# PURE STORAGE ANNOUNCES FOURTH QUARTER AND FULL YEAR FISCAL 2019 FINANCIAL RESULTS

MOUNTAIN VIEW, Calif., February 28, 2019 -- Pure Storage (NYSE: PSTG), the data solutions leader that helps innovators build a better world with data, today announced financial results for its fourth quarter and full year ended January 31, 2019.

“We finished a strong FY19, growing annual revenue 33% year over year, to over $1.3B, and we are excited about our ability to continue to deliver strong growth,” said Charles Giancarlo, Chairman and CEO, Pure Storage. “Looking ahead, we expect to drive industry leading growth, expand our product portfolio, and increase our lead in customer delight.”

**Key Business and Financial Highlights:**

- Q4 Revenue; $422 million, up 24% year over year
- Full-year revenue $1.36 billion, up 33% year over year

- Q4 GAAP gross margin 66.5%; non-GAAP gross margin 67.6%
- Full-year GAAP gross margin 66.4%; non-GAAP gross margin 67.6%

- Q4 GAAP operating margin -5.9%; non-GAAP operating margin +7.4%
- Full year GAAP operating margin -12.5%; non-GAAP operating margin +3.7%

While Q4 results were below the company’s guided ranges, they were directly impacted by two distinct items. First, a process breakdown at a contract manufacturer prevented a number of orders from shipping in the quarter. Second, Pure exceeded its expectations in selling the company’s ES2 subscription offering, which ultimately drives positive long-term economics for Pure, but resulted in lower revenue recognized in the quarter. Except for these two items, our revenue and profits would have been within our guided range.

**Recent Company Highlights:**

- Following the quarter close, Pure signed a more than $100 million-dollar deal over approximately two years with a leading global systems integrator.
- As part of Pure’s Cloud Data Services, the company announced ObjectEngine™, redefining data protection to rapid restoration built for modern enterprises.
- In addition, Pure launched DirectFlash™ Fabric for end-to-end NVMe and NVMe-oF support, enabling customers to improve performance of mission-critical applications and web-scale applications that traditionally have relied on direct attached storage.

“Pure delivered another strong fiscal year of growth, leverage, and scale,” said Tim Riitters, CFO, Pure Storage. “The innovative portfolio of platform, software, and cloud products Pure is bringing to market is expanding our opportunity and positioning us for long-term success.”

**Fourth Quarter Fiscal 2019 Financial Highlights**

The following tables summarize our consolidated financial results for the fiscal quarters ended January 31, 2019 and 2018 (in millions except percentages, per share amounts and headcount, unaudited):

| GAAP Quarterly Financial Information | | | |
|---|---|---|---|
| | Three Months Ended January 31, 2019 | Three Months Ended January 31, 2018 | Y/Y Change |
| Revenue | $422.2 | $339.9 | 24% |
| Gross Margin | 66.5% | 65.3% | 1.2 ppts |
| Product Gross Margin | 67.4% | 66.2% | 1.2 ppts |
| Support Subscription Gross Margin | 62.5% | 60.6% | 1.9 ppts |
| Operating Loss | $(25.0) | $(18.8) | $(6.2) |
| Operating Margin | -5.9% | -5.5% | -0.4 ppts |
| Net Loss | $(25.8) | $(14.9) | $(10.9) |
| Net Loss per Share - Basic and Diluted | $(0.11) | $(0.07) | $(0.04) |
| Weighted-Average Shares | 239.6 | 218.0 | 21.6 |
| Headcount | >2,800 | >2,100 | ~700 |

| Non-GAAP Quarterly Financial Information | | | |
|---|---|---|---|
| | Three Months Ended January 31, 2019 | Three Months Ended January 31, 2018 | Y/Y Change |
| Gross Margin | 67.6% | 66.3% | 1.3 ppts |
| Product Gross Margin | 67.8% | 66.5% | 1.3 ppts |
| Support Subscription Gross Margin | 66.8% | 65.4% | 1.4 ppts |
| Operating Income | $31.1 | $24.9 | $6.2 |
| Operating Margin | 7.4% | 7.3% | 0.1 ppts |
| Net Income | $37.0 | $28.8 | $8.2 |
| Net Income per Share - Diluted | $0.14 | $0.11 | $0.03 |
| Weighted-Average Shares - Diluted | 263.7 | 250.8 | 12.9 |

A reconciliation between GAAP and non-GAAP information is provided at the end of this release.

**Financial Outlook**

Pure Storage's first quarter fiscal 2020 guidance is as follows:

- Revenue in the range of $327 million to $339 million, 30% Y/Y growth at the midpoint
- Non-GAAP gross margin in the range of 65.0% to 68.0%
- Non-GAAP operating margin in the range of -8.5% to -4.5%

Pure Storage's full year fiscal 2020 guidance is as follows:

- Revenue in the range of $1.735 billion to $1.805 billion, 30% Y/Y growth at the midpoint
- Non-GAAP gross margin in the range of 65.0% to 68.0%
- Non-GAAP operating margin in the range of 3.0% to 7.0%

All forward-looking non-GAAP financial measures contained in this section titled "Financial Outlook" exclude stock-based compensation expense, payroll tax expense related to stock-based activities, amortization of

debt discount and debt issuance costs, amortization of intangible asset acquired from acquisition, any applicable anti-dilutive share count impact of our convertible debt hedge agreements and, as applicable, other special items. We have not reconciled guidance for non-GAAP gross margin and non-GAAP operating margin to their most directly comparable GAAP measures because the items 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.

**Conference Call Information**

Pure Storage will host a teleconference to discuss the fourth quarter and fiscal year 2019 results at 2:00 p.m. (PT) on February 28, 2019. Pure Storage will post management's prepared remarks and supplemental earnings presentation to the investor relations website at investor.purestorage.com in advance of the conference call.

Teleconference details are as follows:

- To Listen via Telephone: (866) 393-4306 or (734) 385-2616 (for international callers).
- To Listen via the Internet: A live and replay audio broadcast of the conference call with corresponding slides will be available at investor.purestorage.com.
- Replay: A telephone playback of this conference call is scheduled to be available two hours after the call ends on Thursday, February 28, 2019, through March 14, 2019. The replay will be accessible by calling (855) 859-2056 or (404) 537-3406 (for international callers), with conference ID 5479904.

**Upcoming Events**

Management will participate in an upcoming financial Q&A discussion at the Eighth Annual Technology Conference in New York on March 12, 2019. Pure Storage will post a link to this event on the investor relations website at investor.purestorage.com for both live and archived events.

**About Pure Storage**

Pure Storage (NYSE: PSTG) helps innovators build a better world with data. Pure's data solutions enable SaaS companies, cloud service providers, and enterprise and public sector customers to deliver real-time, secure data to power their mission-critical production, DevOps, and modern analytics environments in a multi-cloud environment. One of the fastest growing enterprise IT companies in history, Pure Storage enables customers to quickly adopt next-generation technologies, including artificial intelligence and machine learning, to help maximize the value of their data for competitive advantage. And with a Satmetrix-certified NPS customer satisfaction score in the top one percent of B2B companies, Pure's ever-expanding list of customers are among the happiest in the world.

Pure Storage, DirectFlash, Evergreen, FlashBlade, FlashStack, ObjectEngine and the "P" Logo mark are trademarks of Pure Storage, Inc. All other trademarks or names referenced in this document are the property of their respective owners.

**Forward Looking Statements**

This press release contains forward-looking statements regarding our products, business and operations, including our growth prospects and expectations regarding technology differentiation, and our outlook for the first quarter and full year fiscal 2020, and statements regarding our products, business, operations and results. Forward-looking statements are subject to known and unknown risks and uncertainties and are based on potentially inaccurate assumptions that could cause actual results to differ materially from those expected or implied by the forward-looking statements. Actual results may differ materially from the results predicted, and reported results should not be considered as an indication of future performance. The potential risks and uncertainties that could cause actual results to differ from the results predicted include, among others, those risks and uncertainties included under the captions "Risk Factors" and elsewhere in our filings and reports with the U.S. Securities and Exchange Commission, including, which are available on our investor relations website at investor.purestorage.com and on the SEC website at http://www.sec.gov. Additional information will also be set forth in our Annual Report on Form 10-K for the year ended January 31, 2019. All information provided in this release and in the attachments is as of February 28, 2019, and we undertake no duty to update this information unless required by law.

**Non-GAAP Financial Measures**

To supplement our condensed consolidated financial statements, which are prepared and presented in accordance with GAAP, we use the following non-GAAP financial measures: non-GAAP gross profit, non-GAAP gross margin, non-GAAP operating income (loss), non-GAAP operating margin, non-GAAP net income (loss), non-GAAP net income (loss) per share, free cash flow, free cash flow as a percentage of revenue, free cash flow without ESPP impact, and free cash flow without ESPP impact as a percentage of revenue.

We use these non-GAAP financial measures for financial and operational decision-making and as a means to evaluate period-to-period comparisons. Our management believes that these non-GAAP financial measures provide meaningful supplemental information regarding our performance and liquidity by excluding certain expenses and expenditures such as stock-based compensation expense, amortization of debt discount and debt issuance costs, and amortization of intangible asset acquired from acquisition that may not be indicative of our ongoing core business operating results. We believe that both management and investors benefit from referring to these non-GAAP financial measures in assessing our performance and when analyzing historical performance and liquidity and planning, forecasting, and analyzing future periods. The presentation of these non-GAAP financial measures is not meant to be considered in isolation or as a substitute for our financial results prepared in accordance with GAAP, and our non-GAAP measures may be different from non-GAAP measures used by other companies.

For a reconciliation of these non-GAAP financial measures to GAAP measures, please see the tables captioned "Reconciliations of non-GAAP results of operations to the nearest comparable GAAP measures" and "Reconciliation from net cash provided by operating activities to free cash flow and free cash flow without ESPP impact," included at the end of this release.

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**PURE STORAGE, INC.**
**Condensed Consolidated Balance Sheets**
**(in thousands, unaudited)**

| | January 31, 2019 | January 31, 2018 (As Adjusted*) |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $ 447,990 | $ 244,057 |
| Marketable securities | 749,482 | 353,289 |
| Accounts receivable, net of allowance of $660 and $1,062 | 378,729 | 243,001 |
| Inventory | 44,687 | 34,497 |
| Deferred commissions, current | 29,244 | 21,088 |
| Prepaid expenses and other current assets | 51,695 | 47,552 |
| Total current assets | 1,701,827 | 943,484 |
| Property and equipment, net | 125,353 | 89,142 |
| Deferred commissions, non-current | 85,729 | 66,225 |
| Intangible assets, net | 20,118 | 5,057 |
| Goodwill | 10,997 | — |
| Deferred income taxes, non-current | 1,060 | 1,060 |
| Restricted cash | 15,823 | 14,763 |
| Other assets, non-current | 12,118 | 4,264 |
| Total assets | $ 1,973,025 | $ 1,123,995 |
| | | |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Accounts payable | $ 103,462 | $ 84,420 |
| Accrued compensation and benefits | 99,910 | 59,898 |
| Accrued expenses and other liabilities | 39,860 | 27,149 |
| Deferred revenue, current | 266,584 | 191,229 |
| Total current liabilities | 509,816 | 362,696 |
| Convertible senior notes, net | 449,828 | — |
| Deferred revenue, non-current | 269,336 | 182,873 |
| Other liabilities, non-current | 6,265 | 4,025 |
| Total liabilities | 1,235,245 | 549,594 |
| | | |
| Stockholders' equity: | | |
| Common stock and additional paid-in capital | 1,820,067 | 1,479,905 |
| Accumulated other comprehensive loss | (338) | (1,917) |
| Accumulated deficit | (1,081,949) | (903,587) |
| Total stockholders' equity | 737,780 | 574,401 |
| Total liabilities and stockholders' equity | $ 1,973,025 | $ 1,123,995 |

*Prior period information has been adjusted to reflect the adoption impact of Accounting Standards Codification 606, *Revenue from Contracts with Customers* (ASC 606), which we adopted on February 1, 2018.

**PURE STORAGE, INC.**
**Condensed Consolidated Statements of Operations**
**(in thousands, except per share data, unaudited)**

| | Three Months Ended January 31, | | Twelve Months Ended January 31, | |
|---|---|---|---|---|
| | 2019 | 2018 (As Adjusted*) | 2019 | 2018 (As Adjusted*) |
| Revenue: | | | | |
| Product | $ 340,137 | $ 284,163 | $ 1,075,586 | $ 834,454 |
| Support subscription | 82,079 | 55,693 | 284,238 | 190,308 |
| Total revenue | 422,216 | 339,856 | 1,359,824 | 1,024,762 |
| Cost of revenue: | | | | |
| Product (1) | 110,762 | 95,953 | 352,054 | 275,242 |
| Support subscription (1) | 30,758 | 21,970 | 105,474 | 78,539 |
| Total cost of revenue | 141,520 | 117,923 | 457,528 | 353,781 |
| Gross profit | 280,696 | 221,933 | 902,296 | 670,981 |
| Operating expenses: | | | | |
| Research and development (1) | 96,630 | 75,480 | 349,936 | 279,196 |
| Sales and marketing (1) | 171,092 | 137,763 | 584,111 | 464,049 |
| General and administrative (1) | 37,934 | 27,506 | 137,506 | 95,170 |
| Total operating expenses | 305,656 | 240,749 | 1,071,553 | 838,415 |
| Loss from operations | (24,960) | (18,816) | (169,257) | (167,434) |
| Other income (expense), net | (96) | 5,046 | (8,016) | 11,445 |
| Loss before provision for income taxes | (25,056) | (13,770) | (177,273) | (155,989) |
| Income tax provision | 699 | 1,134 | 1,089 | 3,889 |
| Net loss | $ (25,755) | $ (14,904) | $ (178,362) | $ (159,878) |
| Net loss per share attributable to common stockholders, basic and diluted | $ (0.11) | $ (0.07) | $ (0.77) | $ (0.76) |
| Weighted-average shares used in computing net loss per share attributable to common stockholders, basic and diluted | 239,571 | 218,009 | 232,042 | 211,609 |

*Prior period information has been adjusted to reflect the adoption impact of ASC 606, which we adopted on February 1, 2018.

(1) Includes stock-based compensation expense as follows:

| | | | | |
|---|---|---|---|---|
| Cost of revenue -- product | $ 761 | $ 732 | $ 2,951 | $ 1,630 |
| Cost of revenue -- support subscription | 3,438 | 2,609 | 12,378 | 9,050 |
| Research and development | 24,528 | 19,597 | 92,484 | 71,229 |
| Sales and marketing | 16,460 | 13,518 | 66,350 | 47,687 |
| General and administrative | 9,520 | 6,297 | 36,482 | 21,077 |
| Total stock-based compensation expense | $ 54,707 | $ 42,753 | $ 210,645 | $ 150,673 |

**PURE STORAGE, INC.**
**Condensed Consolidated Statements of Cash Flows**
**(in thousands, unaudited)**

| | Three Months Ended January 31, | | Twelve Months Ended January 31, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | | (As Adjusted*) | | (As Adjusted*) |
| Cash flows from operating activities | | | | |
| Net loss | $ (25,755) | $ (14,904) | $ (178,362) | $ (159,878) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 19,497 | 16,219 | 70,878 | 61,744 |
| Amortization of debt discount and debt issuance costs | 6,617 | — | 21,031 | — |
| Stock-based compensation expense | 54,707 | 42,753 | 210,645 | 150,673 |
| Other | (2) | 1,175 | (5,039) | 2,054 |
| Changes in operating assets and liabilities, net of effects of acquisition: | | | | |
| Accounts receivable, net | (73,026) | (40,875) | (135,649) | (74,505) |
| Inventory | 4,814 | 1,719 | (12,289) | (12,595) |
| Deferred commissions | (18,533) | (14,009) | (27,660) | (27,978) |
| Prepaid expenses and other assets | (8,968) | (23,687) | (6,972) | (23,799) |
| Accounts payable | 2,493 | 17,470 | 14,293 | 29,278 |
| Accrued compensation and other liabilities | 44,218 | 26,263 | 51,810 | 26,622 |
| Deferred revenue | 74,732 | 46,876 | 161,737 | 101,140 |
| Net cash provided by operating activities | 80,794 | 59,000 | 164,423 | 72,756 |
| Cash flows from investing activities | | | | |
| Purchases of property and equipment | (29,439) | (20,709) | (100,246) | (65,060) |
| Acquisition, net of cash acquired | — | — | (13,899) | — |
| Purchase of other investment | (5,000) | — | (5,000) | — |
| Purchases of marketable securities | (107,109) | (50,658) | (665,357) | (202,656) |
| Sales of marketable securities | 1,076 | 20,422 | 19,878 | 66,489 |
| Maturities of marketable securities | 97,231 | 45,047 | 253,280 | 144,068 |
| Net cash used in investing activities | (43,241) | (5,898) | (511,344) | (57,159) |
| Cash flows from financing activities | | | | |
| Net proceeds from exercise of stock options | 4,429 | 8,916 | 47,771 | 24,677 |
| Proceeds from issuance of common stock under employee stock purchase plan | — | — | 33,444 | 22,137 |
| Proceeds from issuance of convertible senior notes, net of issuance costs | — | — | 562,062 | — |
| Payment for purchase of capped calls | — | — | (64,630) | — |
| Repayment of debt acquired from acquisition | — | — | (6,101) | — |
| Tax withholding on vesting of restricted stock | (632) | — | (632) | — |
| Repurchase of common stock | — | — | (20,000) | — |
| Net cash provided by financing activities | 3,797 | 8,916 | 551,914 | 46,814 |
| Net increase in cash and cash equivalents and restricted cash | 41,350 | 62,018 | 204,993 | 62,411 |
| Cash, cash equivalents and restricted cash, beginning of period | 422,463 | 196,802 | 258,820 | 196,409 |
| Cash, cash equivalents and restricted cash, end of period | $ 463,813 | $ 258,820 | $ 463,813 | $ 258,820 |

*Prior period information has been adjusted to reflect the adoption impact of ASC 606 and ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which we adopted on February 1, 2018.

**Reconciliations of non-GAAP results of operations to the nearest comparable GAAP measures**

The following table presents non-GAAP gross margins by revenue source before certain items (in thousands except percentages, unaudited):

| | Three Months Ended January 31, 2019 | | | | | Three Months Ended January 31, 2018 (As Adjusted*) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | GAAP results | GAAP gross margin (a) | Adjustment | | Non-GAAP results | Non-GAAP gross margin (b) | GAAP results | GAAP gross margin (a) | Adjustment | | Non-GAAP results | Non-GAAP gross margin (b) |
| | | | $ 761 | (c) | | | | | $ 732 | (c) | | |
| | | | 10 | (d) | | | | | 8 | (d) | | |
| | | | 632 | (e) | | | | | — | | | |
| **Gross profit -- product** | $ 229,375 | 67.4% | $ 1,403 | | $ 230,778 | 67.8% | $ 188,210 | 66.2% | $ 740 | | $ 188,950 | 66.5% |
| | | | $ 3,438 | (c) | | | | | $ 2,609 | (c) | | |
| | | | 63 | (d) | | | | | 82 | (d) | | |
| **Gross profit -- support subscription** | $ 51,321 | 62.5% | $ 3,501 | | $ 54,822 | 66.8% | $ 33,723 | 60.6% | $ 2,691 | | $ 36,414 | 65.4% |
| | | | $ 4,199 | (c) | | | | | $ 3,341 | (c) | | |
| | | | 73 | (d) | | | | | 90 | (d) | | |
| | | | 632 | (e) | | | | | — | | | |
| **Total gross profit** | $ 280,696 | 66.5% | $ 4,904 | | $ 285,600 | 67.6% | $ 221,933 | 65.3% | $ 3,431 | | $ 225,364 | 66.3% |

*Prior period information has been adjusted to reflect the adoption impact of ASC 606, which we adopted on February 1, 2018.

(a) GAAP gross margin is defined as GAAP gross profit divided by revenue.
(b) Non-GAAP gross margin is defined as non-GAAP gross profit divided by revenue.
(c) To eliminate stock-based compensation expense.
(d) To eliminate payroll tax expense related to stock-based activities.
(e) To eliminate amortization expense of acquired intangible assets.

The following table presents certain non-GAAP consolidated results before certain items (in thousands, except per share amounts and percentages, unaudited):

| | Three Months Ended January 31, 2019 | | | | | Three Months Ended January 31, 2018 (As Adjusted*) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | GAAP results | GAAP operating margin (a) | Adjustment | | Non-GAAP results | Non-GAAP operating margin (b) | GAAP results | GAAP operating margin (a) | Adjustment | | Non-GAAP results | Non-GAAP operating margin (b) |
| | | | $ 54,707 | (c) | | | | | $ 42,753 | (c) | | |
| | | | 763 | (d) | | | | | 973 | (d) | | |
| | | | 632 | (e) | | | | | — | | | |
| **Operating income (loss)** | $ (24,960) | -5.9% | $ 56,102 | | $ 31,142 | 7.4% | $ (18,816) | *-5.5%* | $ 43,726 | | $ 24,910 | 7.3% |
| | | | $ 54,707 | (c) | | | | | $ 42,753 | (c) | | |
| | | | 763 | (d) | | | | | 973 | (d) | | |
| | | | 632 | (e) | | | | | — | | | |
| | | | 6,616 | (f) | | | | | — | | | |
| **Net income (loss)** | $ (25,755) | | $ 62,718 | | $ 36,963 | | $ (14,904) | | $ 43,726 | | $ 28,822 | |
| **Net income (loss) per share -- diluted** | $ (0.11) | | | | $ 0.14 | | $ (0.07) | | | | $ 0.11 | |
| **Weighted-average shares used in per share calculation -- diluted** | 239,571 | | 24,097 | (g) | 263,668 | | 218,009 | | 32,752 | (g) | 250,761 | |

*Prior period information has been adjusted to reflect the adoption impact of ASC 606, which we adopted on February 1, 2018.

(a) GAAP operating margin is defined as GAAP operating loss divided by revenue.
(b) Non-GAAP operating margin is defined as non-GAAP operating income divided by revenue.
(c) To eliminate stock-based compensation expense.
(d) To eliminate payroll tax expense related to stock-based activities.
(e) To eliminate amortization expense of acquired intangible assets.
(f) To eliminate amortization expense of debt discount and debt issuance costs related to our convertible debt.
(g) To include effect of dilutive securities (employee stock options, restricted stock, and shares from employee stock purchase plan (ESPP)).

**Reconciliation from net cash provided by operating activities to free cash flow and free cash flow without ESPP impact (in thousands except percentages, unaudited):**

| | Three Months Ended January 31, | |
|---|---|---|
| | 2019 | 2018 |
| Net cash provided by operating activities | $ 80,794 | $ 59,000 |
| Less: purchases of property and equipment | (29,439) | (20,709) |
| Free cash flow (non-GAAP) | $ 51,355 | $ 38,291 |
| Adjust: ESPP Impact | (17,027) | (11,495) |
| Free cash flow without ESPP impact (non-GAAP) | $ 34,328 | $ 26,796 |
| | | |
| Free cash flow as % of revenue | 12.2% | 11.3% |
| Free cash flow without ESPP Impact as % of revenue | 8.1% | 7.9% |