

# Q4 FISCAL 2018 RESULTS

MARCH 1, 2018

# FORWARD LOOKING STATEMENTS

## AND NON-GAAP INFORMATION

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This presentation contains “forward-looking” statements that are based on our beliefs and assumptions and on information currently available to us. Such forward-looking statements include statements concerning our possible or expected future financial or operating results, business strategies, product development plans, technical and business advantages, competitive position, industry trends and potential growth opportunities. Forward-looking statements include all statements that are not historical facts and can be identified by terms such as “anticipate,” “believe,” “could,” “seek,” “estimate,” “intend,” “may,” “plan,” “potential,” “predict,” “project,” “should,” “will,” “would” or similar expressions and the negatives of those terms.

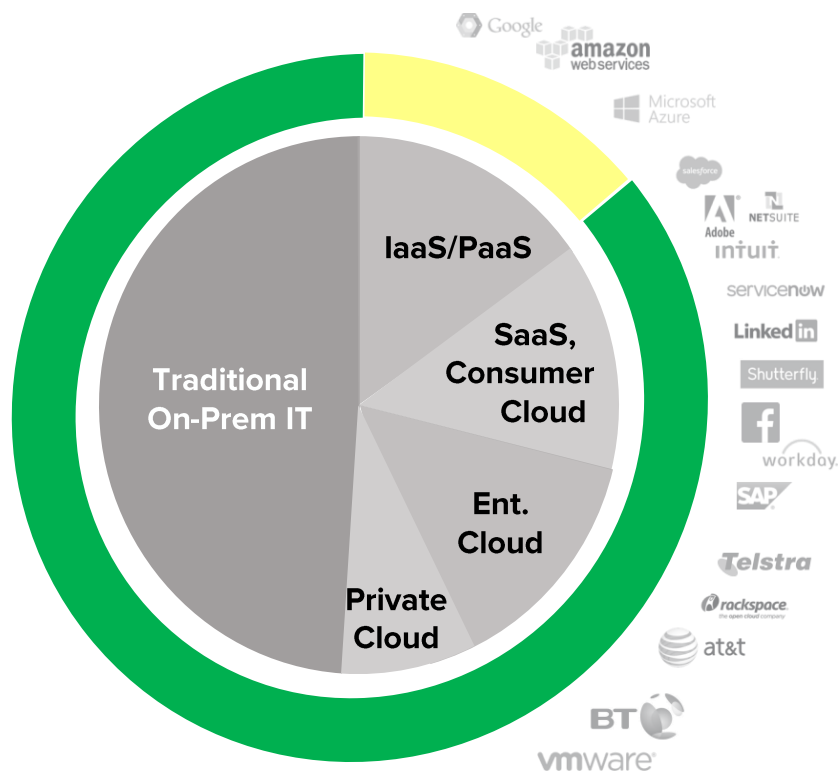
Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by the forward-looking statements, including risks, uncertainties and other factors relating to our expansion and growth, our plans for international expansion, our expected growth investments and spending, fluctuations in our revenue and operating results, our technological leadership and market opportunity, introduction of new functionality and products, product acceptance and our products and business model, customer spending priorities, our competitive position, the effects of competition and industry dynamics, and relationships with third parties, including channel partners and customers. Additional risks, uncertainties and other factors are included under the captions “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” in our reports and registration statement previously filed with the SEC, which is available on our website at [investor.purestorage.com](http://investor.purestorage.com) and on the SEC’s website at [www.sec.gov](http://www.sec.gov).

Forward-looking statements represent our beliefs and assumptions only as of the date of this presentation. Except as required by law, we assume no obligation to update these forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in the forward-looking statements, even if new information becomes available in the future.

This presentation includes certain non-GAAP financial measures as defined by SEC rules. As required by Regulation G, we have provided reconciliations of those measures to the most directly comparable GAAP measures, which are available in the Appendix. We have not reconciled guidance for non-GAAP gross margin and non-GAAP operating margin to their most directly comparable GAAP measures because items such as stock-based compensation expense and payroll tax expense related to stock-based activities that impact these measures are not within our control and/or cannot be reasonably predicted. Accordingly, a reconciliation of the non-GAAP financial measure guidance to the corresponding GAAP measures is not available without unreasonable effort.

# \$35B+ OPPORTUNITY

Worldwide IT Infrastructure Hardware Spend by Consumption Model (Compute, Networking, Storage) 2019 Cloud IT Hardware Spend \$125.9B, Storage share: 31%



**~80%** Addressable    **~20%** Mega-Scale Cloud

## MARKETS THAT MATTER



**500+ Leading Clouds**

**22%** IaaS, SaaS, PaaS  
5-YEAR CAGR



**Next Generation Data**

**78%** AI STORAGE MARKET  
5-YEAR CAGR



**Cloud-ification of IT**

**22%** AFA GROWTH  
5-YEAR CAGR

# Q4 FY18 KEY HIGHLIGHTS

## TAM

**+\$35B**



+500 Leading Clouds



Next-Generation Data



Cloud-ification of IT

## Growth

**\$338M**

Total revenue, up **48%** Y/Y

**24%**

Revenue from International

## Customers

**>4,500**

~500 adds Q/Q, 48% growth Y/Y

**~\$11**

Incremental purchases from top 25 customers within 18 months of initial purchase of \$1

**>\$2**

Incremental purchases from all customers within 24 months of initial purchase of \$1

**>30%**  
of Fortune 500

**>30%**  
Cloud customers (SaaS, IaaS, & consumer cloud)

## Liquidity

**\$597M**

Cash and investments at quarter end

## Leverage

### GAAP

**65.1%**

Gross margin (-0.2 pts Y/Y)

**+13.9 ppts**

Y/Y improvement in operating margin

**\$59.0M**

Cash flow from operations (17% of revenue)

### Non-GAAP

**66.2%\***

Gross margin (0.1 pts Y/Y)

**+10.2 ppts\***

Y/Y improvement in operating margin

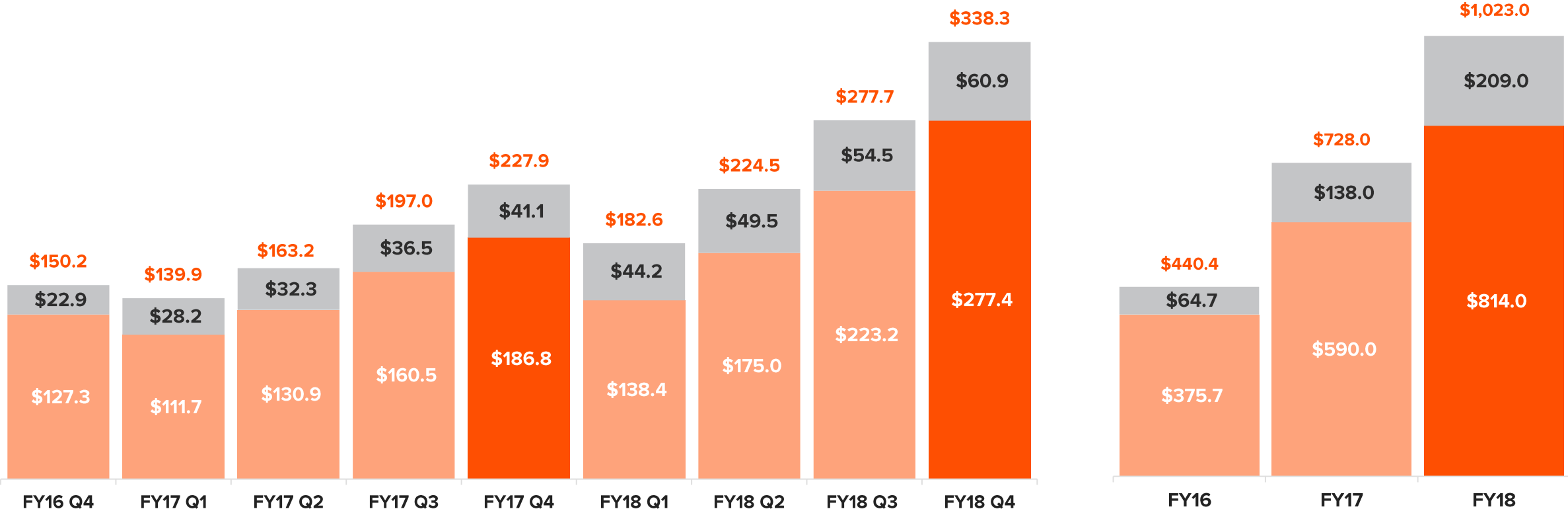
**\$38.3M\***

Free cash flow (11% of revenue)

\* See GAAP to non-GAAP reconciliation in our appendix

# QUARTERLY AND ANNUAL REVENUE **+48%**

Q4 FY18 Y/Y TOTAL REVENUE GROWTH



■ Product Revenue (Millions)    ■ Support Revenue (Millions)

# CUSTOMERS

**>4,500**  
NUMBER OF CUSTOMERS TO DATE

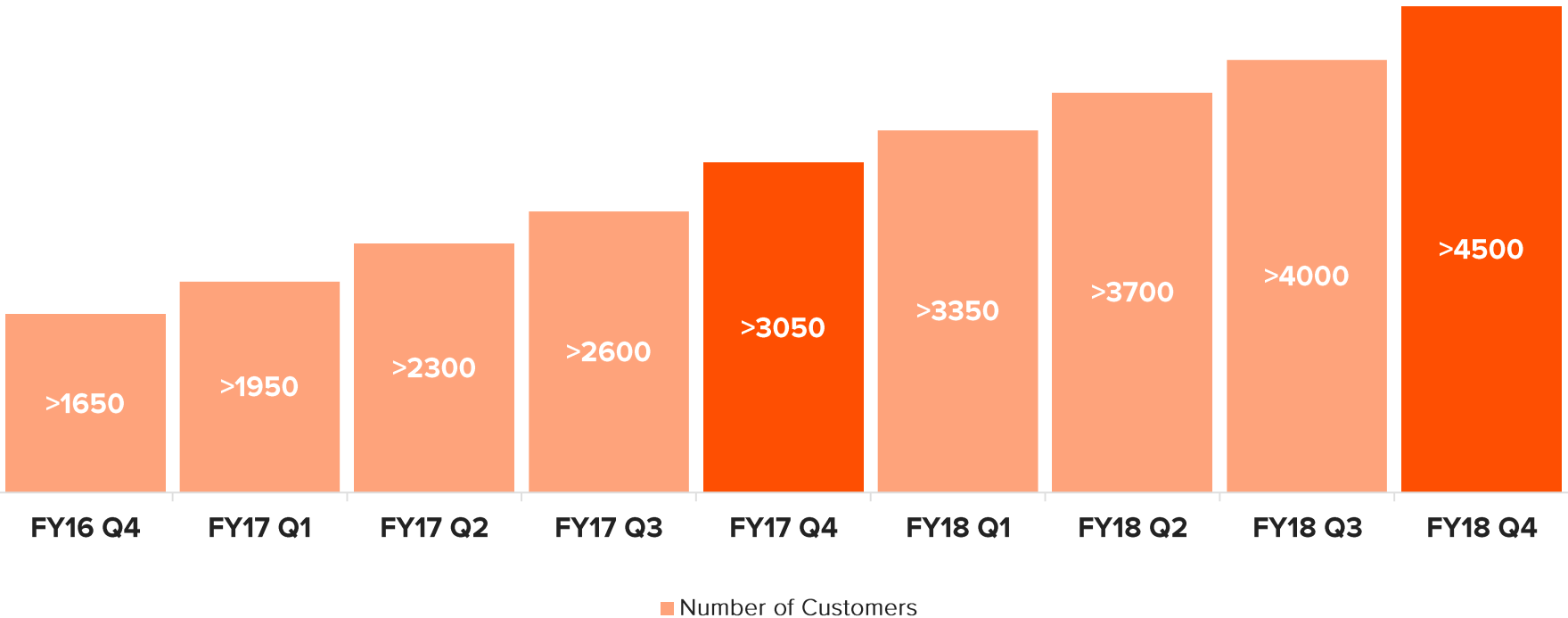
**48%**  
Y/Y, >1,450 ADDS Y/Y

**~500**  
ADDS Q/Q, 13% Q/Q

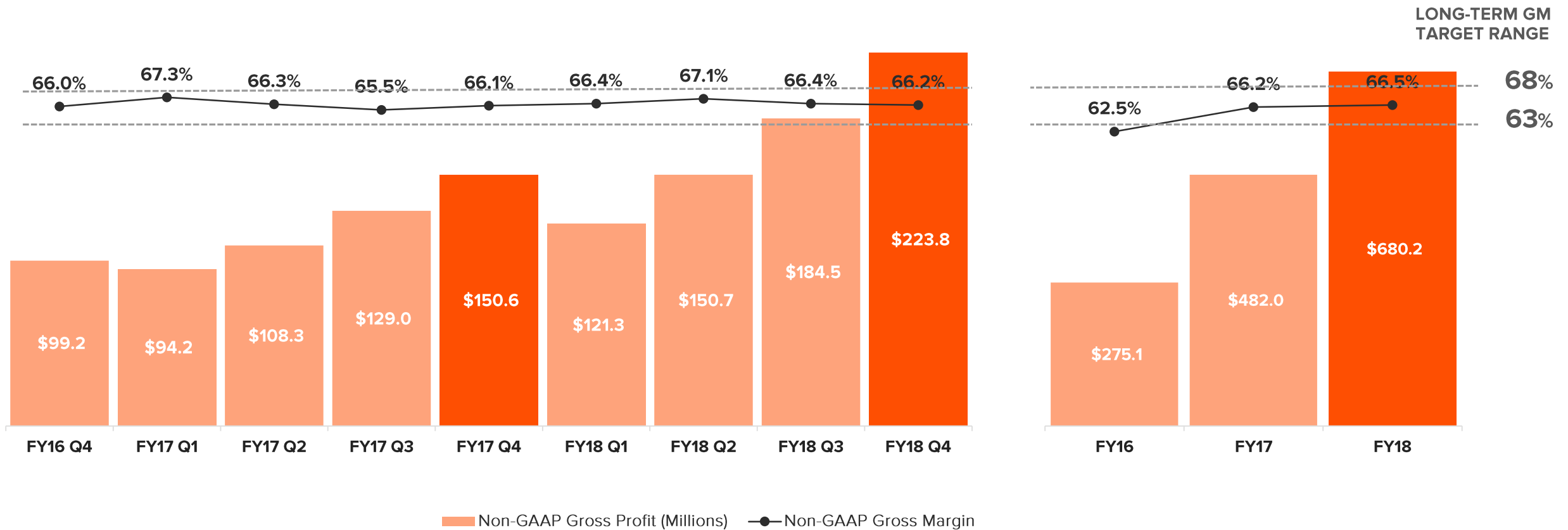
**~\$11**  
Incremental purchases from top 25 customers within 18 months of initial purchase of \$1

**>\$2**  
Incremental purchases from all customers within 24 months of initial purchase of \$1

**>30%**  
OF FORTUNE 500

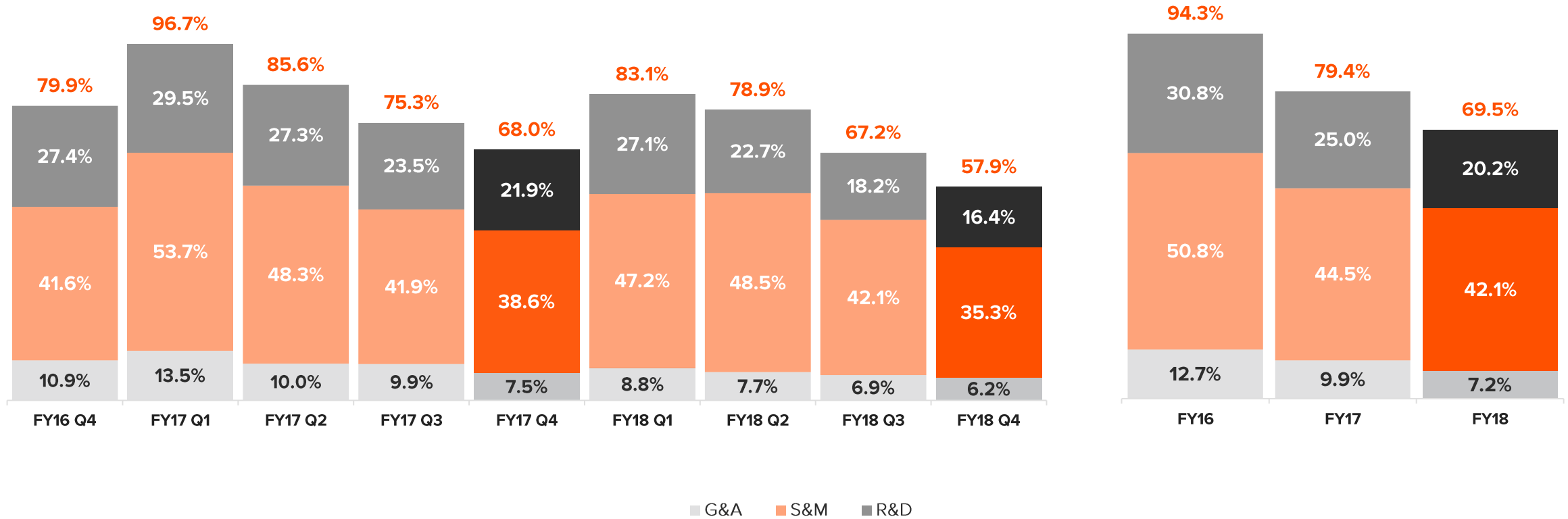


# NON-GAAP GROSS MARGIN & PROFIT



# NON-GAAP OPERATING EXPENSE

## AS A PERCENTAGE OF REVENUE

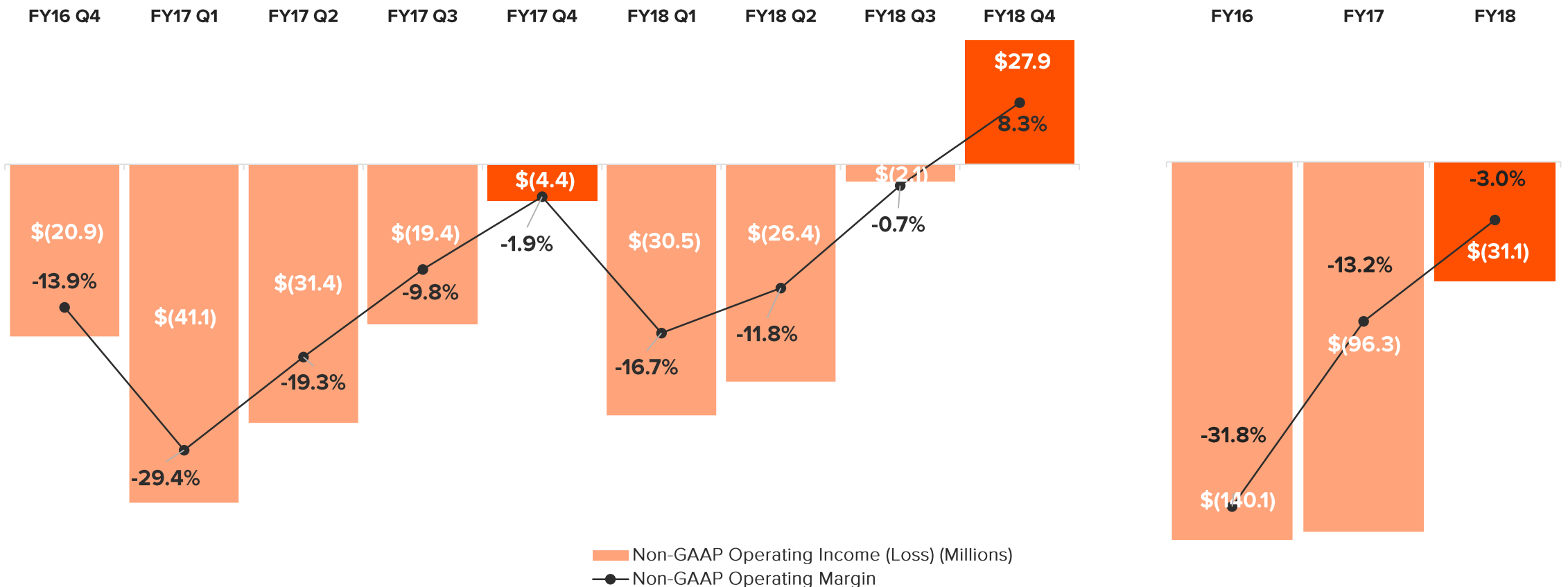




# NON-GAAP OPERATING MARGIN AND PROFIT

# +10.2

Y/Y PPTS IMPROVEMENT

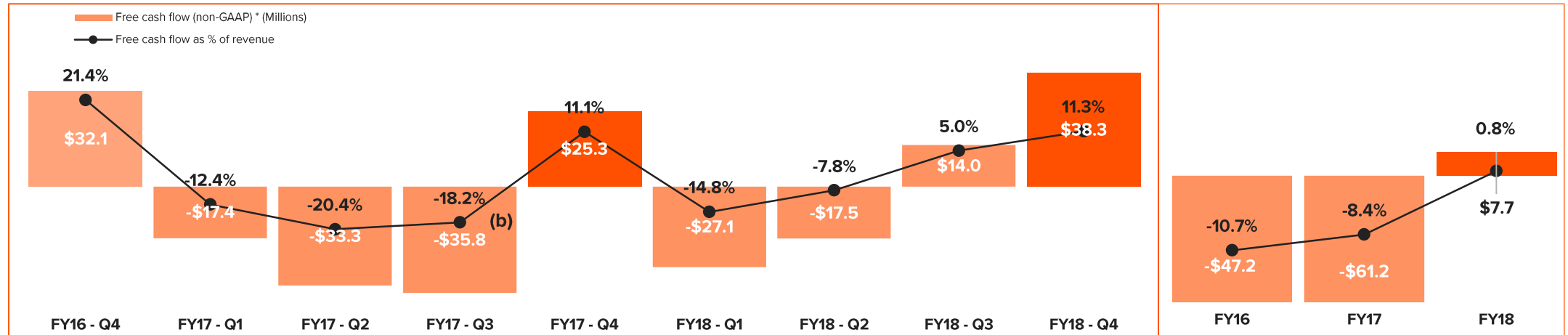


# +\$7.7

## FREE CASH FLOW

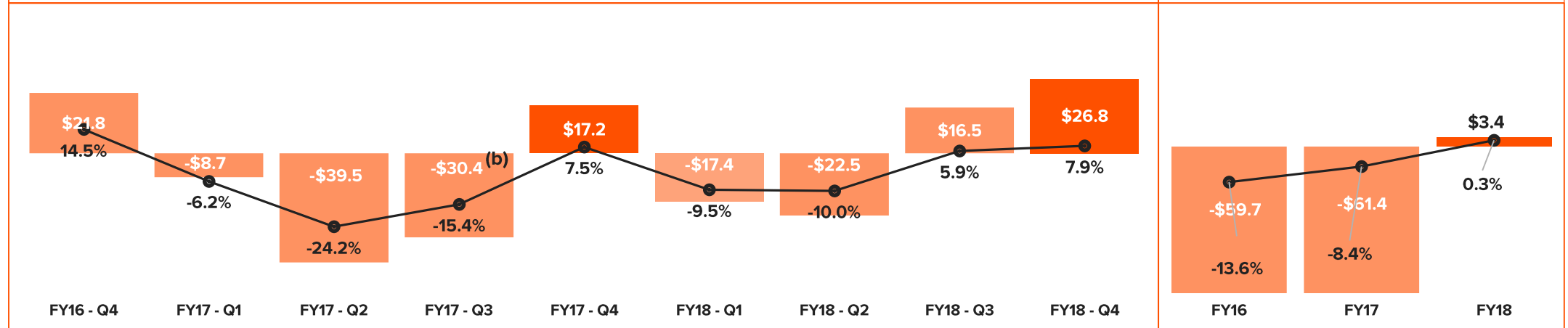
FY18 FREE CASH FLOW (IN MILLIONS)

### Free Cash Flow (a)



### Free Cash Flow (a)

(excluding ESPP Impact)



(a) See GAAP to non-GAAP reconciliation in our appendix.  
(b) Excludes a one-time \$30.0 million legal settlement charge.

# COMPANY GOALS FOR 2018

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1. **Deliver** industry-leading growth by focusing on three key markets (the top 1000 Cloud and SaaS providers, next-generation use cases, and the Global 2000)
2. Be a global company and **expand** our international revenue
3. **Scale** in all that we do to **maximize** effectiveness and efficiency
4. **Extend** our culture of innovation, commitment and accountability
5. Be **loved** by customers, partners and employees

# GUIDANCE

	Q1 FY19**	FY19**
Revenue	\$246M to \$254M	\$1.310B to \$1.360B
Non-GAAP Gross Margin*	63.5% to 66.5%	63.5% to 66.5%
Non-GAAP Operating Margin*	-13.0% to -9.0%	0.0% to 4.0%

\* We have not reconciled guidance for non-GAAP gross margin and non-GAAP operating margin to their most directly comparable GAAP measures because items such as stock-based compensation expense and payroll tax expense related to stock-based activities that impact these measures are not within our control and/or cannot be reasonably predicted. Accordingly, a reconciliation of the non-GAAP financial measure guidance to the corresponding GAAP measures is not available without unreasonable effort.

\*\* Our first quarter and full year fiscal 2019 guidance numbers are based on the new revenue standard (ASC 606) that is effective beginning February 1, 2018.

# LONG-TERM TARGET OPERATING MODEL

NON-GAAP

As a % of Revenue (Non-GAAP)	Q4 FY18	TARGET MODEL
Gross Margin	66.2%	63 – 68%
R&D	16.4%	15 – 20%
S&M	35.3%	25 – 30%
G&A	6.2%	5 – 7%
Operating Margin	8.3%	15 – 20%

# APPENDIX

Q4 FISCAL 2018 RESULTS

# GROSS MARGIN

## GAAP TO NON-GAAP RECONCILIATION

(\$ in thousands)	Fiscal Quarter																Full Year							
	Q4 FY16	(%)	Q1 FY17	(%)	Q2 FY17	(%)	Q3 FY17	(%)	Q4 FY17	(%)	Q1 FY18	(%)	Q2 FY18	(%)	Q3 FY18	(%)	Q4 FY18	(%)	FY16	(%)	FY17	(%)	FY18	(%)
Product gross margin (GAAP)	\$86,828	68.2%	\$77,692	69.5%	\$88,073	67.3%	\$105,798	65.9%	\$124,288	66.5%	\$91,780	66.3%	\$117,761	67.3%	\$147,804	66.2%	\$181,398	65.4%	\$242,863	64.6%	\$395,851	67.1%	\$538,743	66.2%
Add: SBC	137	0.1%	106	0.1%	181	0.1%	138	0.1%	176	0.1%	397	0.2%	358	0.2%	143	0.1%	732	0.3%	276	0.1%	601	0.1%	1,630	0.2%
Add: Payroll tax related to stock-based activities	-	-%	-	-%	3	-%	2	-%	1	-%	5	0.1%	8	-%	5	-%	8	-%	-	-%	6	-%	26	-%
<b>Product gross margin (non-GAAP)</b>	<b>\$86,965</b>	<b>68.3%</b>	<b>\$77,798</b>	<b>69.6%</b>	<b>\$88,257</b>	<b>67.4%</b>	<b>\$105,938</b>	<b>66.0%</b>	<b>\$124,465</b>	<b>66.6%</b>	<b>\$92,182</b>	<b>66.6%</b>	<b>\$118,127</b>	<b>67.5%</b>	<b>\$147,952</b>	<b>66.3%</b>	<b>\$182,138</b>	<b>65.7%</b>	<b>\$243,139</b>	<b>64.7%</b>	<b>\$396,459</b>	<b>67.2%</b>	<b>\$540,399</b>	<b>66.4%</b>
Support gross margin (GAAP)	\$11,337	49.5%	\$15,275	54.1%	\$18,294	56.6%	\$21,836	59.9%	\$24,442	59.6%	\$27,303	61.8%	\$30,249	61.2%	\$34,011	62.4%	\$38,932	63.9%	\$29,577	45.8%	\$79,847	57.9%	\$130,495	62.4%
Add: SBC	877	3.9%	1,092	3.9%	1,712	5.4%	1,178	3.2%	\$1,657	4.0%	1,774	4.0%	2,245	4.5%	2,422	4.5%	\$2,609	4.3%	2,388	3.7%	5,639	4.1%	9,050	4.4%
Add: Payroll tax related to stock-based activities	-	-%	-	-%	7	-%	9	-%	\$22	-%	31	-%	87	0.2%	71	0.1%	\$82	0.1%	-	-%	38	-%	271	0.1%
<b>Support gross margin (non-GAAP)</b>	<b>\$12,214</b>	<b>53.4%</b>	<b>\$16,367</b>	<b>58.0%</b>	<b>\$20,013</b>	<b>62.0%</b>	<b>\$23,023</b>	<b>63.2%</b>	<b>\$26,121</b>	<b>63.6%</b>	<b>\$29,108</b>	<b>65.8%</b>	<b>\$32,581</b>	<b>65.9%</b>	<b>\$36,504</b>	<b>67.0%</b>	<b>\$41,623</b>	<b>68.3%</b>	<b>\$31,965</b>	<b>49.5%</b>	<b>\$85,524</b>	<b>62.0%</b>	<b>\$139,816</b>	<b>66.9%</b>
Total gross margin (GAAP)	\$98,165	65.3%	\$92,967	66.4%	\$106,367	65.2%	\$127,634	64.8%	\$148,730	65.3%	\$119,083	65.2%	\$148,010	65.9%	\$181,815	65.5%	\$220,330	65.1%	\$272,440	61.9%	\$475,698	65.3%	\$669,238	65.4%
Add: SBC	1,014	0.7%	1,198	0.9%	1,893	1.1%	1,316	0.7%	1,833	0.8%	2,171	1.2%	2,603	1.2%	2,565	0.9%	3,341	1.0%	2,664	0.6%	6,240	0.9%	10,680	1.0%
Add: Payroll tax related to stock-based activities	-	-%	-	-%	10	-%	11	-%	23	-%	36	0.0%	95	-%	76	-%	90	0.1%	-	-%	44	-%	297	0.1%
<b>Total gross margin (non-GAAP)</b>	<b>\$99,179</b>	<b>66.0%</b>	<b>\$94,165</b>	<b>67.3%</b>	<b>\$108,270</b>	<b>66.3%</b>	<b>\$128,961</b>	<b>65.5%</b>	<b>\$150,586</b>	<b>66.1%</b>	<b>\$121,290</b>	<b>66.4%</b>	<b>\$150,708</b>	<b>67.1%</b>	<b>\$184,456</b>	<b>66.4%</b>	<b>\$223,761</b>	<b>66.2%</b>	<b>\$275,104</b>	<b>62.5%</b>	<b>\$481,982</b>	<b>66.2%</b>	<b>\$680,215</b>	<b>66.5%</b>

# OPERATING EXPENSES & MARGIN

## GAAP TO NON-GAAP RECONCILIATION

(\$ in thousands)	Fiscal Quarter																Full Year							
	Q4 FY16	As % of Total Revenue	Q1 FY17	As % of Total Revenue	Q2 FY17	As % of Total Revenue	Q3 FY17	As % of Total Revenue	Q4 FY17	As % of Total Revenue	Q1 FY18	As % of Total Revenue	Q2 FY18	As % of Total Revenue	Q3 FY18	As % of Total Revenue	Q4 FY18	As % of Total Revenue	FY16	As % of Total Revenue	FY17	As % of Total Revenue	FY18	As % of Total Revenue
R&D (GAAP)	\$53,710	35.8%	\$52,938	37.8%	\$58,635	35.9%	\$61,612	31.3%	\$72,632	31.9%	\$65,428	35.8%	\$69,361	30.9%	\$68,927	24.8%	\$75,480	22.3%	\$166,645	37.8%	\$245,817	33.8%	\$279,196	27.3%
Less: SBC	-12,511	-8.4%	-11,658	-8.3%	-13,976	-8.6%	-15,241	-7.7%	-22,620	-9.9%	-15,588	-8.5%	-17,971	-8.0%	-18,073	-6.5%	-19,597	-5.8%	-31,135	-7.0%	-63,495	-8.7%	-71,229	-7.0%
Less: Payroll tax related to stock-based activities	-	-%	-34	-%	-100	-%	-96	-0.1%	-97	-0.1%	-340	-0.2%	-401	-0.2%	-361	-0.1%	-452	-0.1%	-	-%	-327	-0.1%	-1,554	-0.1%
R&D (non-GAAP)	\$41,199	27.4%	\$41,246	29.5%	\$44,559	27.3%	\$46,275	23.5%	\$49,915	21.9%	\$49,500	27.1%	\$50,989	22.7%	\$50,493	18.2%	\$55,431	16.4%	\$135,510	30.8%	\$181,995	25.0%	\$206,413	20.2%
S&M (GAAP)	\$68,927	45.9%	\$83,098	59.4%	\$87,583	53.7%	\$91,392	46.4%	\$97,962	43.0%	\$96,964	53.1%	\$120,633	53.7%	\$129,299	46.6%	\$133,134	39.4%	\$240,574	54.6%	\$360,035	49.4%	\$480,030	46.9%
Less: SBC	-6,427	-4.3%	-7,519	-5.4%	-8,732	-5.4%	-8,468	-4.3%	-9,598	-4.2%	-10,626	-5.8%	-11,439	-5.1%	-12,104	-4.4%	-13,518	-4.0%	-16,966	-3.8%	-34,317	-4.7%	-47,687	-4.7%
Less: Payroll tax related to stock-based activities	-	-%	-457	-0.3%	-24	-%	-400	-0.2%	-465	-0.2%	-230	-0.1%	-302	-0.1%	-390	-0.1%	-319	-0.1%	-	-%	-1,346	-0.2%	-1,241	-0.1%
S&M (non-GAAP)	\$62,500	41.6%	\$75,122	53.7%	\$78,827	48.3%	\$82,524	41.9%	\$87,899	38.6%	\$86,108	47.2%	\$108,892	48.5%	\$116,805	42.1%	\$119,297	35.3%	\$223,608	50.8%	\$324,372	44.5%	\$431,102	42.1%
G&A (GAAP)	\$18,461	12.3%	\$21,581	15.4%	\$19,630	12.0%	\$22,810	11.6%	\$20,631	9.1%	\$20,096	11.0%	\$22,162	9.9%	\$25,406	9.2%	\$27,506	8.1%	\$75,402	17.1%	\$84,652	11.6%	\$95,170	9.3%
Less: SBC	-2,075	-1.4%	-2,623	-1.9%	-3,295	-2.0%	-3,210	-1.6%	-3,488	-1.5%	-3,834	-2.2%	-4,825	-2.2%	-6,121	-2.3%	-6,297	-1.9%	-7,460	-1.7%	-12,616	-1.7%	-21,077	-2.1%
Less: Payroll tax related to stock-based activities	-	-%	-14	-%	-24	-%	-41	-%	-16	-0.1%	-45	-%	-108	-%	-75	-%	-112	-%	-	-%	-95	0.0%	-340	-%
Less: Non-cash charge for equity grant to Pure Good Foundation	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%	-11,900	-2.7%	-	-%	-	-%
G&A (non-GAAP)	\$16,386	10.9%	\$18,944	13.5%	\$16,311	10.0%	\$19,559	9.9%	\$17,127	7.5%	\$16,217	8.8%	\$17,229	7.7%	\$19,210	6.9%	\$21,097	6.2%	\$56,042	12.7%	\$71,941	9.9%	\$73,753	7.2%
Charge related to a legal settlement (GAAP)	-	-%	-	-%	-	-%	\$30,000	15.2%	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%	\$30,000	4.1%	-	-%
Less: charge related to a legal settlement	-	-%	-	-%	-	-%	-30,000	-15.2%	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%	-30,000	-4.1%	-	-%
Charge related to a legal settlement (non-GAAP)	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%	0	-%	-	-%	-	-%	-	-%	-	-%
Total operating expense (GAAP)	\$141,098	93.9%	\$157,617	112.6%	\$165,848	101.6%	\$205,814	104.5%	\$191,225	83.9%	\$182,488	99.9%	\$212,156	94.5%	\$223,632	80.6%	\$236,120	69.8%	\$482,621	109.6%	\$720,504	99.0%	\$854,396	83.5%
Less: SBC	-21,013	-14.0%	-21,800	-15.6%	-26,003	-15.9%	-26,919	-13.7%	-35,706	-15.7%	-30,048	-16.5%	-34,235	-15.3%	-36,298	-13.2%	-39,412	-11.7%	-55,561	-12.6%	-110,428	-15.2%	-139,993	-13.7%
Less: Payroll tax related to stock-based activities	-	-%	-505	-0.3%	-148	-0.1%	-537	-0.3%	-578	-0.2%	-615	-0.3%	-811	-0.3%	-826	-0.2%	-883	-0.2%	-	-%	-1,768	-0.3%	-3,135	-0.3%
Less: Non-cash charge for equity grant to Pure Good Foundation	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%	-11,900	-2.7%	-	-%	-	-%
Less: charge related to a legal settlement	-	-%	-	-%	-	-%	-30,000	-15.2%	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%	-30,000	-4.1%	-	-%
<b>Total operating expense (non-GAAP)</b>	<b>\$120,085</b>	<b>79.9%</b>	<b>\$135,312</b>	<b>96.7%</b>	<b>\$139,697</b>	<b>85.6%</b>	<b>\$148,358</b>	<b>75.3%</b>	<b>\$154,941</b>	<b>68.0%</b>	<b>\$151,825</b>	<b>83.1%</b>	<b>\$177,110</b>	<b>78.9%</b>	<b>\$186,508</b>	<b>67.2%</b>	<b>\$195,825</b>	<b>57.9%</b>	<b>\$415,160</b>	<b>94.3%</b>	<b>\$578,308</b>	<b>79.4%</b>	<b>\$711,268</b>	<b>69.5%</b>
Operating loss (GAAP)	-\$42,933	-28.6%	-\$64,650	-46.2%	-\$59,481	-36.4%	-\$78,180	-39.7%	-\$42,495	-18.6%	-\$63,405	-34.7%	-\$64,146	-28.6%	-\$41,817	-15.1%	-\$15,790	-4.7%	-\$210,181	-47.7%	-\$244,806	-33.6%	-\$185,158	-18.1%
Add: SBC	22,027	14.7%	22,998	16.4%	27,896	17.1%	28,235	14.3%	37,539	16.5%	32,219	17.6%	36,838	16.5%	38,863	14.0%	42,753	12.7%	58,225	13.2%	116,668	16.0%	150,673	14.8%
Add: Payroll tax related to stock-based activities	-	-%	505	0.4%	158	-%	548	0.3%	601	0.2%	651	0.4%	906	0.3%	902	0.4%	973	0.3%	-	-%	1,812	0.3%	3,432	0.3%
Add: Non-cash charge for equity grant to Pure Good Foundation	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%	11,900	-2.7%	-	-%	-	-%
Add: charge related to a legal settlement	-	-%	-	-%	-	-%	30,000	15.2%	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%	30,000	4.1%	-	-%
<b>Operating Income (Loss) (non-GAAP)</b>	<b>-\$20,906</b>	<b>-13.9%</b>	<b>-\$41,147</b>	<b>-29.4%</b>	<b>-\$31,427</b>	<b>-19.3%</b>	<b>-\$19,397</b>	<b>-9.8%</b>	<b>-\$4,355</b>	<b>-1.9%</b>	<b>-\$30,535</b>	<b>-16.7%</b>	<b>-\$26,402</b>	<b>-11.8%</b>	<b>-\$2,052</b>	<b>-0.7%</b>	<b>\$27,936</b>	<b>8.3%</b>	<b>-\$140,056</b>	<b>-31.8%</b>	<b>-\$96,326</b>	<b>-13.2%</b>	<b>-\$31,053</b>	<b>-3.0%</b>



# FREE CASH FLOW

## GAAP TO NON-GAAP RECONCILIATION

	Fiscal Quarter										Full Year		
	Q4 FY16	Q1 FY17	Q2 FY17	Q3 FY17	Q4 FY17	Q1 FY18	Q2 FY18	Q3 FY18	Q4 FY18	FY16	FY17	FY18	
<i>(\$ in millions)</i>													
Cash provided by (used in) operations (GAAP)	\$42.0	\$7.0	-\$11.6	-\$47.3	\$37.5	-\$14.3	-\$0.2	\$28.2	\$59.0	-\$7.9	-\$14.4	\$72.7	
Less: Capital expenditures	-9.9	-24.4	-21.7	-18.5	-12.2	-12.8	-17.3	-14.2	-20.7	-39.3	-76.8	-65.0	
Plus: Cash charge related to a legal settlement	-	-	-	30.0	-	-	-	-	-	-	30.0	-	
<b>Free cash flow (non-GAAP)</b>	<b>32.1</b>	<b>-17.4</b>	<b>-33.3</b>	<b>-35.8</b>	<b>25.3</b>	<b>-27.1</b>	<b>-17.5</b>	<b>14.0</b>	<b>38.3</b>	<b>-47.2</b>	<b>-61.2</b>	<b>7.7</b>	
Adjust: ESPP impact	-10.3	8.7	-6.2	5.4	-8.1	9.7	-5.0	2.5	-11.5	-12.5	-0.2	-4.3	
<b>Free cash flow without ESPP impact (non-GAAP)</b>	<b>\$21.8</b>	<b>-\$8.7</b>	<b>-\$39.5</b>	<b>-\$30.4</b>	<b>\$17.2</b>	<b>-\$17.4</b>	<b>-\$22.5</b>	<b>\$16.5</b>	<b>\$26.8</b>	<b>-\$59.7</b>	<b>-\$61.4</b>	<b>\$3.4</b>	
<i>Free cash flow as % of revenue</i>	21.4%	-12.4%	-20.4%	-18.2%	11.1%	-14.8%	-7.8%	5.0%	11.3%	-10.7%	-8.4%	0.8%	
<i>Free cash flow without ESPP impact as % of revenue</i>	14.5%	-6.2%	-24.2%	-15.4%	7.5%	-9.5%	-10.0%	5.9%	7.9%	-13.6%	-8.4%	0.3%	

# Q4 FY18 SHARE COUNT

ACHIEVING PROFITABILITY IMPACTS EPS COMPUTATIONS

WHEN THERE IS NET INCOME

DILUTED SHARES<sub>(a)(b)</sub>

251M

WHEN THERE IS NET LOSS

BASIC/DILUTED SHARES<sub>(a)</sub>

218M

(a) Please note:

- Share count as of 1/31/18 - anticipated to continue to increase in coming quarters.
- Diluted shares computed based on weighted-average stock price of \$17.29 during Q4 FY18.

(b) Includes effect of dilutive securities (employee stock options, restricted stock units, and employee stock purchase plan).

# NEW REVENUE STANDARD

IMPACT OF ASC 606 ON PURE'S FINANCIALS

# TRANSACTIONAL CHANGES UNDER ASC 606

	CURRENT TREATMENT	ASC 606 TREATMENT
<b>Product / Support Revenue Allocations</b>	<ul style="list-style-type: none"> <li>Product pricing incentives are allocated solely to Product Revenue</li> </ul>	<ul style="list-style-type: none"> <li>Product pricing incentives are allocated proportionally between Product <u>AND</u> Support Revenue</li> </ul>
<b>Commissions</b>	<ul style="list-style-type: none"> <li>Commissions attributable to initial support contract amortized over support contract period (typically 1 - 3 years)</li> </ul>	<ul style="list-style-type: none"> <li>Commissions attributable to initial support contract <u>AND</u> anticipated customer renewal stream amortized over average expected customer life (6 years)</li> </ul>
<b>Evergreen Support Contracts</b>	<ul style="list-style-type: none"> <li>All renewal contract revenue amortized evenly into support revenue over renewal contract period</li> </ul>	<ul style="list-style-type: none"> <li>A portion of renewal contract recognized immediately into product revenue upon shipment of forever flash controller</li> <li>Remainder of contract amortized evenly into support revenue over renewal contract period</li> </ul>

# SUMMARY OF CHANGES ON OUR FINANCIALS

(\$ in millions)	FY17			FY18		
	ASC 605	ASC 606	Change	ASC 605	ASC 606	Change
<b>Product</b>	\$ 590.0	\$ 614.5	4.1%	\$ 814.0	\$ 834.5	2.5%
<b>Support</b>	\$ 138.0	\$ 124.7	-9.6%	\$ 209.0	\$ 190.3	-9.0%
<b>Revenue</b>	<b>\$ 728.0</b>	<b>\$ 739.2</b>	<b>1.5%</b>	<b>\$ 1,023.0</b>	<b>\$ 1,024.8</b>	<b>0.2%</b>
<b>Product</b>	67.2%	68.5%	1.3pt	66.4%	67.2%	0.8%
<b>Support</b>	62.0%	58.0%	-4.0pt	66.9%	63.7%	-3.2pt
<b>Gross Margin *</b>	<b>66.2%</b>	<b>66.7%</b>	<b>0.5pt</b>	<b>66.5%</b>	<b>66.6%</b>	<b>0.1pt</b>
<b>Operating Expense *</b>	\$ 578.3	\$ 566.0	-2.1%	\$ 711.3	\$ 695.3	-2.2%
<b>Operating Margin *</b>	<b>-13.2%</b>	<b>-9.8%</b>	<b>3.4pt</b>	<b>-3.0%</b>	<b>-1.3%</b>	<b>1.7pt</b>
<b>Deferred Revenue</b>	\$ 303.1	\$ 273.0	\$ (30.1)	\$ 406.0	\$ 374.1	\$ (31.9)
<b>Deferred Commissions</b>	\$ 30.7	\$ 58.9	\$ 28.2	\$ 42.7	\$ 86.9	\$ 44.2
<b>Operating Cash Flow</b>	\$ (14.4)	\$ (14.4)	\$ -	\$ 72.7	\$ 72.7	\$ -

\* See GAAP to non-GAAP reconciliation under ASC 606 in Appendix.

## HISTORICAL COMMENTARY (FY17/FY18)

**Small (& Decreasing) Impact** on Total Revenue & Total Gross Margin %

Mix Shift **Increases** Product Revenue & Gross Margin % and **Decreases** Support Revenue & Gross Margin %

**Modest decrease** in Opex from commissions deferred over longer period;  
**Modest (& Decreasing) Increase** in Operating Margin

### FY19 Forward Looking Expectations:

- Revenue impact expected to continue to be insignificant.
- Operating Margin lift continues but expected to continue to decrease over time.

# ASC 606 GAAP TO NON-GAAP RECONCILIATION

(\$ in thousands)	FY17				FY18			
	ASC 605	As % of Total Revenue	ASC 606	As % of Total Revenue	ASC 605	As % of Total Revenue	ASC 606	As % of Total Revenue
	Product revenue	\$590,001	81.0%	\$614,458	83.1%	\$813,985	79.6%	\$834,455
Support revenue	137,976	19.0%	124,713	16.9%	209,034	20.4%	190,307	18.6%
<b>Total revenue</b>	<b>\$727,977</b>	<b>100.0%</b>	<b>\$739,171</b>	<b>100.0%</b>	<b>\$1,023,019</b>	<b>100.0%</b>	<b>\$1,024,762</b>	<b>100.0%</b>
Product gross margin (GAAP)	\$395,851	67.1%	\$420,308	68.4%	\$538,743	66.2%	\$559,214	67.0%
Add: SBC	601	0.1%	601	0.1%	1,630	0.2%	1,630	0.2%
Add: Payroll tax related to stock-based activities	6	-%	6	-%	26	-%	26	-%
<b>Product gross margin (non-GAAP)</b>	<b>\$396,458</b>	<b>67.2%</b>	<b>\$420,915</b>	<b>68.5%</b>	<b>\$540,398</b>	<b>66.4%</b>	<b>\$560,869</b>	<b>67.2%</b>
Support gross margin (GAAP)	\$79,847	57.9%	\$66,584	53.4%	\$130,495	62.4%	\$111,768	58.7%
Add: SBC	5,639	4.1%	5,639	4.5%	9,050	4.3%	9,050	4.8%
Add: Payroll tax related to stock-based activities	38	-%	38	0.1%	271	0.1%	271	0.2%
<b>Support gross margin (non-GAAP)</b>	<b>\$85,524</b>	<b>62.0%</b>	<b>\$72,261</b>	<b>58.0%</b>	<b>\$139,816</b>	<b>66.9%</b>	<b>\$121,089</b>	<b>63.7%</b>
Total gross margin (GAAP)	\$475,698	65.3%	\$486,892	65.9%	\$669,238	65.4%	\$670,982	65.5%
Add: SBC	6,240	0.9%	6,240	0.8%	10,680	1.0%	10,680	1.0%
Add: Payroll tax related to stock-based activities	44	-%	44	-%	297	0.1%	297	0.1%
<b>Total gross margin (non-GAAP)</b>	<b>\$481,982</b>	<b>66.2%</b>	<b>\$493,176</b>	<b>66.7%</b>	<b>\$680,215</b>	<b>66.5%</b>	<b>\$681,959</b>	<b>66.6%</b>

(\$ in thousands)	FY17				FY18			
	ASC 605	As % of Total Revenue	ASC 606	As % of Total Revenue	ASC 605	As % of Total Revenue	ASC 606	As % of Total Revenue
	Total operating expense (GAAP)	\$720,504	99.0%	\$708,163	95.8%	\$854,396	83.5%	\$838,415
Less: SBC	-110,428	-15.2%	-110,428	-14.9%	-139,993	-13.7%	-139,993	-13.7%
Less: Payroll tax related to stock-based activities	-1,768	-0.2%	-1,768	-0.2%	-3,135	-0.3%	-3,135	-0.3%
Less: charge related to a legal settlement	-30,000	-4.1%	-30,000	-4.1%	-	-%	-	-%
<b>Total operating expense (non-GAAP)</b>	<b>\$578,308</b>	<b>79.4%</b>	<b>\$565,967</b>	<b>76.6%</b>	<b>\$711,268</b>	<b>69.5%</b>	<b>\$695,287</b>	<b>67.8%</b>
Operating loss (GAAP)	-\$244,806	-33.6%	-\$221,271	-29.9%	-\$185,158	-18.1%	-\$167,433	-16.3%
Add: SBC	116,668	16.0%	116,668	15.8%	150,673	14.8%	150,673	14.7%
Add: Payroll tax related to stock-based activities	1,812	0.3%	1,812	0.2%	3,432	0.3%	3,432	0.3%
Add: charge related to a legal settlement	30,000	4.1%	30,000	4.1%	-	-%	-	-%
<b>Operating Loss (non-GAAP)</b>	<b>-96,326</b>	<b>-13.2%</b>	<b>-72,791</b>	<b>-9.8%</b>	<b>-31,053</b>	<b>-3.0%</b>	<b>-13,328</b>	<b>-1.3%</b>

