

# **Q2 FISCAL 2018 RESULTS**

August 24, 2017

# 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.

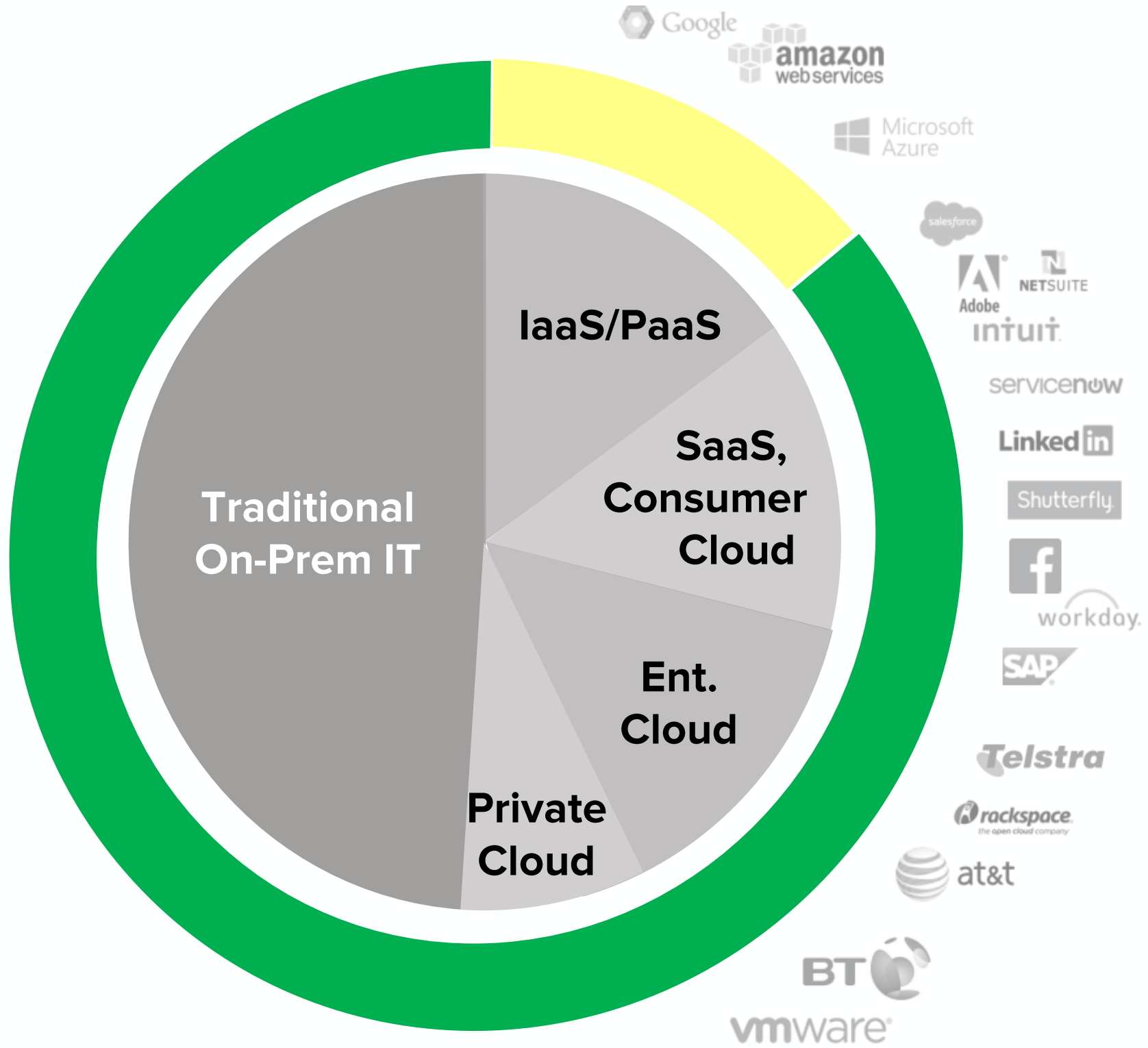
Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by the forward-looking statements, including risks, 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 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



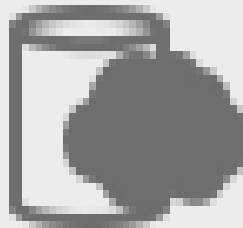
**500+ Leading Clouds**

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



**Next Generation Data**

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



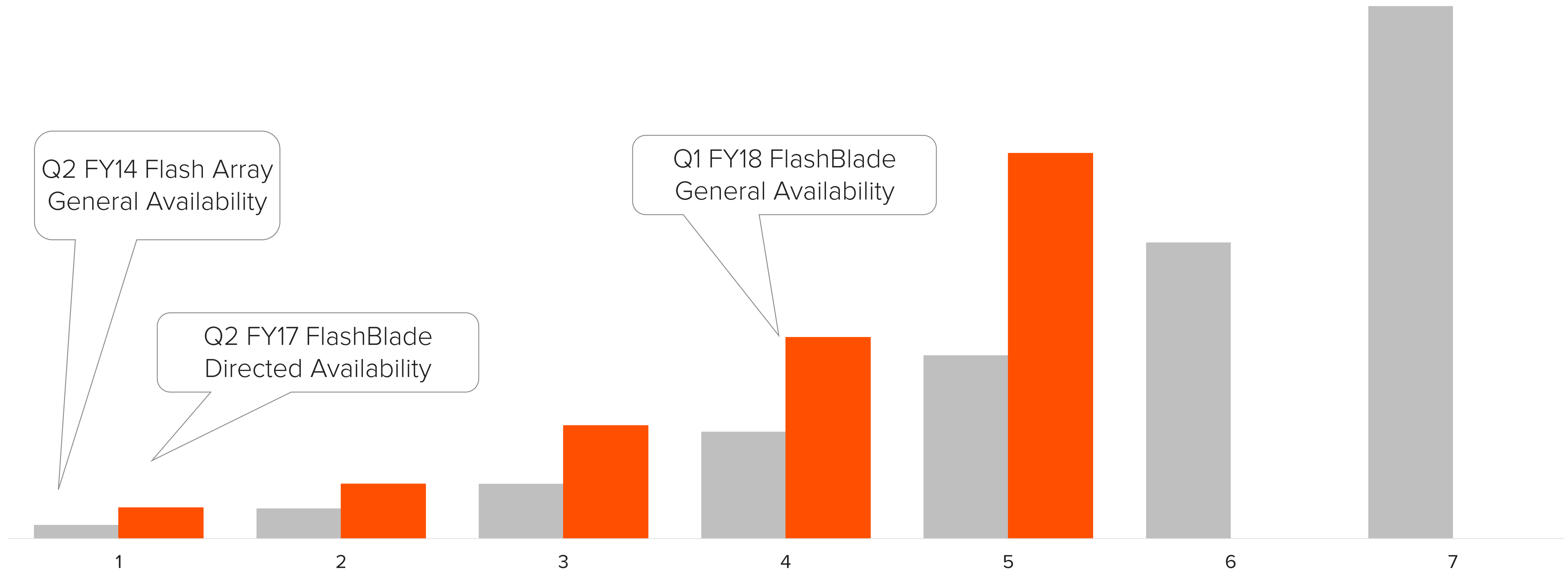
**Cloud-ification of IT**

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

# STRONG FLASHBLADE MOMENTUM

2X Faster than FlashArray's ramp at similar time

- FlashArray - 1st 7 Qtrs
- FlashBlade - 1st 5 Qtrs



# Q2 FY18 KEY HIGHLIGHTS

## TAM

**+\$35B**



+500 Leading Clouds



Next-Generation Data



Cloud-ification of IT

## Growth

**\$224.5M**

Total revenue, up 38%  
Y/Y

**26%**

Revenue from  
International

## Customers

**>3,700**

+350 adds Q/Q, 61% growth Y/Y

**~\$12**

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

**>25%**

of Fortune 500

**>25%**

Cloud customers (SaaS, IaaS,  
& consumer cloud)

## Liquidity

**\$523M**

Cash and investments at quarter end

## Leverage

### GAAP

**65.9%**

Gross margin (0.7 ppts  
Y/Y)

**+7.8ppts**

Y/Y improvement in  
operating margin

**-\$0.2M**

Cash flow from  
operations  
(-0.1% of revenue)

### Non-GAAP

**67.1%\***

Gross margin (0.8 ppts  
Y/Y)

**+7.5ppts\***

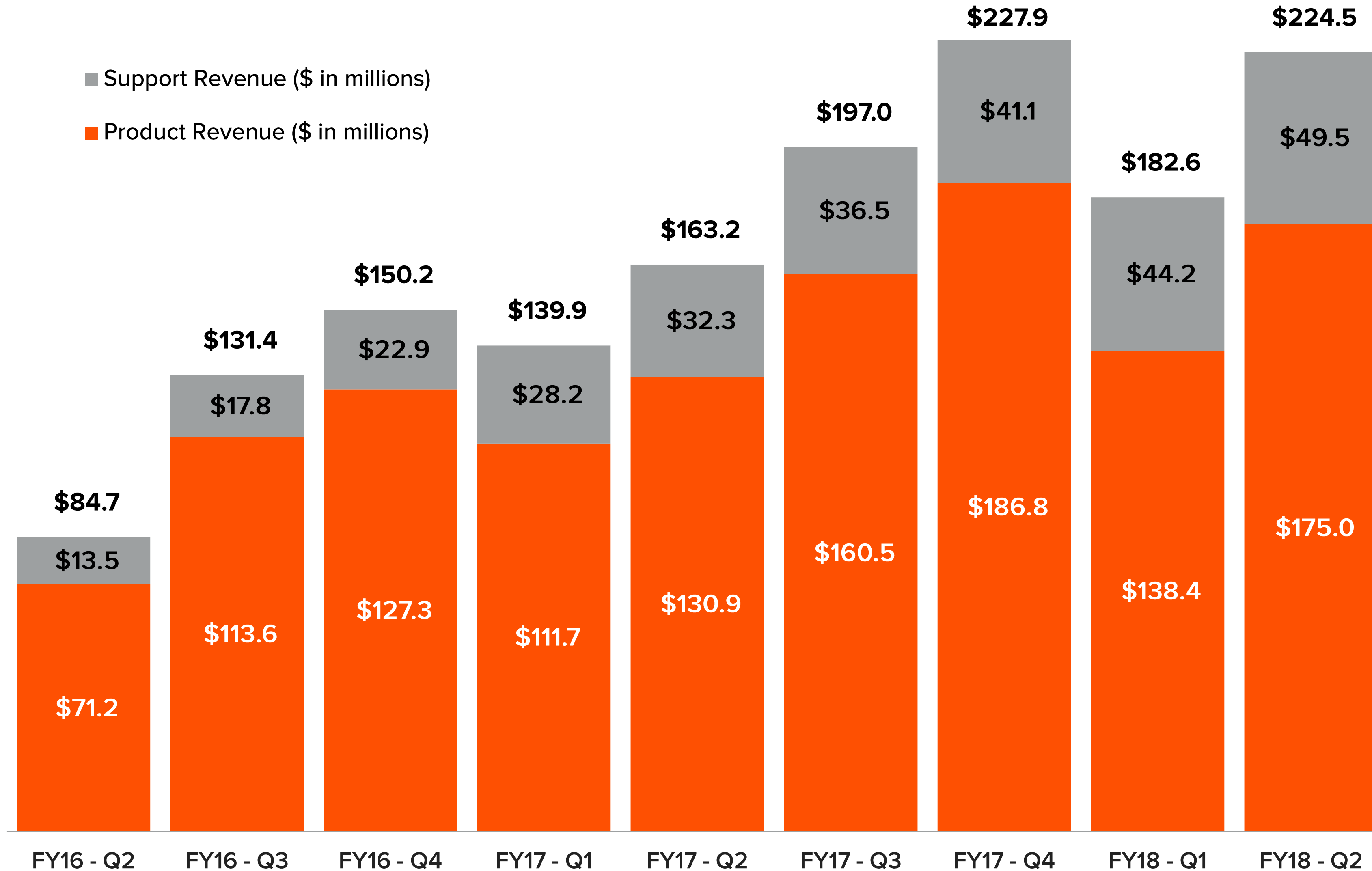
Y/Y improvement in  
operating margin

**-\$17.5M\***

Free cash flow  
(-7.8% of revenue)

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

# QUARTERLY REVENUE



**Q2 FY18**

**38%**

Y/Y total revenue growth

**34%**

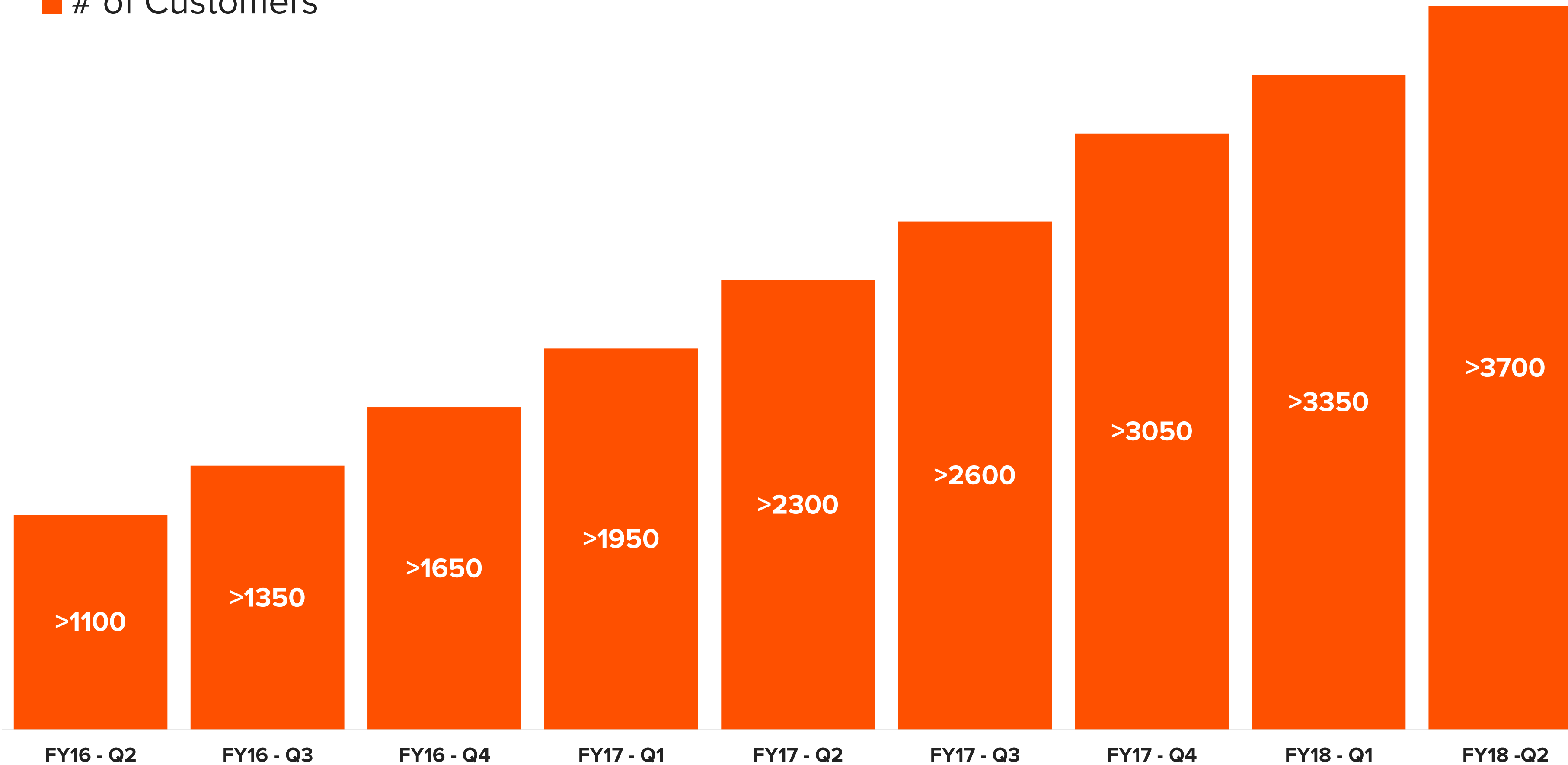
Y/Y product revenue growth

**53%**

Y/Y support revenue growth

# CUSTOMERS

■ # of Customers



**Q2 FY18**

**61%**

Y/Y, 1,400 Adds Y/Y

**>350**

Adds Q/Q

**~25%**

Of Fortune 500

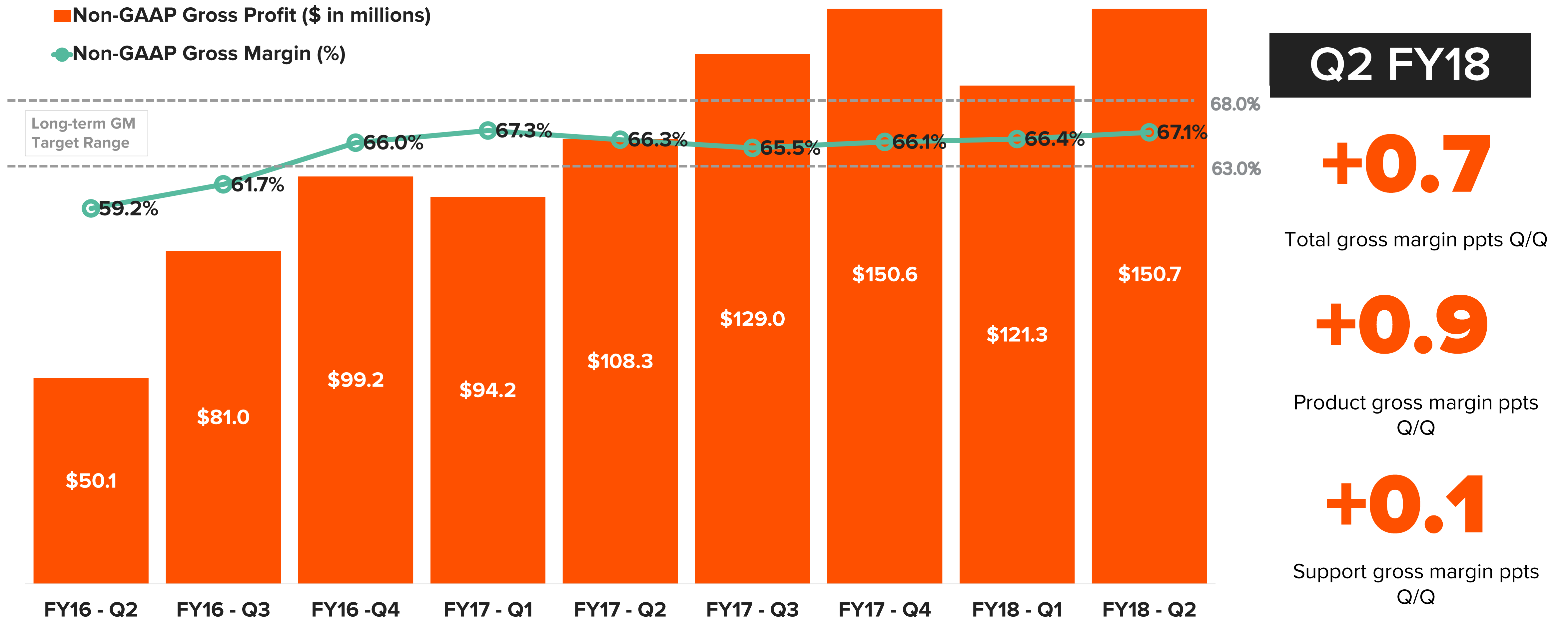
**~\$12**

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

# NON-GAAP GROSS PROFIT & MARGIN

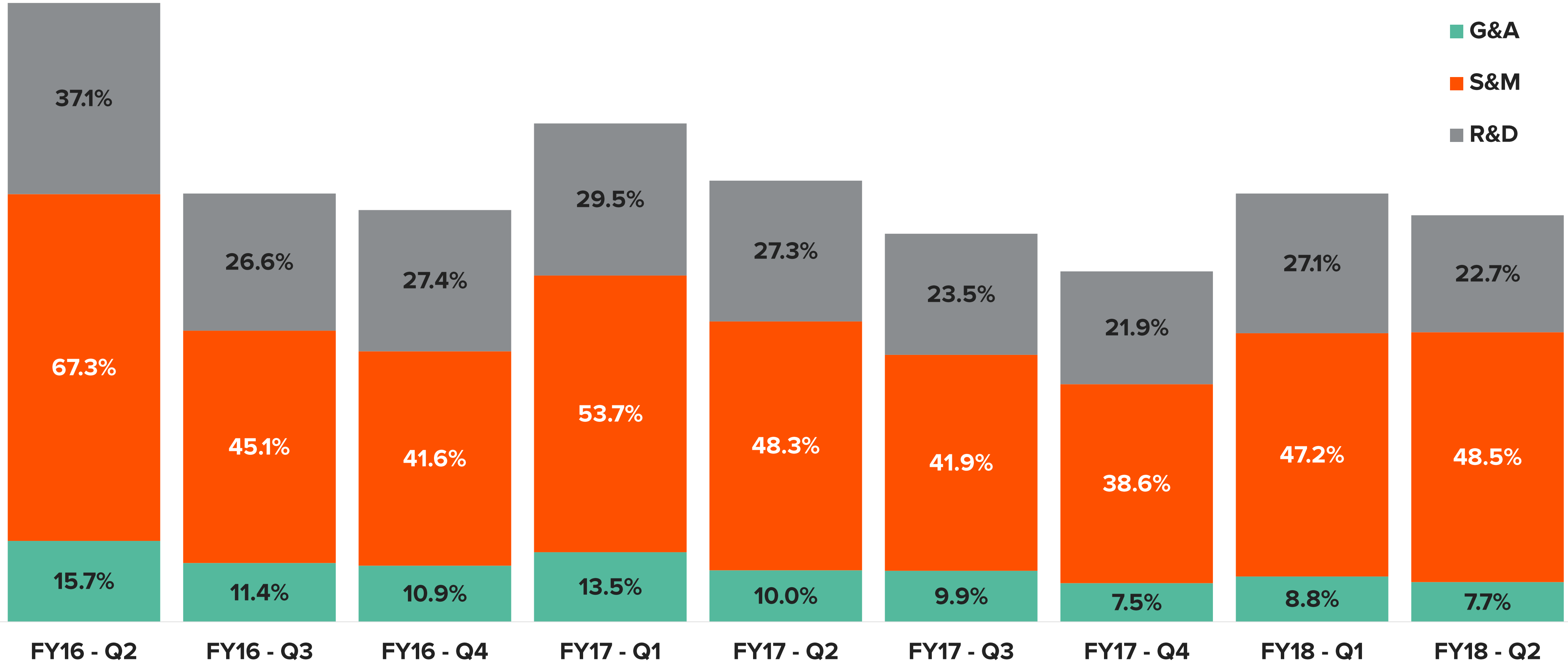


See GAAP to non-GAAP reconciliation in Appendix



# NON-GAAP OPERATING EXPENSE

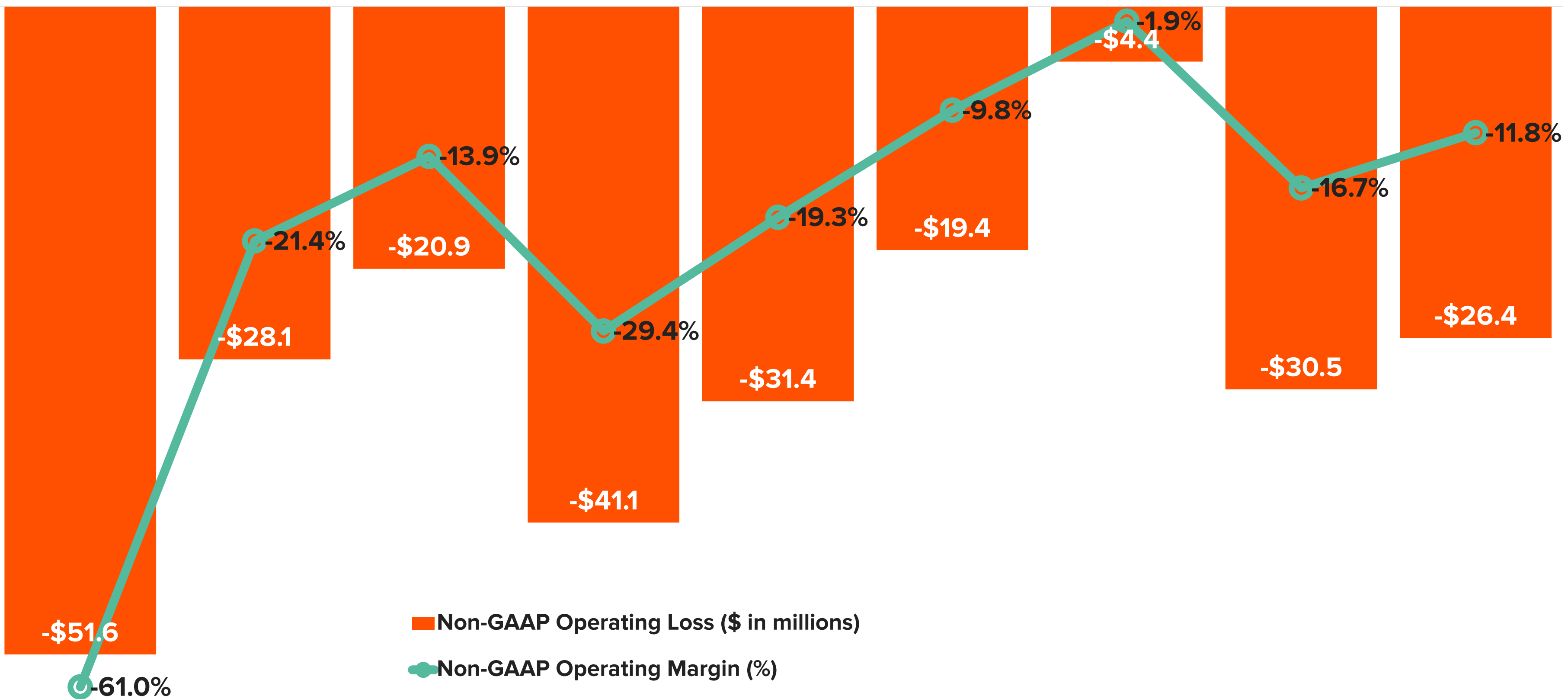
## AS A PERCENTAGE OF REVENUE



See GAAP to non-GAAP reconciliation in Appendix

# NON-GAAP OPERATING LOSS & MARGIN

FY16 - Q2    FY16 - Q3    FY16 - Q4    FY17 - Q1    FY17 - Q2    FY17 - Q3    FY17 - Q4    FY18 - Q1    FY18 - Q2



**Q2 FY18**

**+7.5**

PPTS Y/Y

# SHARE COUNT

WHEN THERE IS NET LOSS

BASIC/DILUTED SHARES

209M

WHEN THERE IS NET INCOME

DILUTED SHARES \*

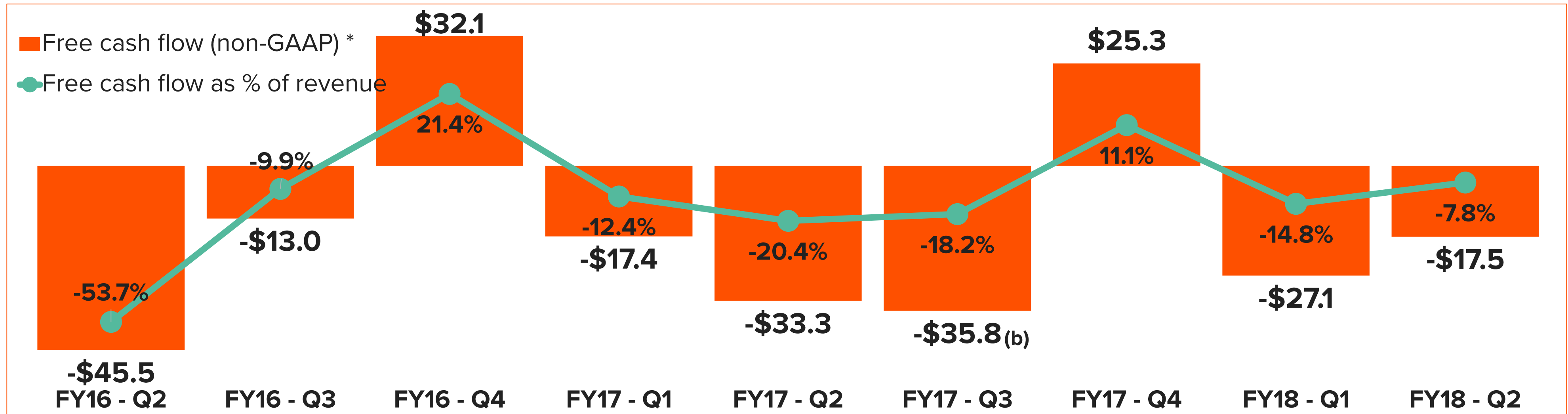
230M-  
245M

**\* NOTES:**

1. Share count as of 7/31/17 - anticipated to continue to increase in coming quarters
2. Diluted shares will vary based on weighted-average stock price during quarter

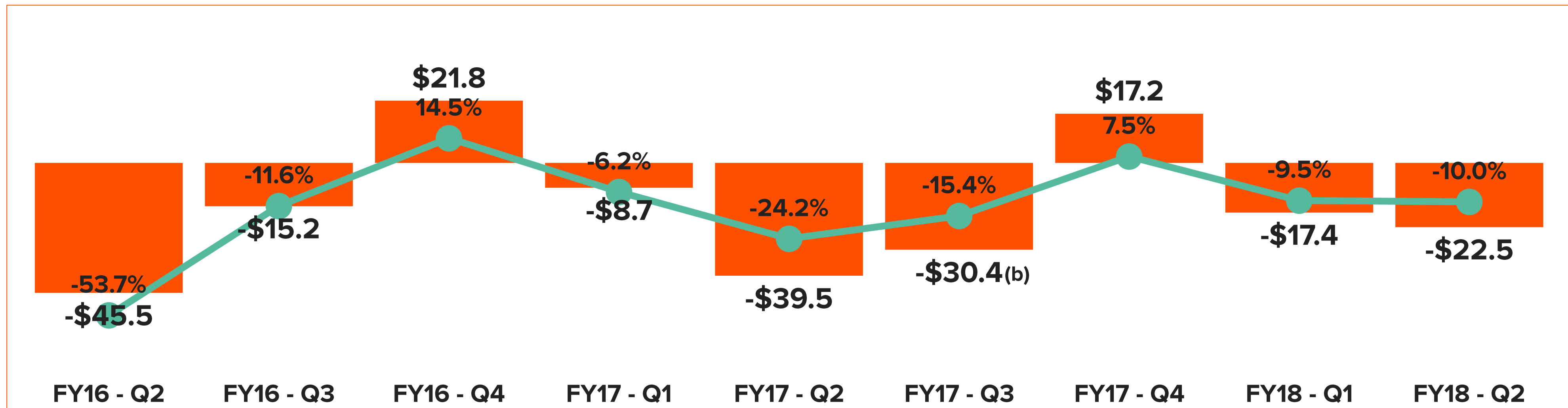
# FREE CASH FLOW

## Free Cash Flow (a)



## Free Cash Flow (a)

(excluding ESPP Impact)



(a) See Appendix for reconciliation.

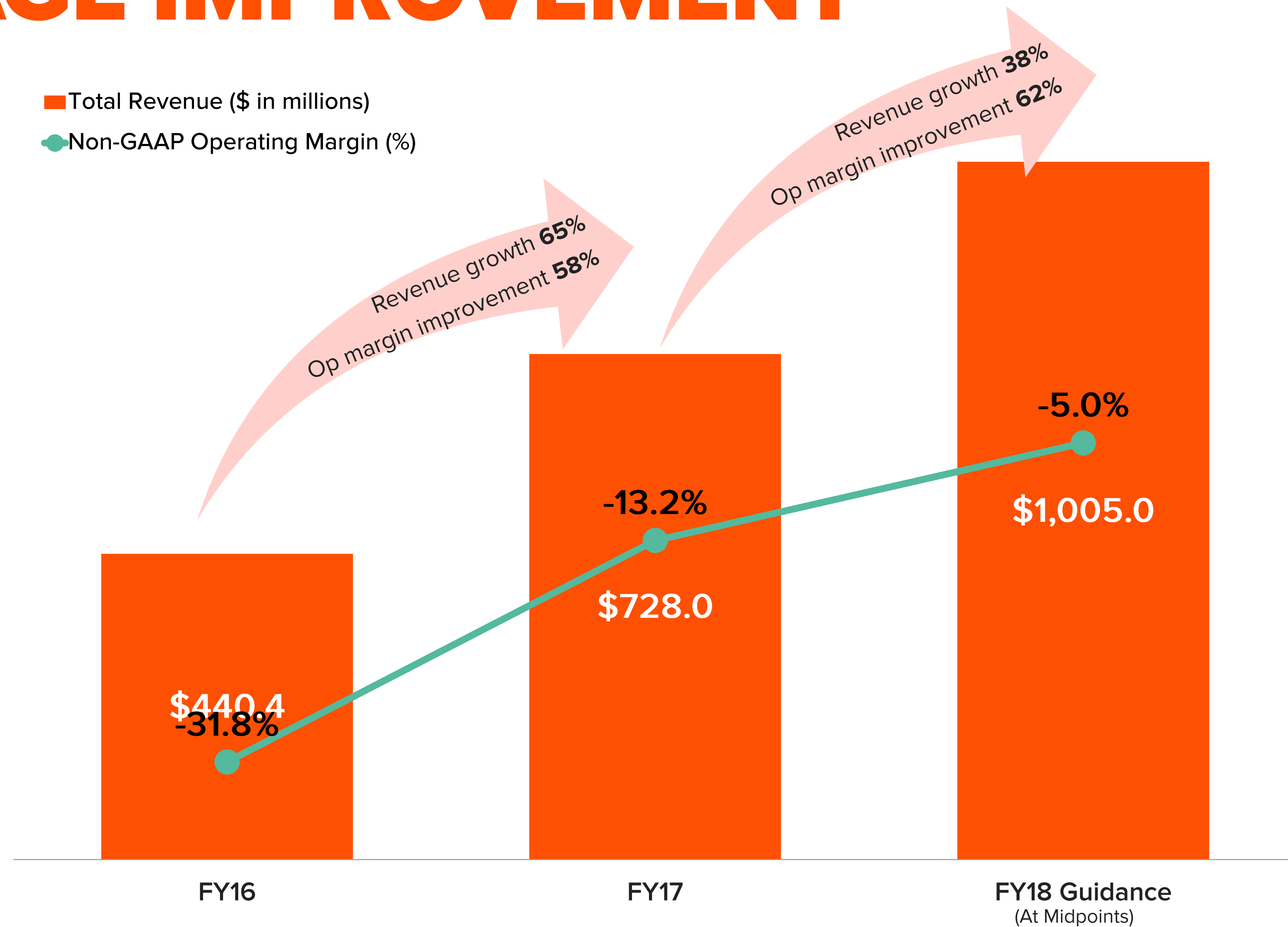
(b) Excludes a one-time \$30.0 million legal settlement charge.

# GUIDANCE

	Q3 FY18	FY18
Revenue	\$267M to \$275M	\$985M to \$1.025B
Non-GAAP Gross Margin*	63.5% to 66.5%	63.5% to 66.5%
Non-GAAP Operating Margin*	-5% to -1%	-7% to -3%

\* 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.

# DRIVING GROWTH WITH SUBSTANTIAL LEVERAGE IMPROVEMENT



# LONG-TERM TARGET OPERATING MODEL

(NON-GAAP)

	Q2 FY18		Target Model
Gross Margin	67.1%		63 – 68%
R&D*	22.7%		15 – 20%
S&M*	48.5%		25 – 30%
G&A*	7.7%		5 – 7%
Operating Margin	(11.8%)		15 – 20%

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

\* As a % of revenue

See GAAP to non-GAAP reconciliation in Appendix

# APPENDIX

Q2 FISCAL 2018 RESULTS



# GROSS MARGIN

## GAAP TO NON-GAAP RECONCILIATION

(\$ in thousands)	Fiscal Quarters																	
	Q2 FY16	(%)	Q3 FY16	(%)	Q4 FY16	(%)	Q1 FY17	(%)	Q2 FY17	(%)	Q3 FY17	(%)	Q4 FY17	(%)	Q1 FY18	(%)	Q2 FY18	(%)
Product gross margin (GAAP)	\$43,551	61.2%	\$71,578	63.0%	\$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%
Add: SBC	40	-%	43	0.1%	137	0.1%	106	0.1%	181	0.1%	138	0.1%	176	0.1%	397	0.2%	358	0.2%
Add: Payroll tax related to stock-based activities	-	-%	-	-%	-	-%	-	-%	3	-%	2	-%	1	-%	5	0.1%	8	-%
<b>Product gross margin (non-GAAP)</b>	<b>\$43,591</b>	<b>61.2%</b>	<b>\$71,621</b>	<b>63.1%</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>
Support gross margin (GAAP)	\$5,972	44.3%	\$8,733	49.1%	\$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%
Add: SBC	521	3.9%	657	3.7%	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%
Add: Payroll tax related to stock-based activities	-	-%	-	-%	-	-%	-	-%	7	-%	9	-%	\$22	-%	31	-%	87	0.2%
<b>Support gross margin (non-GAAP)</b>	<b>\$6,493</b>	<b>48.2%</b>	<b>\$9,390</b>	<b>52.8%</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>
Total gross margin (GAAP)	\$49,523	58.5%	\$80,311	61.1%	\$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%
Add: SBC	561	0.7%	700	0.6%	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%
Add: Payroll tax related to stock-based activities	-	-%	-	-%	-	-%	-	-%	10	-%	11	-%	23	-%	36	0.0%	95	-%
<b>Total gross margin (non-GAAP)</b>	<b>\$50,084</b>	<b>59.2%</b>	<b>\$81,011</b>	<b>61.7%</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>

# OPERATING EXPENSES & OPERATING MARGIN

## GAAP TO NON-GAAP RECONCILIATION

(\$ in thousands)	Fiscal Quarters																	
	Q2 FY16		Q3 FY16		Q4 FY16		Q1 FY17		Q2 FY17		Q3 FY17		Q4 FY17		Q1 FY18		Q2 FY18	
	As % of Total Revenue	As % of Total Revenue	As % of Total Revenue	As % of Total Revenue	As % of Total Revenue	As % of Total Revenue	As % of Total Revenue	As % of Total Revenue	As % of Total Revenue	As % of Total Revenue	As % of Total Revenue	As % of Total Revenue	As % of Total Revenue	As % of Total Revenue	As % of Total Revenue	As % of Total Revenue	As % of Total Revenue	
R&D (GAAP)	\$38,188	45.1%	\$43,065	32.8%	\$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%
Less: SBC	-6,804	-8.0%	-8,195	-6.2%	-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%
Less: Payroll tax related to stock-based activities	-	-%	-	-%	-	-%	-34	-%	-100	-%	-96	-0.1%	-97	-0.1%	-340	-0.2%	-401	-0.2%
R&D (non-GAAP)	\$31,384	37.1%	\$34,870	26.6%	\$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%
S&M (GAAP)	\$59,517	70.3%	\$63,803	48.6%	\$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%
Less: SBC	-2,536	-3.0%	-4,559	-3.5%	-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%
Less: Payroll tax related to stock-based activities	-	-%	-	-%	-	-%	-457	-0.3%	-24	-%	-400	-0.2%	-465	-0.2%	-230	-0.1%	-302	-0.1%
S&M (non-GAAP)	\$56,981	67.3%	\$59,244	45.1%	\$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%
G&A (GAAP)	\$15,227	18.0%	\$29,022	22.1%	\$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%
Less: SBC	-1,899	-2.3%	-2,085	-1.6%	-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%
Less: Payroll tax related to stock-based activities	-	-%	-	-%	-	-%	-14	-%	-24	-%	-41	-%	-16	-0.1%	-45	-%	-108	-%
Less: Non-cash charge for equity grant to Pure Good Foundation	-	-%	-11,900	-9.1%	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%
G&A (non-GAAP)	\$13,328	15.7%	\$15,037	11.4%	\$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%
Charge related to a legal settlement (GAAP)	-	-%	-	-%	-	-%	-	-%	-	-%	\$30,000	15.2%	-	-%	-	-%	-	-%
Less: charge related to a legal settlement	-	-%	-	-%	-	-%	-	-%	-	-%	-30,000	-15.2%	-	-%	-	-%	-	-%
Charge related to a legal settlement (non-GAAP)	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%
Total operating expense (GAAP)	\$112,932	133.4%	\$135,890	103.4%	\$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%
Less: SBC	-11,239	-13.3%	-14,839	-11.2%	-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%
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%
Less: Non-cash charge for equity grant to Pure Good Foundation	-	-%	-11,900	-9.1%	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%
Less: charge related to a legal settlement	-	-%	-	-%	-	-%	-	-%	-	-%	-30,000	-15.2%	-	-%	-	-%	-	-%
Total operating expense (non-GAAP)	\$101,693	120.1%	\$109,151	83.1%	\$120,085	79.9%	\$135,312	96.7%	\$139,697	85.6%	\$148,358	75.3%	\$154,941	68.0%	\$151,825	83.1%	\$177,109	78.9%
Operating loss (GAAP)	-\$63,409	-74.9%	-\$55,579	-42.3%	-\$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%
Add: SBC	11,800	13.9%	15,539	11.8%	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	16.4%
Add: Payroll tax related to stock-based activities	-	-%	-	-%	-	-%	505	0.4%	158	-%	548	0.3%	601	0.2%	651	0.4%	906	0.4%
Add: Non-cash charge for equity grant to Pure Good Foundation	-	-%	11,900	9.1%	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%	-	-%
Add: charge related to a legal settlement	-	-%	-	-%	-	-%	-	-%	-	-%	30,000	15.2%	-	-%	-	-%	-	-%
Operating loss (non-GAAP)	-\$51,609	-61.0%	-\$28,140	-21.4%	-\$20,906	-13.9%	-\$41,147	-29.4%	-\$31,427	-19.3%	-\$19,397	-9.8%	-\$4,355	-1.9%	-\$30,535	-16.7%	-\$26,402	-11.8%

# FREE CASH FLOW

## GAAP TO NON-GAAP RECONCILIATION

	Fiscal Quarters									
	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	
<i>(\$ in millions)</i>	<u>FY16</u>	<u>FY16</u>	<u>FY16</u>	<u>FY17</u>	<u>FY17</u>	<u>FY17</u>	<u>FY17</u>	<u>FY18</u>	<u>FY18</u>	
Cash provided by (used in) operations (GAAP)	-\$30.4	-\$5.4	\$42.0	\$7.0	-\$11.6	-\$47.3	\$37.5	-\$14.3	-\$0.2	
Less: Capital expenditures	-15.1	-7.6	-9.9	-24.4	-21.7	-18.5	-12.2	-12.8	-17.3	
Plus: Cash charge related to a legal settlement	-	-	-	-	-	30.0	-	-	-	
<b>Free cash flow (non-GAAP)</b>	<b>-45.5</b>	<b>-13.0</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>	
Adjust: ESPP impact	-	-2.2	-10.3	8.7	-6.2	5.4	-8.1	9.7	-5.0	
<b>Free cash flow without ESPP impact (non-GAAP)</b>	<b>-\$45.5</b>	<b>-\$15.2</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>	
<i>Free cash flow as % of revenue</i>	-53.7%	-9.9%	21.4%	-12.4%	-20.4%	-18.2%	11.1%	-14.8%	-7.8%	
<i>Free cash flow without ESPP impact as % of revenue</i>	-53.7%	-11.6%	14.5%	-6.2%	-24.2%	-15.4%	7.5%	-9.5%	-10.0%	

# SHARE COUNT

**WHEN THERE IS NET LOSS**

**BASIC/DILUTED SHARES**



**WHEN THERE IS NET INCOME**

**EPS SHARE COUNT**



**=**

**FULLY DILUTED SHARES**



**TSM SHARE ADJUSTMENT**  
(Varies with 90-Day Trailing Stock Price)

SHARE PRICE	TSM ADJUSTMENT (M OF SHARES)
\$ 7.00	49
\$ 9.00	47
\$ 11.00	44
\$ 13.00	41
\$ 15.00	38
\$ 17.00	35
\$ 18.00	34

**NOTES:**

1. Share count as of 7/31/17 - Anticipated to continue to increase in coming quarters
2. Buy back range each quarter is weighted-average stock price during quarter