Paul Ziots - VP Investor Relations

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

On the call we have Charlie Giancarlo, Chief Executive Officer, Tarek Robbiati, Chief Financial Officer, and Rob Lee, Chief Technology Officer. Following Charlie's and Tarek'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 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 third quarter fiscal 2026 quiet period begins at the close of business Friday, October 17, 2025.

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

Charlie Giancarlo – CEO

Thank you, Paul.

Good afternoon everyone and thank you for joining our Q2 FY26 earnings call.

Pure Storage delivered a strong Q2, expanding our double-digit revenue growth. Our results were underpinned by strong enterprise performance, and accelerating momentum in our core software and service offerings of Evergreen//One, Cloud Block Store and Portworx.

Our growing success stems from the compelling value proposition of the Pure Storage platform. We deliver simplicity, reliability, and long-term value with our integrated Purity operating system. Purity is the infrastructure software that has enabled the only true non-disruptive evergreen service and an unrivaled Storage-as-a-Service model with Evergreen//One. Now, enhanced with Fusion v2, Purity allows our customers to create their own Enterprise Data Cloud, automating their storage and enabling software-defined data management.

As I've shared previously, the Enterprise Data Cloud is an industry-changing architecture that transforms how organizations store and manage data. It replaces traditional siloed, compute stack-dedicated storage with a software-defined and orchestrated, enterprise-wide data service. Customer demand for Fusion continues to grow, in both commercial and enterprise accounts.

Purity, enhanced with Fusion, will enable businesses to manage their global data as an integrated cloud, providing a policy engine, presets and cataloging for how different classes of data are managed on a global basis. Presets control attributes such as price-performance, resiliency, security, geo-fencing, access controls, and other critical values. Cataloging will provide the location, provenance and lineage of data sets as they are copied, modified and combined. Together, these capabilities allow customers to more consistently manage their global data sets through software.

The Enterprise Data Cloud also enables businesses to lower labor costs while reducing risk and increasing operational agility through software defined enterprise policies. Data sets become centrally governed, with policies and automated workflows handling the heavy lifting, freeing IT teams from manual configurations for each and every data set. The enterprise data cloud, or EDC, architecture allows fast, seamless, and consistent policy changes as business needs evolve.

The key takeaway is that by virtualizing enterprise storage, Pure enables organizations to stop managing infrastructure and start managing data as a strategic asset, maximizing its value, ensuring availability, and standardizing control. As enterprise data sets multiply, grow and become more valuable in the new AI economy, an Enterprise Data Cloud Architecture becomes more critical and necessary.

Recently, a global leader in IT consulting and digital services is adopting Pure's technology framework to create an Enterprise Data Cloud. This shift helps them move away from legacy technology components and eliminates existing data silos. We are also supporting their strategy to consolidate business applications, and to manage their global data estate.

The Enterprise Data Cloud provides a highly efficient, scalable, and secure foundation as their data volumes grow exponentially. It reduces infrastructure complexity and delivers predictable outcomes for their users.

Pure is also at the forefront of helping customers with their strategic moves to Modern Virtualization, to containers, to Kubernetes and to the Cloud.

A leading financial institution is setting a clear strategic direction to modernize its application environment with Purity and the Pure Storage platform. Building on success running mission-critical container services with Portworx at scale, the institution is working toward migrating all of their workloads from traditional virtual machines to either containers or Kubernetes virtualization. With Portworx and the Pure Storage platform, the shift will deliver platform independence, stronger security, higher efficiency, and rapid recovery. Our solution will also sharply reduce their infrastructure space, power and cooling needs by over 70% over their legacy solution. Partnering with Pure's Professional Services, the institution is positioning itself to run a fully automated, software-defined data environment, lighter, faster, and built for long-term competitive advantage.

This institution is also deploying our new high-performance FlashArray//XL R5 to consolidate diverse, large-scale applications onto a single platform, delivering significant performance gains with improved space, power, and cooling. Their new enterprise-wide Kubernetes platform now provides a non-proprietary solution across any underlying infrastructure, across any public or private cloud, and on any Kubernetes distribution. They are replacing legacy infrastructure with modern virtualization and beginning to leverage Fusion v2 to manage their global storage fleet, fully automating data management to operate as a true Enterprise Data Cloud.

A global automotive company significantly expanded their use of Portworx this quarter for modern virtualization. This deployment expands Pure's footprint from manufacturing into their core enterprise operations, significantly reducing risk, complexity, and operational overhead across the company's infrastructure. From a business perspective, Portworx is allowing them to simultaneously modernize their IT virtualization stack and enable them to meet their developer needs, to support new, modern cloud-native, application development.

These examples demonstrate the unique value Pure and Portworx bring to our customers and strengthens our position as enterprises increasingly adopt cloud-native architectures.

One of the most interesting large wins this quarter comes from a multinational food products company moving thousands of its business applications to the cloud. Working alongside one of the world's largest global IT consultancy and system integrators, our solution is delivering to the customer at least a 40% cost savings with our Cloud Block Store subscription while providing higher availability for business-critical applications, greater redundancy, and stronger data protection. This is a powerful example of how Pure can help customers lower their costs while improving performance and resilience in the cloud.

Turning to our other subscription services, we saw continued strength and growth in Evergreen//One and Evergreen//Forever sales in Q2. Evergreen//One continues to deliver consistent customer value that protects customers from future uncertainties, including capacity and performance planning, pricing, and tariff unpredictability. Evergreen//one promises customers Service Level Agreements that ensure the performance, capacity and security they need now and in the future… with consistently the most modern technology, without disruption.

Moving to our hyperscale engagements, our strategic co-engineering effort with Meta continues on track. They have initiated their first volume deployment, and we have recognized our first revenue from this activity in Q2. Tarek will share further details. Overall, our early-stage engagements with other top hyperscalers continue to progress well, as hyperscalers in general are increasingly seeking to accelerate their transition to flash data storage, where we continue to lead the industry in all things Flash.

As a reminder, we are working with our hyperscale partners to enable them to replace their raw storage with our DirectFlash technology. To put this in perspective, imagine hyperscaler storage infrastructure as a three-layer cake. Layer 1 is the storage media layer, Layer 2 is the storage protocol and format layer, and Layer 3 is the storage services layer. The capabilities that Pure is developing for hyperscalers focuses on the Layer 1 storage media and media management layer, below Layer 2. Hyperscalers have developed their own Layer 2 data storage protocols and formats and also Layer 3 services. By providing Pure DirectFlash technology at Layer 1, we are able to dramatically reduce the power, space and cooling requirements of hyperscale storage while significantly increasing its performance and reliability.

Additionally, Pure Cloud Block Store also provides advanced Layer 3 services on top of hyperscale services, which provide enterprise-class storage services at lower cost than existing cloud storage services. Cloud Block Store, provided by Purity Software at Layer 3, is able to provide Enterprise customers the advanced storage services that their traditional applications depend on, in the cloud, while saving them significant expense.

Our primary annual user conference, Accelerate, took place this past June. There, we formally introduced the Enterprise Data Cloud architecture, as well as next-generation innovations, in our FlashArray and FlashBlade systems, designed for the most demanding, high-performance workloads. We announced the general availability of FlashBlade//EXA, targeting the most demanding AI training environments; FlashArray//XL R5 which doubles the performance of previous generations; and the new FlashArray//ST which targets even higher-performance, ultra-low-latency workloads.

Looking ahead, the extended Accelerate roadshow along with our financial analyst meeting will kick off in New York, on September 25th, and we invite all of our analysts to attend. The roadshow will continue through Asia and Europe in September and October.

Our success continues to be driven by our four sustainable competitive advantages: our unified Purity Operating System for scale and simplicity; our Evergreen model for always-on and always-modern operation; Purity DirectFlash for unmatched performance; and our cloud operating model with Evergreen//One and Pure Fusion, empowering customers to build and operate their own Enterprise Data Cloud.

While the global macro environment remains as variable and as uncertain as ever, our strong execution and thoughtful planning have kept us ahead of the curve, and we remain confident in our ability to extend our industry leadership, as indicated by our improved guidance which Tarek will discuss.

Before I turn the floor over to our new CFO, Tarek Robbiati, I want to take a moment to welcome him to his first earnings call with Pure. Tarek, we're thrilled to have you on the team, sharing your deep financial expertise, sharp strategic insight, and business acumen. I know our listeners will appreciate hearing from Tarek today and in the quarters ahead. And with that, Tarek, the floor is yours.

Tarek Robbiati - CFO

Thank you, Charlie for the warm welcome.

We are very pleased with our Q2 financial results, exceeding both our revenue and operating profit guidance. Revenue of $861 million grew 13% year over year and operating profit of $130 million resulted in an operating margin of 15.1%. Most importantly, we saw broad-based strength across our entire portfolio, led by large enterprises and the continued momentum of FlashBlade, including FlashBlade//E, and accelerating momentum in our core software and services offerings of Evergreen//One, Cloud Block Store and Portworx.

I would like to take this opportunity to formally thank my predecessor, Kevan Krysler. Kevan deserves a lot of credit for the results attained this quarter, certainly more than me. I would like to personally thank him for his professionalism and for facilitating a smooth, textbook transition between us two.

Turning back to understanding our performance in Q2 FY2026, our results highlight strong customer adoption of our platform strategy. Customers can now deploy Pure Storage across their entire data center footprint—from the most demanding, mission-critical workloads to cost-effective disk replacement.

For performance-intensive databases, analytics, and AI, Pure delivers the high-speed all-flash solutions needed to drive results. At the same time, the //E Family makes it possible to replace legacy disk systems at a comparable upfront cost, while delivering lower long-term Total Cost of Ownership (or TCO), greater reliability, and scalable performance turning the vision of the all-flash data center into reality.

By unifying and simplifying operations while cutting energy consumption and overall costs, the Pure platform optimizes the TCO for its customers. This message resonates across value-focused C-suite executives from IT leaders to CFOs and sustainability officers focused on efficiency priorities.

Q2 TCV sales for our Storage-as-a-Service offerings grew 24% year over year to $125 million, driven by high-volume, high-velocity transactions of less than $5 million. This momentum reflects our confidence in the expanding demand and growth opportunity for Evergreen//One and subscription-based offerings.

Our collaboration with Meta continues well and as expected. As a reminder, our original FY26 guidance assumed deployment of 1 to 2 exabytes of our DirectFlash technology.

Deployments have started, such that we have begun to recognize revenue this past quarter. Given the pace of these deployments, we are now increasingly confident about the assumption of 1 to 2 exabytes, and possibly more, by our FY end.

Our relationship with Meta continues to advance, and we continue to see increased interest from other hyperscalers looking to replace both hard-disk and SSD based environments with our DirectFlash technology.

Turning to our Subscription offerings, Subscription services revenue in Q2 reached $415 million up 15 percent year over year accounting for 48% of total revenue. ARR grew 18 percent to $1.8 billion, while total Remaining Performance Obligations (or RPO) grew 22 percent to $2.8 billion.

RPO encompassing our Storage as a Service offerings and Evergreen subscriptions across our install base grew 21 percent exiting Q2. This backlog continues to reflect robust renewals and new Evergreen//One commitments.

With respect to our geographic mix of revenues, U.S. revenue was $577 million, growing 7 percent and international revenue was $284 million growing 26 percent year-over-year. In terms of new logos, we added more than 300 new customers, and our penetration of the Fortune 500 remains at 62 percent.

Turning to margins and profitability, total gross margin remained strong at 72.1 percent, reflecting healthy subscription services gross margin of 76.5 percent. Product gross margin again rose sequentially to 68 percent aligning with our long-term expectation for product gross margins between 65% and 70%.

Operating profit of $130 million and operating margin of 15.1 percent in Q2 were positively impacted by revenue strength and healthy gross margins.

Our headcount increased sequentially by 120 employees to approximately 6,100 employees.

Our balance sheet remains strong with $1.5 billion in cash and investments. Q2 operating cash flow was $212 million, and our capital investments of $62 million included test and infrastructure equipment to support data center expansion and funding of Evergreen//One subscription growth.

In Q2 our Free Cash Flow performance was strong, as we generated $150 million of Free Cash Flow for a Free Cash Flow margin on revenue of 17.4%.

Finally, we returned $42 million to shareholders through 0.8 million share repurchases and offset 1.1 million shares in employee-award withholding taxes and we currently have $109 million of buyback authorization remaining.

Now turning to our guidance.

We have made the decision to introduce a range for our financial guidance. This approach differs from our practice in previous quarters where we provided a single target number for each metric we guided to. This change aligns with many other growth companies in our industry while also offering us the flexibility to make the necessary incremental investments we need to capture additional growth opportunities and other transformational projects we identify as we execute our strategy.

For FY26, we anticipate revenue to be in the range of $3.6 billion to $3.63 billion representing 14 percent year-over-year growth at the midpoint, this is a 300 basis points increase from our previously provided revenue guidance of 11 percent year-over-year growth.

We expect operating profit to be in the range of $605 million to $625 million representing approximately a 10 percent year-over-year increase at the midpoint, this is over a 300 basis points increase from our previously provided operating profit guidance.

Specifically for Q3, we anticipate revenue to be in the range of $950 million to $960 million representing approximately a 15 percent year-over-year increase at the midpoint. We also expect operating profit to be in the range of $185 million to $195 million representing approximately a 14 percent year-over-year increase at the midpoint.

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

Charlie Giancarlo – CEO

We appreciate everyone taking the time to join our earnings call. The Enterprise Data Cloud architecture will transform how organizations store and manage data, driving demand for our platform across both commercial and enterprise markets. By virtualizing enterprise storage, we enable customers to better manage their growing global data estate.

I want to express our sincere appreciation to our customers, employees, partners, investors, and suppliers. We greatly value your continued support and commitment.