fast data access with unmatched read and write bandwidth, using a new disaggregated architecture which scales effortlessly to support massive GPU clusters. And, it provides the ease of installation, operation, management, and upgradability that Pure is known for.

Q1 was a strong quarter in our breadth of AI wins across customers and segments, and across scale and use cases. First, we deliver industry-leading, high-performance storage for public and private GPU farms supporting small, medium and large machine learning and training workloads. Second, as enterprises adopt inference engines and retrieval-augmented generation or (RAG) to apply commercial large language models to proprietary data, they need storage infrastructure that scales non-disruptively and adapts to evolving AI demands. Third, AI is accelerating the push to modernize IT by breaking down infrastructure and data silos, enabling faster, broader access to real-time information. Unlike other vendors requiring different products for different use cases, Pure's unified platform handles the full range of AI workloads with simplicity and efficiency.

Another topic on customers' minds is server virtualization. Two weeks ago, we announced a major agreement with Nutanix. This solution will integrate the Nutanix Cloud Platform with the Pure Storage platform, solving a major challenge in the current virtualization market. This joint solution provides a modern, scalable virtualized environment which is purpose-built for high-demand, data center-scale workloads. Our partnership will deliver a high-performance virtualized environment providing Nutanix Cloud Infrastructure with Pure's Enterprise Data Cloud using Pure FlashArray storage. We expect the solution to be generally available later this year.

Pure is helping customers solve their transition to modern virtualization in multiple ways. First, we are able to help customers reduce their costs of existing virtualization solutions through efficient CPU utilization and reduction of compute cores made possible with efficient Pure Storage access. Second, Pure Portworx supports a number of modern virtualization solutions, such as RedHat OpenShift and other Kubernetes virtualization solutions popularly known as KubeVirt. Portworx allows Kubernetes to automate both VM and Container data management in one integrated orchestration model.

Finally, Pure has also worked with Microsoft to integrate Cloud Block Store with Azure VMware Service (AVS) to enable customers to be able to easily lift and shift their VMware workloads and data to Azure under Microsoft's VMware license. We are expanding this Cloud Block Store integration into a fully-managed service available natively through AVS, which is in public beta now and expected to become generally available later this year.

Our broad strategy is working. During the quarter we signed multiple modern virtualization deals, two of which I would like to highlight. First, a large modern virtualization win came from a global automotive manufacturer in a use case where downtime is not an option. This manufacturer needed to reduce costs and increase reliability at a large number of manufacturing sites. Moving to a new, modern virtualization solution was a strategic decision for them. They also needed to migrate from their legacy system without disrupting production or risking data loss, and they wanted a platform that would scale in the future as they advanced their software-defined manufacturing initiative.

By using Pure's storage platform alongside Portworx to unify both container-based and virtual machine-based workloads, the customer reduced the complexity of managing diverse environments and attained the high availability needed to keep operations running without interruption.

A second notable win was with a global healthcare company facing a significant increase in infrastructure costs. They needed an agile platform capable of supporting multiple applications. Using the Pure Storage platform and Portworx with KubeVirt, we unified their operations with a single workflow across the company's application landscape and reduced their total costs.

Both wins reflect a broader enterprise trend: customers are moving away from legacy systems in favor of modern, flexible infrastructure. Pure is at the forefront of this shift, helping enterprises redefine their data storage and management architectures. This strategic engagement drives deeper customer relationships and sets the stage for continued expansion across the business.

Our hyperscale collaboration with Meta continues to advance. Production validation testing is on schedule with strong progress in certifying our solutions across multiple performance tiers. We remain on track to deliver our anticipated 1-2 exabytes of this solution in the second half of the year, as planned. Earlier this month, Pure and Meta co-presented at the @Scale conference, highlighting how we're driving innovation in flash storage for hyperscale environments. The presentation showcased why flash is becoming a compelling storage option for a wider range of hyperscale data center workloads. I encourage you all to watch the session online to see the evidence firsthand.

Yesterday, we announced a new collaboration with SK Hynix to deliver flash storage optimized for the energy-efficient demands of data-intensive hyperscale environments. With strategic partnerships now in place across Kioxia, Micron, and SK Hynix, Pure is actively shaping this emerging market. We are driving NAND technology collaboration to develop the industry and stay ahead of growing hyperscale demand.

As we assess the macro environment, our near-term view for the year remains largely unchanged, although we are navigating increased uncertainty. That said, our consistent performance and disciplined execution will continue to set Pure apart as a leader in our industry. We remain confident in our ability to outpace the competition.

We saw very strong Evergreen//One and Evergreen//Forever sales this past quarter. With tariffs top of mind for many companies, pricing of our Evergreen portfolio will remain unaffected by current tariff-related changes. Pure's storage-as-a-service offering, Evergreen//One, delivers the full value of our platform with Pure managing and maintaining the infrastructure with the industry's strongest service level agreements. In this uncertain tariff environment, our Evergreen model provides customers with pricing predictability, guaranteed SLAs, and a trusted partner committed to transparency.

We are confident in our continued momentum to grow market share and strengthen our leadership in data storage and management.

Before I turn it over to Kevan, I want to take a moment to share some organizational news that we included in our press release. After more than five years at Pure, Kevan Krysler will be leaving Pure to pursue a new opportunity.

Kevan will remain at Pure until a new CFO is in place, ensuring a smooth and orderly transition. I would like to take this opportunity to thank him for his partnership and his dedicated and loyal service to Pure. Since joining Pure in 2019, Kevan has played a central role in Pure's evolution. He developed and matured our finance organization and reporting, led many strategic initiatives, and partnered with our functional leaders to improve their businesses. Kevan was a great partner to me navigating the COVID and supply chain crises, helping us to continually adapt to an extremely dynamic set of circumstances, while growing the business to over $3B in revenue. He also led our transition to subscriptions, now roughly 50% of our revenue.

On a personal note, Kevan has been a trusted and valued partner to me. I am grateful for his thoughtful counsel, steady hand, and deep commitment to Pure's mission and success. Kevan, I wish you the very best in your new endeavors.

With that over to you Kevan.

Kevan Krysler - CFO

Thank you Charlie for your kind words. I am grateful for your partnership, and working with such a talented team over the years. It is a highlight of my career to have been part of Pure's growth journey which I believe is only getting started.

Okay, let's get into our results.

It was a solid start to the year with Q1 revenue growing 12 percent, driving $83 million of operating profit, and achieving an operating margin of 10.6 percent. This performance reflects sustained demand for our differentiated data-storage portfolio, in particular our //E family solutions.

Our Storage-as-a-Service solutions are also continuing to win in the market. Q1 TCV sales for our Storage-as-a-Service solutions jumped 70 percent to $95 million, fueled by both large Evergreen//One deals defined as (>$5 million) and higher-velocity transactions (<$5 million). This momentum underscores customers' drive to modernize their infrastructures and lock-in predictable, SLA-based consumption models.

Additionally, with our Evergreen//One Storage-as-a-Service solution, any incremental tariff costs we incur will be absorbed in our continuously improving, back-end lifecycle economics. As a result, customers' subscription rates will not be subjected to higher tariff costs.

Subscription services revenue in Q1 reached $406 million, up 17 percent and representing over half of total revenue. ARR grew 18 percent to $1.7 billion, while total remaining performance obligations (or RPO) grew 17 percent to $2.7 billion.

RPO exiting Q1, encompassing our Storage as a Service offerings and renewals of our Evergreen subscriptions across our install base grew 18 percent. This backlog reflects robust renewals and new Storage-as-a-Service commitments.

In Q1, U.S. revenue was $531 million, growing 9 percent and international revenue was $248 million growing 21 percent year-over-year. We added 235 new customers, bringing our penetration to 62 percent of the Fortune 500.

Total gross margin improved sequentially to 70.9 percent in Q1, anchored by a subscription services margin of 77.2 percent. Aligned with our expectations, product margin rose 1.1 points sequentially to 64 percent.

We continue to expect that product gross margin this year will settle in the mid-sixties consistent with our remarks last quarter. Demand for our //E family solutions, including sales strength across our core offerings, and moderation of QLC flash pricing are expected to be the key drivers of stronger product gross margin this year. This is also aligned with our long term expectation for product gross margin of 65 to 70 percent.

Operating profit of $82.7 million and operating margin of 10.6 percent were both aligned with our expectations which is notable as foreign currency based operating expenses increased sequentially by approximately $8 million in Q1 due to the weaker U.S. dollar.

Our headcount modestly grew to over 6,000 employees at the end of the quarter.

Our balance sheet remains strong with $1.6 billion in cash and investments.

Q1 operating cash flow was $284 million, and our capital investments of $72 million included Evergreen//One deployments, scaling for the hyperscale opportunities, and development for our Fusion 2.0 solution.

We returned $120 million to shareholders through 2.5 million share repurchases and paid $61 million in employee-award withholding taxes offsetting 1.1 million shares and we currently have $152 million of buyback authorization remaining.

Now turning to our guidance.

We are reiterating our FY26 revenue and operating margin guidance. We are pleased with the solid start to the year and remain confident in the fundamental growth drivers of our business, while also recognizing elevated macro-economic uncertainties that we expect to persist in the second half.

For Q2, we anticipate revenue of $845 million representing a 10.6 percent year-over-year increase. We also expect operating profit of $125 million and operating margin of 14.8 percent. Highlighting as well that Q2 FY25 operating expenses benefited from savings tied to our workforce realignment in Q4 FY24. As a result, year-over-year operating expense comparison will be against this benefit.

In closing, we're proud to have delivered double-digit revenue growth, strengthened our margin profile, and reinforced our leadership in data storage innovation. Our robust balance sheet and growing recurring revenue base sets the stage for continued execution of our strategic priorities.

With that, I'll now turn the call back to Paul for Q&A.

Charlie Giancarlo – CEO

Thank you for joining us for today's earnings call.

Our platform strategy is redefining what’s possible in data storage and management. Breaking down data silos, unifying fragmented storage environments, enabling software defined storage management and leading the shift to modern virtualization.

We’ll share more at our //Accelerate conference, where you’ll see how our latest innovations help customers focus on outcomes—not infrastructure.

Thank you to our customers, partners, employees and investors. We appreciate your continued support.