Paul Ziots - VP Investor Relations

Thank you. Good afternoon, everyone and welcome to Pure's third quarter fiscal 2023 earnings conference call. On the call we have Charlie Giancarlo, Chief Executive Officer, Kevan Krysler, 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 close of market and is posted on our website where this call is being simultaneously webcast. Slides which 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 revenues, 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 fourth quarter fiscal ‘23 quiet period begins at the close of business Friday, January 20th, 2023.

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

Charlie Giancarlo – CEO

Hello everyone and welcome to the call. We hope that our fellow Americans had a wonderful Thanksgiving holiday, and that our non-US listeners had a restful few days while everyone in the US was offline!

We are once again pleased with our quarterly results, showing year-over-year revenue growth of 20% and subscription ARR growth of 30%, surpassing $1 billion dollars for the first time. Our portfolio of subscription products had a strong quarter, with Evergreen//One achieving record results. Our new products, including FlashArray//C, FlashArray//XL and FlashBlade//S, also saw excellent growth this past quarter.

FlashBlade//S, our newest product is off to a great start in its first full quarter of sales. The number of //S systems sold were above our plan, and PetaBytes sold were well above our plan. We're also seeing //S customers taking advantage of the increased performance and scale, choosing to purchase larger systems than the prior generation.

Pure continues to lead the industry in product innovation, having released a record number of new products and services this year, including FlashArray//XL, FlashBlade//S, Pure Fusion, Portworx Data Services and

Evergreen//Flex. We are proud to share that this innovation has, once again, been recognized with Gartner's highest rankings in their Magic Quadrant. Pure was named the leader for the ninth consecutive year for Primary Storage – AND a leader for Distributed File Systems and Object Storage, significantly increasing FlashBlade's ranking year-over-year.

Pure's unique value proposition of advanced technology, low total cost of ownership, industry-leading energy savings combined with powerful performance is the reason that leading-edge technology and hyperscale cloud companies increasingly choose to rely on Pure.

This past quarter, as planned, we were pleased to ship the second phase of Meta's build-out of their Research Super-Cluster or RSC. As a reminder, our shipments for Meta's RSC consist of both FlashBlade and FlashArray//C. Meta relies on Pure's FlashBlade to provide lightning fast data delivery to their Nvidia GPUs, and FlashArray//C to provide performance-oriented and cost-effective bulk data storage at 1/10th the space, power and cooling of a disk alternative.

NAND cost per bit continues to approach that of magnetic disks. Because of Pure's unique intellectual property, Pure QLC-based systems are now competitive with hybrid disk based systems on a price per bit level, years ahead of the commodity crossover point. We expect that the currently anticipated improvements in Pure's NAND economics this coming year will enable Pure to deliver our QLC based products at prices competitive with most near-line disk arrays on a total cost of ownership basis. We believe strongly that the days of the hard disk in the data center are over. Customers that do not take advantage of Pure's QLCs products to replace disk systems are choosing the more expensive and energy intensive option.

New Enterprise customers this quarter include a large global telco, a large global payments processor, and a major energy provider. Existing customers like Vertafore, a leading provider of modern insurance technology, continue to expand their relationship with Pure, relying on the combination of technology performance, total cost of ownership, and an Evergreen customer experience to fuel their data-dependent business objectives.

This past quarter significant numbers of enterprise companies specifically chose Pure for our exceptionally low power, space, and cooling performance. This has been especially evident in Europe where not only energy prices, but energy security, is of major concern.

As mentioned, we saw strong growth in both new and existing Evergreen customers this quarter. Evergreen's flexible approach to both consumption and pricing is helping customers of every size deal with the uncertainties that businesses and organizations face in the current environment. Many new customers also cited energy savings as a new important benefit.

Also this quarter, we saw several large telco customers purchase our portfolio to support projects ranging from 5G deployment to modernizing infrastructure. For example, one of the largest telecommunications providers in Asia increased their Pure portfolio, including their FlashArray//C footprint, furthering their commitment to environmental sustainability while accelerating their digital transformation and services offerings to their customers.

Looking ahead to world economic conditions, we continue to see instances of longer sales cycles in the Enterprise segment and expect that Enterprises will continue to exercise caution in spending over the next year. We believe that this focus on spending uniquely favors Pure Storage in the quarters ahead.

The combination of Pure's Evergreen offerings, best in class power, space and cooling, and operating simplicity results in significantly lower operating costs for enterprise customers. Given challenging economic and energy situations around the world, more enterprises are focused on total cost of ownership, an area where Pure excels.

As we look forward, we are keeping our eyes on a number of macro-economic factors. In particular, inflation, slower economic growth, and lingering supply chain disruptions. Considering the current economic uncertainty, we plan to thoughtfully invest in our expansion while continuing to deliver strong operating results. Despite the challenges and uncertainties of the current business environment we remain confident in our ability to take share and outpace the market, while delivering products, solutions and services to customers that exceed their expectations.

I'd now like to hand the mic over to our CFO Kevan Krysler for a review of our numbers.

Kevan Krysler - CFO

Thank you Charlie.

Through solid execution, we delivered strong financial results in Q3, growing revenue 20 percent and increasing our operating profits by over 50 percent, while navigating the effects of the macro economic environment. Substantial revenue from sales to Meta, also contributed to our financial results this quarter.

Our customers, which now exceed 11,000, and represent 58 percent of the Fortune 500, leverage our portfolio of innovative data storage and management products and subscription services to drive optimal business outcomes and performance.

Revenue performance, growth, and demand of our FlashArray//C, and FlashBlade//S solutions, both leveraging QLC flash, were very strong this quarter. Our leadership in flash management, enabled by our software and declining cost of flash, is accelerating our progress in replacing traditional disk solutions and substantially reducing data center energy consumption.

We also continue to be pleased with meaningful contributions from new business, as we acquired approximately 390 new customers this quarter, including across the telecom industry.

Subscription annual recurring revenue, or Subscription ARR exceeded $1 billion this quarter, growing 30 percent year-over-year. Record sales of Evergreen//One in Q3 represent a key driver of our Subscription ARR growth.

Remaining performance obligations, or RPO, grew 26 percent to $1.6 billion dollars. Similar to the remarks we made in previous quarters, our RPO growth is impacted by product shipments for an outstanding commitment with one of our global systems integrators. Excluding these product shipments, RPO grew 31 percent year over year.

Our headcount has increased to nearly 4,900 employees, and our investments in talent continue to be disciplined and focused around our key business objectives.

Total revenue for the quarter grew 20 percent to $676 million dollars.

For Q3, U.S. revenue was $493 million dollars, an increase of 21 percent year-over-year, with international revenue, which continues to be impacted by foreign exchange headwinds, growing 19 percent year-over-year, to $183 million dollars.

Product revenue grew 15 percent, and Subscription Services revenue increased 30 percent. Subscription Services comprised 36 percent of total revenue for the quarter.

Contributions from both product and subscription services gross margins continue to be strong as total gross margins were 70.9 percent in Q3. Sales of our larger configuration systems and new FlashBlade//S contributed to slightly higher product gross margins of 70.1 percent. Subscription Services gross margins were 72.3 percent.

Our strong Q3 operating profit of $107 million and operating margin of 15.9 percent were driven by a combination of factors including strong gross margins.

We ended the quarter with approximately $1.5 billion dollars in cash and investments.

Cash flow from operations was $155 million dollars in Q3, resulting from the combination of strong sales, collections, and operating profit. Capital expenditures trended higher this quarter at nearly $40 million dollars, due to deliveries of test equipment which had previously been on backorder.

In Q3, we returned approximately $24.5 million dollars in capital to repurchase approximately 900,000 shares of stock. This represents a lower level of repurchase activity than recent quarters as a result of the fixed trading plan parameters that were in place throughout the quarter. We would expect that share repurchase volume will increase next quarter.

We have approximately $100 million dollars remaining from our $250 million dollar share repurchase program.

Now turning to guidance.

We estimate revenue for Q4 to be approximately $810 million, up 14 percent year-over-year. For comparison purposes, a couple of reminders. Our Q4 of last year included an additional week of revenue of approximately $20 million as a result of FY22 including 53 weeks. Also, from our previous remarks, approximately $60 million of product revenue recognized in the first quarter of FY23 had been forecasted to close in the second half of the year. Adjusting for this impact of seasonality, our expected revenue growth in the second half of FY23 would have been nearly 21 percent year-over-year.

For FY23, we are reiterating our annual revenue guidance of approximately $2.75 billion dollars, an increase of 26 percent versus FY22.

Our operating profits remain solid, which is reflected in our Q4 operating profit outlook of $130 million dollars or operating margin of approximately 16.0 percent.

As a result of our performance in Q3 and outlook for Q4, we are increasing our Operating profit outlook for the full year to $430 million dollars. Operating margins are expected to be approximately 15.6 percent, reflecting a significant expansion from 10.8 percent last year.

Revenue growth, and strong product and subscription services gross margins have contributed to our strong operating profit and operating margin outlook for this year.

During the first half of the year our operating profits also benefited from less travel, higher attrition, and slower than anticipated hiring. We do not expect that our operating profits will continue to benefit from these tailwinds next year. While it remains too early to provide guidance for FY24, our current preliminary view is for operating margins to remain robust around 14 to 15 percent.

In closing, through our unwavering commitment to innovation and customer service, we continue to be in a unique position of creating valuable outcomes for our customers, including dramatically reducing energy consumption and e-waste. With the strength of our portfolio of products, and the power of our Evergreen offerings, the opportunities in front of us remain compelling.

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

Charlie Giancarlo – CEO

Pure continues to outpace our industry in both innovation and customer satisfaction. Our advantages in total cost of ownership, energy efficiency, and price-performance are now setting the pace in this new economy and make us the preferred choice for leading organizations around the world. I am confident that we will continue to take share and outperform the market, as we have done since our founding. Thank you again to our dedicated employees, and to our partners, suppliers and our customers for choosing to partner with Pure for the world's best data storage and management solutions.