



## **Paul Ziots - VP Investor Relations**

Thank you. Good afternoon everyone and welcome to Pure's second quarter fiscal year 2025 earnings conference call.

On the call we have Charlie Giancarlo, Chief Executive Officer, Kevan Kryslar, 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 the 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](http://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 2025 quiet period begins at the close of business Friday, October 18, 2024.

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

**Charlie Giancarlo – CEO**

Good afternoon everyone and welcome to our Q2 FY25 earnings call. We were pleased with our Q2 revenue growth of 11% year-over-year. Pure continues to pick up market share, and outpace the industry, both in innovation and in growth.

During the quarter, we hosted customers and partners at our annual Accelerate conference. Our Las Vegas Accelerate held in June kicked off a series of local events across the Americas, Europe, and Asia-Pacific, where thousands of customers and partners learn about our platform strategy and Fusion vision, as well as Pure's offerings in AI, virtualization, and application modernization.

Specifically, we introduced the next generation of Fusion, a first-of-its-kind storage cloud architecture soon to be available as a non-disruptive upgrade to all of our global customers. Fusion allows businesses to transform their Pure Storage systems into an automated, data storage cloud that eliminates the data silos of existing enterprise data storage systems.

We also unveiled the industry's first AI storage-as-a-Service for GPU clouds. Growing GPU and AI clouds need flexibility in their infrastructure as they are uncertain of their future growth, and the type of workloads that they will need to address. Pure's Evergreen//One for AI provides them flexibility in both their consumption and price-performance needs, and matches cost to their revenue growth.

Our Evergreen//One service offering remains strong. Evergreen//One removes the hard work, expense and risk of operating a storage environment from enterprise IT



organizations. It provides flexibility. It avoids over-provisioning and rigid planning. And, it simplifies customers' operations with solid and guaranteed SLAs. It also significantly boosts efficiency in terms of capital costs, energy, and labor.

Options Technology, a financial technology company, started with one small Evergreen//One subscription back in 2019 and has grown over the last five years to 18 petabytes of storage across multiple sites globally. Through EG//1, Pure regularly enhances the delivery of their SaaS services, improving resiliency, efficiency, and overall performance. While the lengthening of large enterprise deal times impacted Evergreen//One growth in the first half, we continue to see strong deal activity.

Artificial Intelligence continues to be of great interest to our customers. Specifically, customers continue to study both potential areas for AI use, as well as how to accommodate AI in their infrastructure. We were pleased to have had NVIDIA join us at //Accelerate to announce our expected NVIDIA DGX SuperPOD certification by the end of this year.

The AI market for data storage has progressed as we have consistently predicted. Pure sees three separate AI opportunities for our solutions. First, storage for machine learning and training environments where Pure provides high-performance storage for public and private GPU farms. This quarter we signed a deal with SoftBank corporation, one of the big four telecommunications services in Japan. Pure is providing the storage layer behind many of SoftBank's cutting-edge services including their new generative AI platform, created specifically to develop the market leading Large Language Model for the Japanese language.

The second AI opportunity we foresee focuses on tailored storage for enterprise inference or RAG environments. Many, if not most, enterprises will use commercial LLMs or other models to operate on their own proprietary data in-house. These systems will use relatively small GPU environments to provide AI insight from their data. Pure is working closely with NVIDIA on a number of vertical market offerings to satisfy this market.



We continue to believe that our largest opportunity opened by AI is to address the siloed nature of enterprises' existing data storage architectures. Current data stores sit behind application stacks and generally have neither the performance nor the connectivity to serve data directly for AI engines and analytics. Customers that are the most advanced in their AI investigations all acknowledge that data access and preparation are major barriers to AI deployment. Pure Fusion will allow customers to upgrade their enterprise storage to function as a storage cloud, simplifying data access and management, and eliminating data silos to enable easier access for AI.

The focus and uncertainty around AI has caused customers to begin to re-evaluate their planning on how they will invest their IT dollars. We are also seeing large organizations increase their focus on managing escalating costs from software, Cloud and SaaS services.

Our Pure Cloud Block Store for Microsoft Azure VMware Solution is helping enterprises contain cloud storage costs, generally by more than 50%. Put simply, Cloud Block Store provides a more resilient and performant public cloud storage infrastructure for large enterprise cloud application deployments that is dramatically less expensive than cloud native services. Furthermore, Cloud Block Store is fully compatible with enterprise storage interfaces and services including disaster recovery and data protection.

One case in point is a Fortune Global 500 Food and Beverage customer that faced a growing hyperscaler data footprint and accelerating costs with limited visibility into its overall workload performance. By leveraging Cloud Block Store—reducing thousands of cloud managed disks to just dozens of Cloud Block Store volumes, equipped with data protection, ransomware remediation features, and advanced workload performance reporting—the company is looking to save 50 percent of its total storage bill.

Our discussions with hyperscalers to replace their core storage with Pure technology continue to progress positively. Our lead prospect has advanced from extensive evaluation of our core technology, to testing an integrated solution, and we have been



engaged in detailed contractual negotiations for many months. We remain confident that we will secure our first hyperscaler design win by year-end.

The longer-term opportunity for Pure with hyperscalers is significant. To provide a sense of scale, the top ten Hyperscalers are projected to buy almost 70 percent of all disk drives, over 600 Exabytes in total, this year alone. Because of Pure's unique Direct to Flash technology, we can offer hyperscalers better performance, reliability, and power and space savings than hard disks, at a similar or better total cost of ownership.

With nearly 15 years of experience with software and hardware flash management, we continue to far outdistance the industry in energy-efficiency, density and performance. Pure holds key intellectual property and unmatched multi-vendor, multi-process flash expertise that no other vendor can match, and cannot be replicated with standard SSDs. Our latest 150-terabyte Direct Flash Module shipping later this year is but the next stop on our robust industry-leading flash roadmap.

Energy and space savings generated by our Direct-to-Flash advantage are significant - we reduce space, power and cooling requirements by a factor of 5 to 10 compared to hard disks. In a world of greater power demands and limited electrical supply, the savings on electricity alone provides a compelling incentive to switch from hard disks in both hyperscaler as well as enterprise data centers.

Our //E family of products, focused on replacing enterprise hard disk systems with more efficient and higher performance Pure technology, continues to grow strongly. Enterprises increasingly recognize that Pure DirectFlash technology has reached the price level where they can eliminate the last mechanical component from their data centers.

As highlighted in our latest ESG report, power reduction on storage from Pure's DirectFlash technology can reduce total power usage in existing data centers by approximately 20%.

Businesses are facing higher energy costs and greater power constraints while committing to higher sustainability goals. BT—the British multinational service



provider—has set a target to achieve net-zero carbon emissions in its operations by the end of March 2031. As a foundational storage provider to BT, we directly support their data center energy reduction program. We have enabled BT to grow its data storage while reducing its energy usage. BT has measured Pure Storage to be about 18 times more efficient than their legacy storage benchmarks.

Looking back over this past quarter, we have not seen a significant change in the overall macro environment or our customers' intentions to buy. We have, however, seen customers look to manage increasing costs in Cloud, software and SaaS.

We believe that the storage market will be resilient in this IT economy, but we have yet to see a positive inflection.

Overall, we are well positioned in all of the segments in which we compete, and believe we will continue to gain share in our market. We know we are gaining ground as our growing strength has forced competitors to intensify their efforts and mimic our messaging. It is clear now that legacy competitors in our market see Pure as the alpha competitor and have focused their messaging and strategies on us. We appreciate the attention and look forward to the competition.

We remain confident in our ability to expand our market share and maintain our strong leadership in storage.

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

**Kevan Kryslar - CFO**

Thank you Charlie.

We are pleased to have delivered double digit revenue growth during the first half of our fiscal year and we continue to see strong sales performance for both our FlashArray//E and Flashblade //E offerings. Revenue of \$764 million in Q2 grew 11 percent year-over-year, and both revenue and operating profit of \$139 million exceeded our guidance.



Subscription Services annual recurring revenue, or ARR grew 24% to over \$1.5 billion, which continues to be driven by our Evergreen//One service offering, in particular, for our higher velocity business.

As a reminder, subscription services ARR excludes non-cancelable Evergreen subscription contracts where the effective service date has not started.

Including non-cancelable subscription contracts where the effective service date has not started, subscription services ARR grew 25 percent.

Total RPO exiting Q2, which includes both subscription services and product orders, grew 24 percent year-over-year to \$2.3 billion dollars.

As we have shared in previous quarters, product orders within RPO include a non-cancelable telco order from Q3FY24, and orders relating to a Fortune 500 financial services company from Q4FY24.

At the end of Q2, RPO associated exclusively with our subscription service offerings grew by 21%. Additionally, total contract value (TCV) sales for our storage-as-a-service offerings during Q2 reached \$101 million, bringing TCV sales in the first half of FY25 to \$157 million.

Our Evergreen//One as-a-service business is strong, demonstrating robust pipeline growth and consistent success in converting opportunities valued at \$5 million or less. This continues to underpin our confidence in the growth potential of our storage-as-a-service offerings.

Consistent with last quarter, we continue to experience extended closing timelines for larger Evergreen//One opportunities. Last year, we closed several large Evergreen//One deals in the first half, compared to three in the first half of this year. This impacts both year-over-year RPO growth and forecasted FY25 TCV sales for our storage-as-a-service offerings which we now expect to be \$500 million, reflecting a growth rate of approximately 25 percent.





US revenue for Q2 was \$538 million dollars and International revenue was \$226 million dollars.

Our new customer acquisition grew by 261 customers during Q2, and we now serve 62 percent of the Fortune 500.

Total gross margins of 72.8 percent in Q2 continues to be very healthy and comparable year-over-year.

Subscription services gross margin strengthened to 76.4 percent, as we leverage increased automation of our service logistics work flows supporting delivery of our Evergreen subscription services.

Our product gross margin of 69.5 percent in Q2 underscores the strong sales growth of our FlashBlade//E, FlashArray//E, and FlashArray//C solutions, driven by customers increasingly shifting their cost-sensitive workloads to all-flash.

As we aggressively pursue our efforts to help customers transition their workloads to our all-flash solutions, we anticipate a modest, strategic decline in product gross margins during the second half of the fiscal year.

Operating profit and margin strength of approximately 18 percent were both positively impacted by revenue overachievement, strong gross margin performance and operating expense discipline.

Our headcount increased sequentially by nearly 250, to approximately 5700 employees at the end of the quarter.

Pure's balance sheet and liquidity remains very strong, including \$1.8 billion dollars in cash and investments at the end of Q2.

Cash flow from operations during the quarter was \$227 million dollars, and capital expenditures were \$60 million dollars.





Our most significant capital expenditures during the quarter were concentrated in engineering for new test equipment supporting key strategic growth initiatives, including our pursuit of hyperscaler infrastructure opportunities.

As part of our objective of partially off-setting dilution, we began paying withholding taxes due on employee equity awards. In Q2, withholding taxes on equity awards was \$76 million dollars, which offset dilution by approximately 1.1 million shares.

We have approximately \$395 million dollars remaining on our existing repurchase authorizations.

Now turning to guidance.

For Q3, we anticipate revenue of \$815 million, with an expected operating profit of \$140 million, resulting in an operating margin of 17.2 percent. Projected operating profit takes into account a modest sequential decline in product gross margins that we expect during the second half of the fiscal year, driven by our expectations of continued sales growth of our //E family solutions, which are successfully targeting cost-sensitive workloads.

Turning to our annual guidance for FY25, we are reaffirming our FY25 revenue target of \$3.1 billion, representing growth of 10.5 percent, and our operating profit guidance of \$532 million with an operating margin of 17 percent. The anticipated modest decline in product gross margins during the second half of the fiscal year validates our successful strategy of expanding into cost-sensitive workloads with our all-flash solutions, and has been contemplated in our annual guidance.

In closing, we are pleased to deliver strong financial performance, which reaffirms the effectiveness of our strategic initiatives. Our focus on innovation and customer-centric solutions underscores our commitment to be a leader in the data storage industry. While we remain mindful of the broader macroeconomic environment, we are confident in our ability to capitalize on the growing demand for high-performance, sustainable data storage solutions.



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With that, I will turn it back to Paul for Q&A.

**Charlie Giancarlo – CEO**

Post Q&A Closing Remarks

Thank you all for joining us for today's earnings call. Our platform strategy is once again transforming the storage industry. We empower enterprises to address fragmented data environments—a critical step in unlocking the full potential of artificial intelligence. By providing a unified, versatile, and energy-efficient platform, we enable businesses to embrace rapid technological change and seamlessly integrate their data centers with cloud environments.

I want to express my gratitude to our customers, employees, partners, investors, and suppliers. Your dedication, collaboration, and trust are the driving forces behind our success. Thank you for your continued support and commitment.