

# **Q1 FISCAL 2017 RESULTS**

25 MAY 2016

# FORWARD LOOKING STATEMENTS AND NON-GAAP INFORMATION

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).

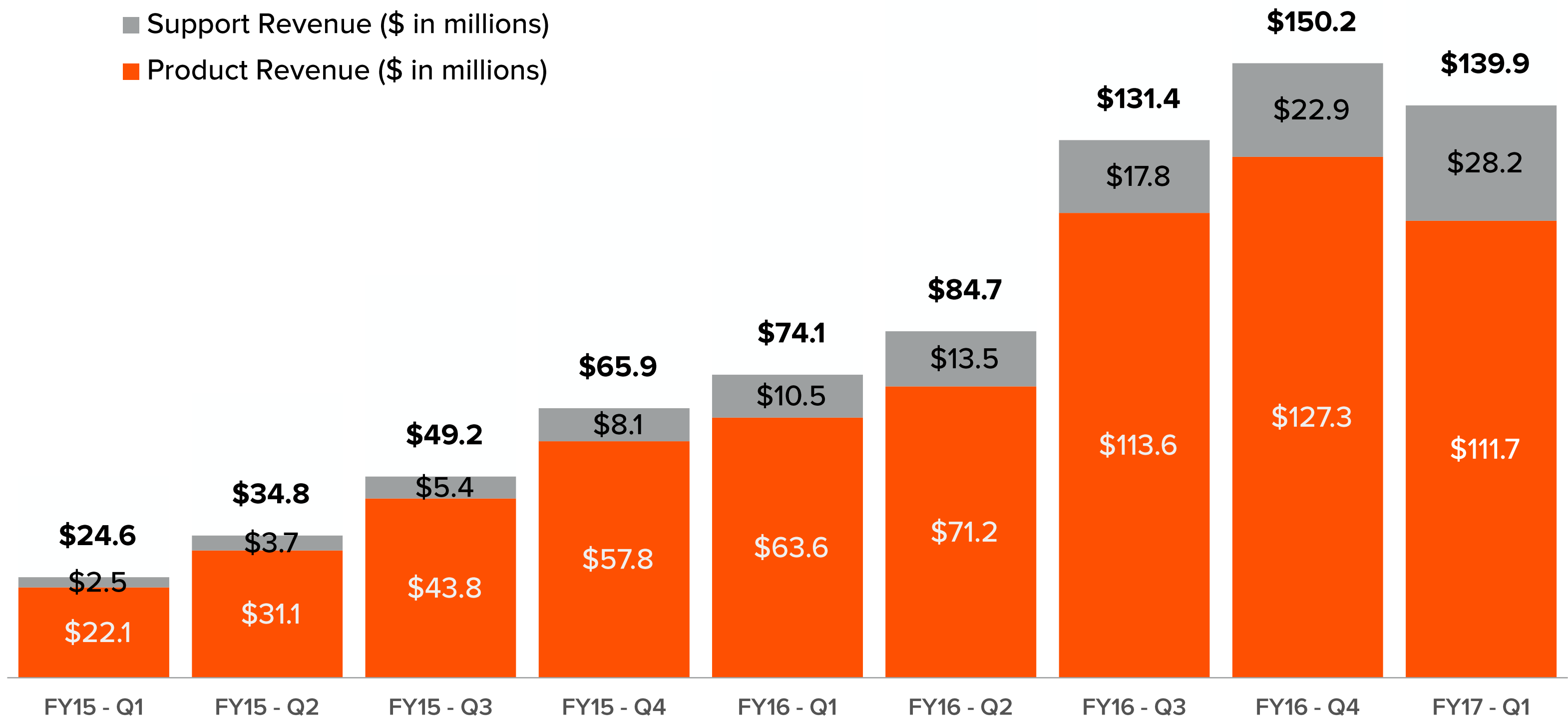
Forward-looking statements represent our beliefs and assumptions only as of the date of this presentation. Except as required by law, we assume no obligation to update these forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in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

# Q1 KEY HIGHLIGHTS

TAM	GROWTH	CUSTOMERS	LEVERAGE		LIQUIDITY
<b>\$24B</b> In disruption by flash and cloud	<b>\$139.9M</b> Total revenue  <b>89%</b> Revenue growth Y/Y	<b>&gt;1,950</b> Customers (+124% Y/Y)  <b>~\$12</b> Incremental purchases from top 25 customers within 18 months of initial purchase  <b>72</b> Fortune 500 customers (+60% Y/Y)	<u>GAAP</u> <b>66.5%</b> GAAP gross margin (+6.5ppts Y/Y)  <b>+19.5ppts</b> Y/Y improvement in GAAP operating margin  <b>\$6.8M</b> Cash flow from operations (+5% of revenue)	<u>Non-GAAP</u> <b>67.3%</b> Non-GAAP gross margin* (+6.8ppts Y/Y)  <b>+23.8ppts</b> Y/Y improvement in non-GAAP operating margin*  <b>-\$17.6M</b> Free cash flow* (-13% of revenue)	<b>\$607M</b> Cash and investments at quarter end

# QUARTERLY REVENUE



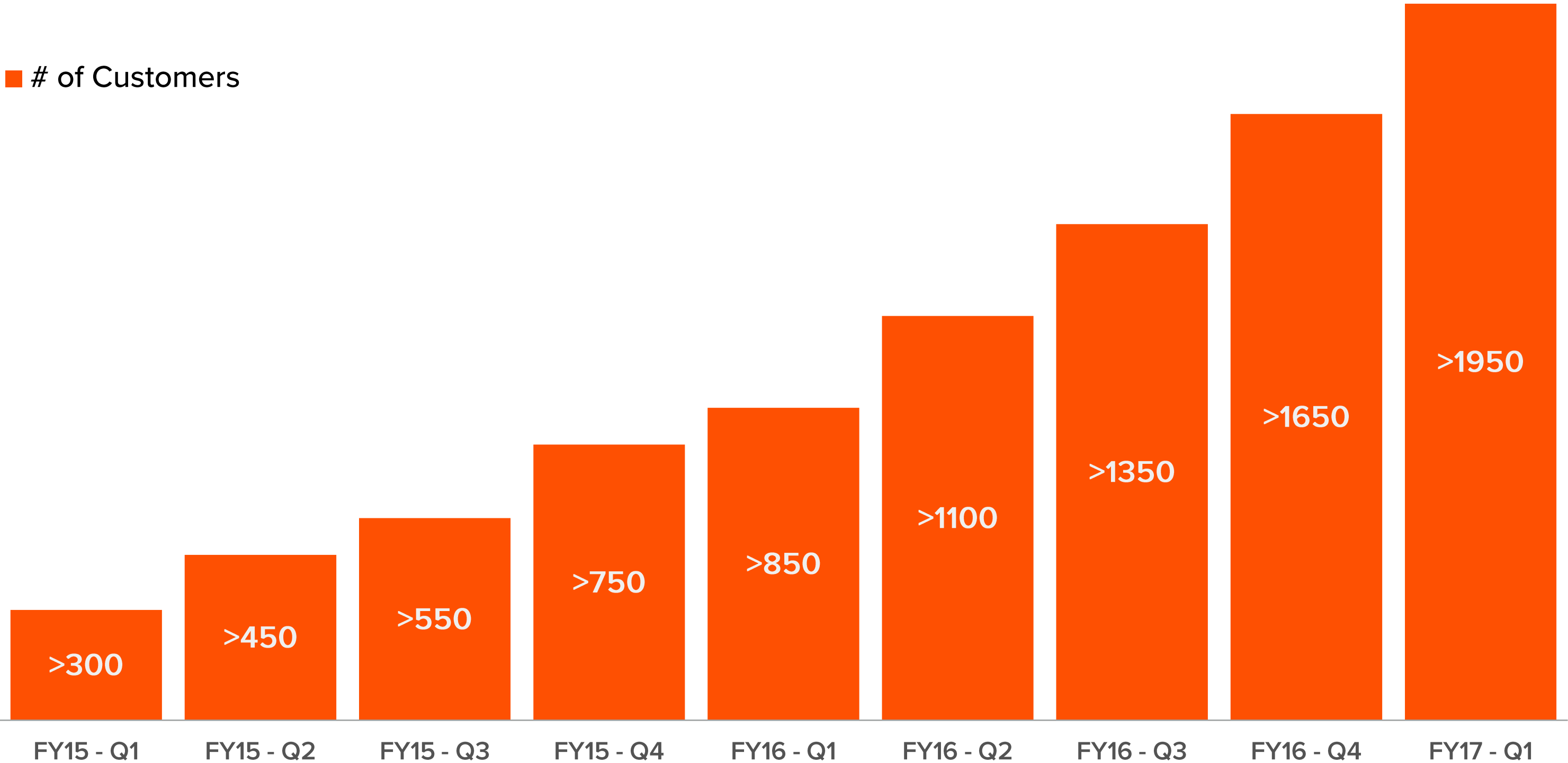
**Q1 FY17**

**89%**

Y/Y total revenue growth

# CUSTOMERS

■ # of Customers



Q1 FY17

>1,100

Adds Y/Y, 124% Y/Y

~\$12

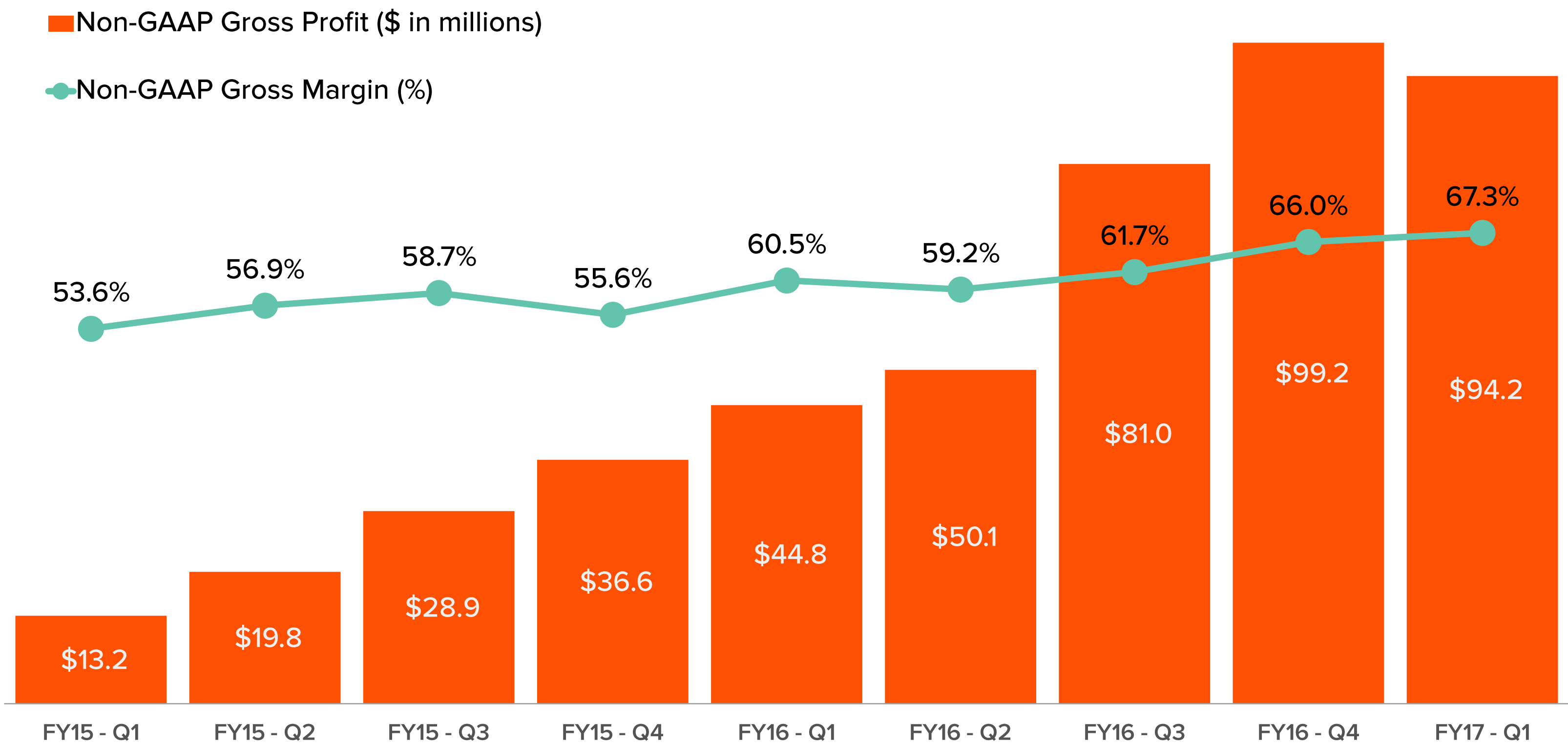
Incremental purchases  
from top 25 customers  
within 18 months of initial  
purchase

72

Fortune 500 customers  
+60% Y/Y



# NON-GAAP GROSS PROFIT & MARGIN



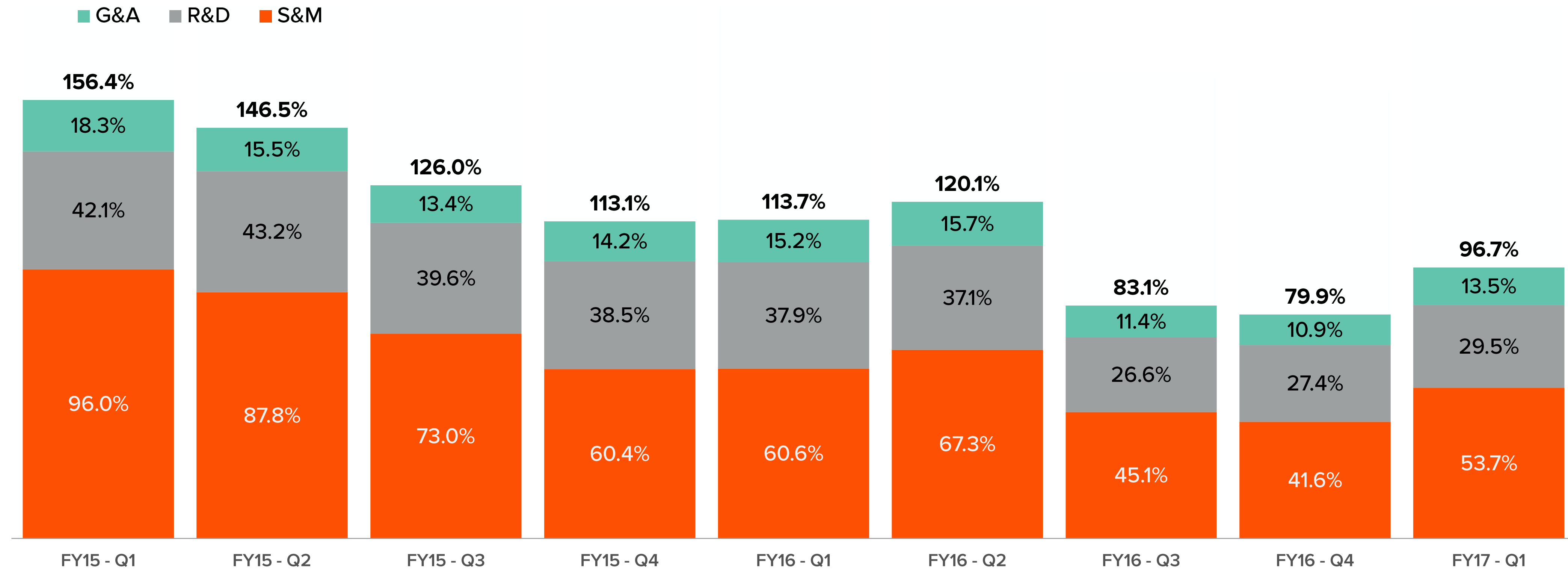
**Q1 FY17**

**+6.8**

PPTS Y/Y

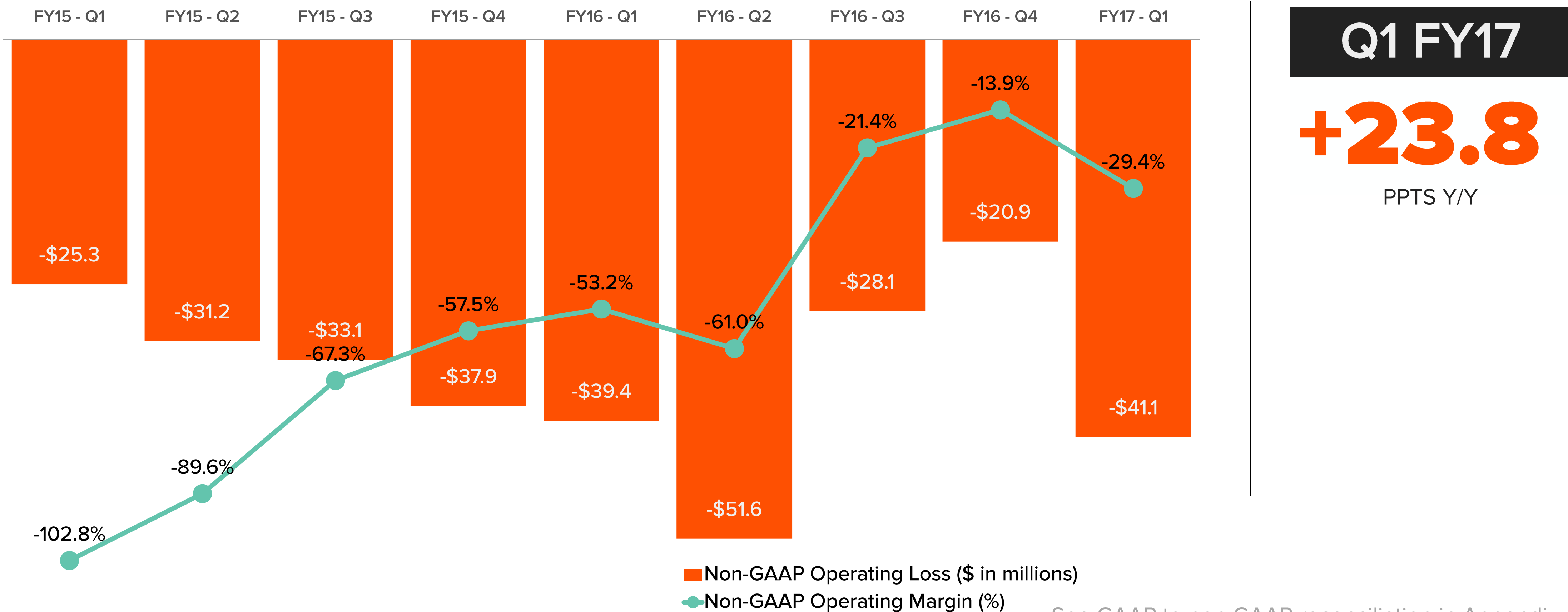
See GAAP to non-GAAP reconciliation in Appendix

# NON-GAAP OPERATING EXPENSE AS PERCENTAGE REVENUE



See GAAP to non-GAAP reconciliation in Appendix

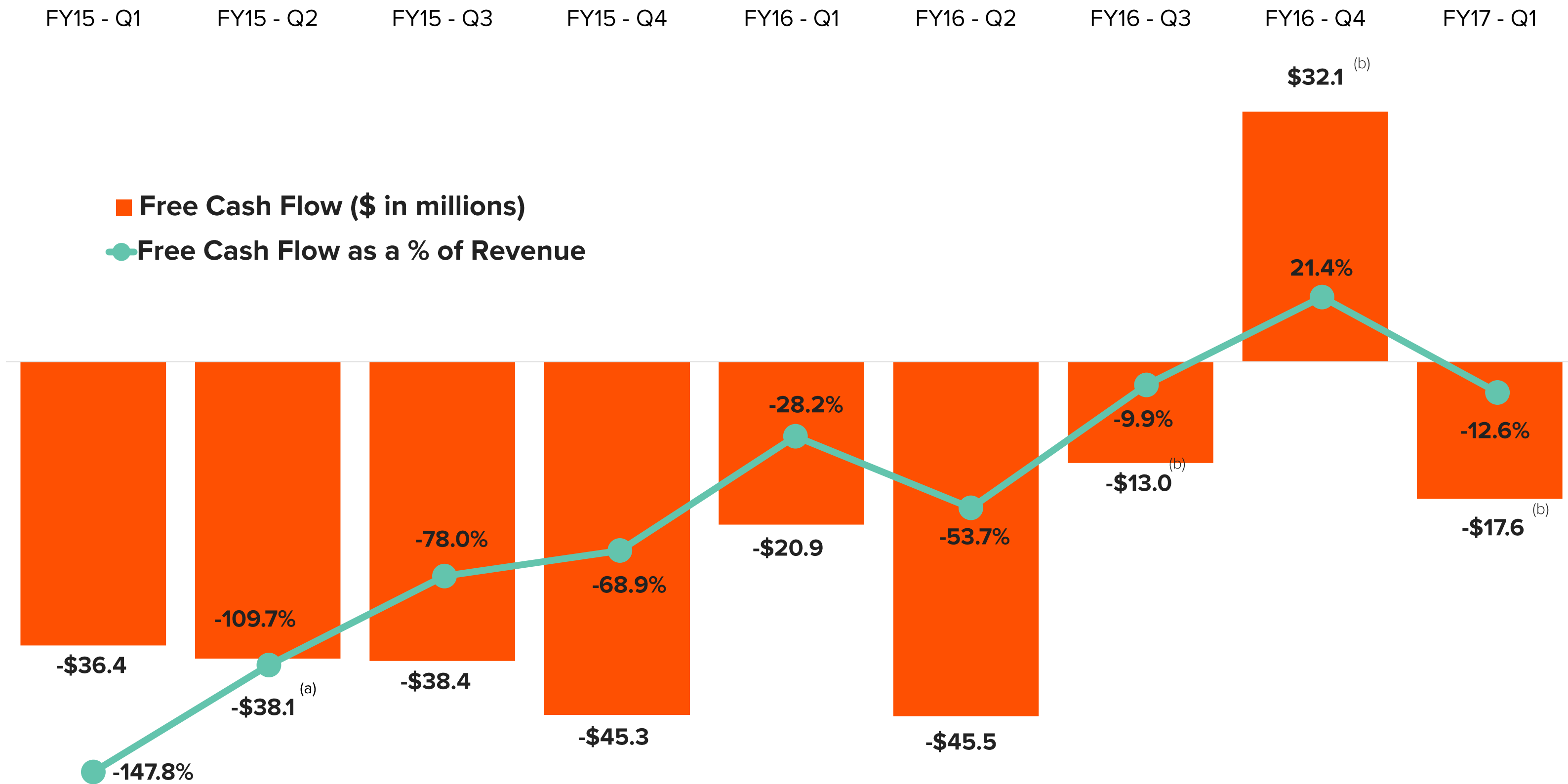
# NON-GAAP OPERATING LOSS & MARGIN



See GAAP to non-GAAP reconciliation in Appendix



# FREE CASH FLOW



**Q1 FY17**

**+15.6**

PPTS Y/Y

(a) Q2 FY15 FCF excluded \$27.6 million of cash paid in connection with a tender offer.

(b) Q3 FY16, Q4 FY16 and Q1 FY17 FCF included \$2.2 million, \$10.3 million and -\$8.7 million of ESPP impact, respectively. Excluding ESPP impact, free cash flow would have been -\$15.2 million, \$21.8 million and -\$8.9 million, respectively.

# GUIDANCE

## Q2 FY17 Guidance

**\$153M to \$157M**

Revenue

**65% to 68%**

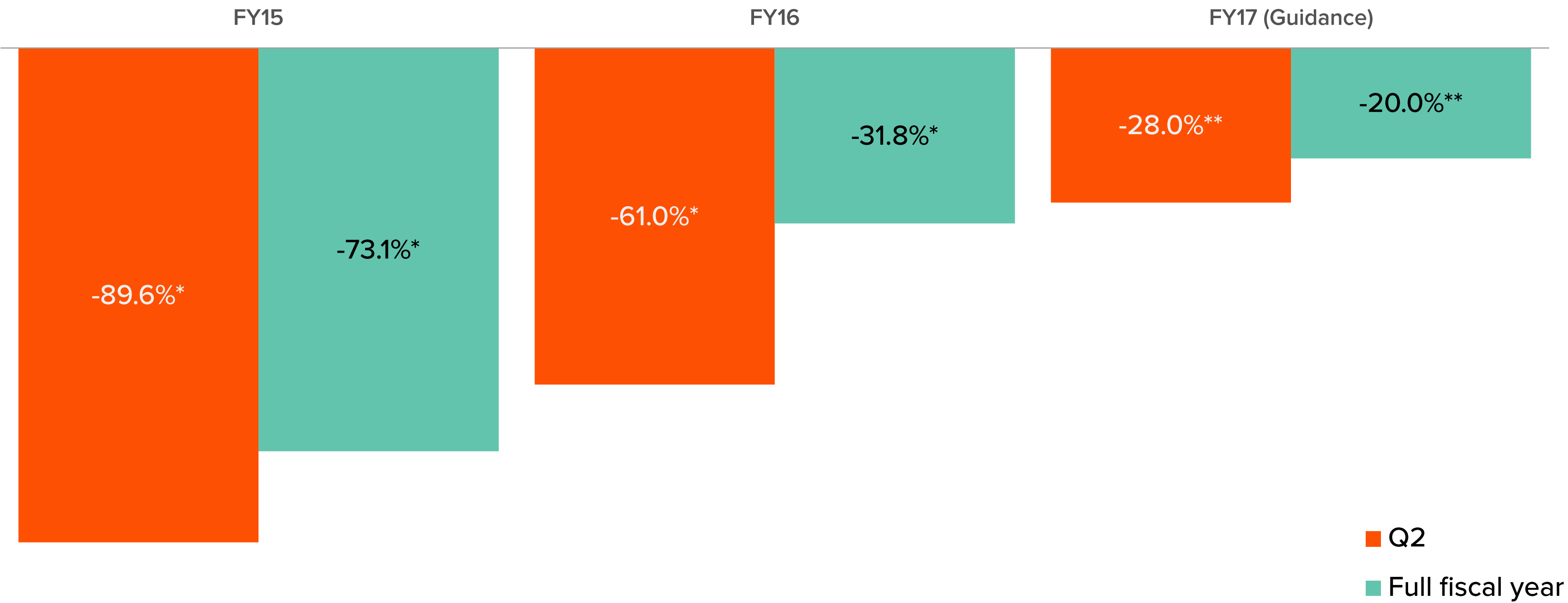
Non-GAAP Gross Margin\*

**-30% to -26%**

Non-GAAP Operating Margin\*

\* 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.

# NON-GAAP OPERATING MARGIN GUIDANCE



1H

Investment focus  
(notably Sales and  
Marketing)

2H






Revenue focus  
(sales investments  
start becoming fully  
ramped)

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.

\*See GAAP to non-GAAP reconciliation in Appendix  
\*\* Represents operating margin at midpoint of guidance

# LONG-TERM TARGET OPERATING MODEL

(Non-GAAP)

	FY16	1Q'FY17	...	Target Model
Gross Margin	62%	67%		63 - 68%
S&M*	51%	54%		25 - 30%
R&D*	31%	29%		15 - 20%
G&A*	12%	13%		5 - 7%
Operating Margin	(32%)	(29%)		15 - 20%

**Sustained Free Cash Flow Positive Second Half of Calendar Year 2017**

\* As a % of revenue

See GAAP to non-GAAP reconciliation in Appendix

# APPENDIX

Q1 FISCAL 2017 RESULTS

# GROSS MARGIN

## GAAP TO NON-GAAP RECONCILIATION

<i>(\$ in thousands)</i>	<u>Q1 FY15</u>	<u>(%)</u>	<u>Q2 FY15</u>	<u>(%)</u>	<u>Q3 FY15</u>	<u>(%)</u>	<u>Q4 FY15</u>	<u>(%)</u>	<u>FY15</u>	<u>(%)</u>	<u>Q1 FY16</u>	<u>(%)</u>	<u>Q2 FY16</u>	<u>(%)</u>	<u>Q3 FY16</u>	<u>(%)</u>	<u>Q4 FY16</u>	<u>(%)</u>	<u>FY16</u>	<u>(%)</u>	<u>Q1 FY17</u>	<u>(%)</u>
Product gross margin (GAAP)	\$12,373	55.8%	\$18,272	58.8%	\$27,077	61.9%	\$33,689	58.3%	\$91,411	59.0%	\$40,906	64.3%	\$43,551	61.2%	\$71,578	63.0%	\$86,828	68.2%	\$242,863	64.6%	\$77,696	69.5%
Add: SBC	73	0.3%	156	0.5%	35	0.1%	39	-%	303	0.2%	56	0.1%	40	0.0%	43	0.1%	137	0.1%	276	0.1%	102	0.1%
Product gross margin (non-GAAP)	\$12,446	56.1%	\$18,428	59.3%	\$27,112	62.0%	\$33,728	58.3%	\$91,714	59.2%	\$40,962	64.4%	\$43,591	61.2%	\$71,621	63.1%	\$86,965	68.3%	\$243,139	64.7%	\$77,798	69.6%
Support gross margin (GAAP)	\$687	27.7%	\$548	14.9%	\$1,609	29.6%	\$2,644	33.0%	\$5,488	28.0%	\$3,535	33.8%	\$5,972	44.3%	\$8,733	49.1%	\$11,337	49.5%	\$29,577	45.8%	\$15,316	54.3%
Add: SBC	86	3.4%	812	22.1%	159	2.9%	216	2.7%	1,273	6.5%	333	3.2%	521	3.9%	657	3.7%	877	3.9%	2,388	3.7%	1,051	3.7%
Support gross margin (non-GAAP)	\$773	31.1%	\$1,360	37.0%	\$1,768	32.5%	\$2,860	35.7%	\$6,761	34.5%	\$3,868	37.0%	\$6,493	48.2%	\$9,390	52.8%	\$12,214	53.4%	\$31,965	49.5%	\$16,367	58.0%
Total gross margin (GAAP)	\$13,060	53.0%	\$18,820	54.1%	\$28,686	58.3%	\$36,333	55.2%	\$96,899	55.5%	\$44,441	60.0%	\$49,523	58.5%	\$80,311	61.1%	\$98,165	65.3%	\$272,440	61.9%	\$93,012	66.5%
Add: SBC	159	0.6%	968	2.8%	194	0.4%	255	0.4%	1,576	0.9%	389	0.5%	561	0.7%	700	0.6%	1,014	0.7%	2,664	0.6%	1,153	0.8%
Total gross margin (non-GAAP)	\$13,219	53.6%	\$19,788	56.9%	\$28,880	58.7%	\$36,588	55.6%	\$98,475	56.4%	\$44,830	60.5%	\$50,084	59.2%	\$81,011	61.7%	\$99,179	66.0%	\$275,104	62.5%	\$94,165	67.3%



# OPERATING EXPENSES & OPERATING MARGIN

## GAAP TO NON-GAAP RECONCILIATION

(\$ in thousands)	Q1 FY15	As % of Total Reven ue	Q2 FY15	As % of Total Revenu e	Q3 FY15	As % of Total Revenu e	Q4 FY15	As % of Total Reven ue	FY15	As % of Total Revenu e	Q1 FY16	As % of Total Revenu e	Q2 FY16	As % of Total Reven ue	Q3 FY16	As % of Total Reven ue	Q4 FY16	As % of Total Revenu e	FY16	As % of Total Reven ue	Q1 FY17	As % of Total Revenu e
R&D (GAAP)	\$12,807	52.0%	\$27,726	79.8%	\$22,863	46.5%	\$29,311	44.5%	\$92,707	53.1%	\$31,682	42.8%	\$38,188	45.1%	\$43,065	32.8%	\$53,710	35.8%	\$166,645	37.8%	\$52,500	37.5%
Less: SBC	-2,432	-9.9%	-12,715	-36.6%	-3,399	-6.9%	-3,966	-6.0%	-22,512	-12.9%	-3,625	-4.9%	-6,804	-8.0%	-8,195	-6.2%	-12,511	-8.4%	-31,135	-7.0%	-11,220	-8.0%
Less: Payroll tax related to stock-ba	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%	-34	0.0%
R&D (non-GAAP)	\$10,375	42.1%	\$15,011	43.2%	\$19,464	39.6%	\$25,345	38.5%	\$70,195	40.2%	\$28,057	37.9%	\$31,384	37.1%	\$34,870	26.6%	\$41,199	27.4%	\$135,510	30.8%	\$41,246	29.5%
S&M (GAAP)	\$25,115	101.9%	\$46,448	133.6%	\$38,224	77.7%	\$42,533	64.6%	\$152,320	87.3%	\$48,327	65.2%	\$59,517	70.3%	\$63,803	48.6%	\$68,927	45.9%	\$240,574	54.6%	\$82,816	59.2%
Less: SBC	-1,436	-5.9%	-15,925	-45.8%	-2,315	-4.7%	-2,790	-4.2%	-22,466	-12.9%	-3,444	-4.6%	-2,536	-3.0%	-4,559	-3.5%	-6,427	-4.3%	-16,966	-3.8%	-7,237	-5.2%
Less: Payroll tax related to stock-ba	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%	-457	-0.3%
S&M (non-GAAP)	\$23,679	96.0%	\$30,523	87.8%	\$35,909	73.0%	\$39,743	60.4%	\$129,854	74.4%	\$44,883	60.6%	\$56,981	67.3%	\$59,244	45.1%	\$62,500	41.6%	\$223,608	50.8%	\$75,122	53.7%
G&A (GAAP)	\$4,925	20.0%	\$9,494	27.3%	\$7,415	15.1%	\$10,520	16.0%	\$32,354	18.5%	\$12,692	17.1%	\$15,227	18.0%	\$29,022	22.1%	\$18,461	12.3%	\$75,402	17.1%	\$21,482	15.4%
Less: SBC	-424	-1.7%	-4,084	-11.8%	-823	-1.7%	-1,148	-1.8%	-6,479	-3.6%	-1,401	-1.9%	-1,899	-2.3%	-2,085	-1.6%	-2,075	-1.4%	-7,460	-1.7%	-2,524	-1.8%
Less: Payroll tax related to stock-ba	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%	-14	0.1%
Less: Non-cash charge for equity grant to Pure Good Foundation	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%	-11,900	-9.1%	-	-%	0	-2.7%	-	-%
G&A (non-GAAP)	\$4,501	18.3%	\$5,410	15.5%	\$6,592	13.4%	\$9,372	14.2%	\$25,875	14.9%	\$11,291	15.2%	\$13,328	15.7%	\$15,037	11.4%	\$16,386	10.9%	\$56,042	12.7%	\$18,944	13.5%
Total operating expense (GAAP)	\$42,847	173.8%	\$83,668	240.7%	\$68,502	139.3%	\$82,364	125.1%	\$277,381	158.9%	\$92,701	125.1%	\$112,932	133.4%	\$135,890	103.4%	\$141,098	93.9%	\$482,621	109.6%	\$156,798	112.0%
Less: SBC	-4,292	-17.4%	-32,724	-94.2%	-6,537	-13.3%	-7,904	-12.0%	-51,457	-29.4%	-8,470	-11.4%	-11,239	-13.3%	-14,839	-11.2%	-21,013	-14.0%	-55,561	-12.6%	-20,981	-15.0%
Less: Payroll tax related to stock-ba	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%	-505	-0.3%
Less: Non-cash charge for equity grant to Pure Good Foundation	-	-%	-	-%	-	-%	-	-%	-	-%	-	0.0%	-	-%	-11,900	-9.1%	-	-%	-11,900	-2.7%	-	-%
Total operating expense (non-GAAP)	\$38,555	156.4%	\$50,944	146.5%	\$61,965	126.0%	\$74,460	113.1%	\$225,92	129.5%	\$84,231	113.7%	\$101,693	120.1%	\$109,151	83.1%	\$120,085	79.9%	\$415,160	94.3%	\$135,312	96.7%
Operating loss (GAAP)	-\$29,787	-120.8%	-\$64,848	-186.5%	-\$39,816	-80.9%	-\$46,031	-69.9%	-\$180,48	-103.5%	-\$48,260	-65.1%	-\$63,409	-74.9%	-\$55,579	-42.3%	-\$42,933	-28.6%	-\$210,181	-47.7%	-\$63,786	-45.6%
Add: SBC	4,451	18.0%	33,692	96.9%	6,731	13.6%	8,159	12.4%	53,033	30.4%	8,859	11.9%	11,800	13.9%	15,539	11.8%	22,027	14.7%	58,225	13.2%	22,134	15.8%
Add: Payroll tax related to stock-ba	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%	505	0.4%
Add: Non-cash charge for equity grant to Pure Good Foundation	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%	11,900	9.1%	-	-%	11,900	-2.7%	-	0.0%
Operating loss (non-GAAP)	-\$25,336	-102.8%	-\$31,156	-89.6%	-\$33,085	-67.3%	-\$37,872	-57.5%	-\$127,449	-73.1%	-\$39,401	-53.2%	-\$51,609	-61.0%	-\$28,140	-21.4%	-\$20,906	-13.9%	-\$140,056	-31.8%	-\$41,147	-29.4%

# FREE CASH FLOW

## GAAP TO NON-GAAP RECONCILIATION

<i>(\$ in millions)</i>	<u>Q1 FY15</u>	<u>Q2 FY15</u>	<u>Q3 FY15</u>	<u>Q4 FY15</u>	<u>Q1 FY16</u>	<u>Q2 FY16</u>	<u>Q3 FY16</u>	<u>Q4 FY16</u>	<u>Q1 FY17</u>
Cash provided by (used in) operations	-\$26.9	-\$56.1	-\$26.7	-\$34.0	-\$14.1	-\$30.4	-\$5.4	\$42.0	\$6.8
Less: Capital expenditures	-9.5	-9.6	-11.7	-11.3	-6.8	-15.1	-7.6	-9.9	-24.4
Plus: Cash paid in connection with a tender offer	-	27.6	-	-	-	-	-	-	-
Free cash flow (non-GAAP)	-36.4	-38.1	-38.4	-45.3	-20.9	-45.5	-13.0	32.1	-17.6
Adjust: ESPP impact	-	-	-	-	-	-	-2.2	-10.3	8.7
Free cash flow without ESPP impact (non-GAAP)	-\$36.4	-\$10.5	-\$38.4	-\$45.3	-\$20.9	-\$45.5	-\$15.2	\$21.8	-\$8.9
<i>Free cash flow as % of revenue</i>	-147.8%	-109.7%	-78.0%	-68.9%	-28.2%	-53.7%	-9.9%	21.4%	-12.6%
<i>Free cash flow without ESPP impact as % of revenue</i>	-147.8%	-109.7%	-78.0%	-68.9%	-28.2%	-53.7%	-11.6%	14.5%	-6.3%