

Pure Storage Inc.(PSTG)

\$17.94 (As of 07/22/20)

Price Target (6-12 Months): **\$19.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/19/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: F

Growth: A

Momentum: C

Summary

Pure Storage is benefiting from robust adoption of cloud storage solutions, including Cloud Block Store, ObjectEngine Cloud, and CloudSnap. Moreover, the company is expected to gain from new remote install options for FlashArray and FlashBlade, that enable the installation of systems with limited personnel amid ongoing coronavirus crisis-induced social distancing norms. Additionally, incremental adoption of latest subscription-based Evergreen, Modern Data Experience and Pure as-a-Service solutions is a key catalyst. Notably, shares of the company have outperformed the industry on a year-to-date basis. Nevertheless, coronavirus crisis-led uncertainty and tough business environment are likely to dampen growth. Further, growing expenses on product development amid stiff competition from NetApp and Dell may hurt profitability in the near term.

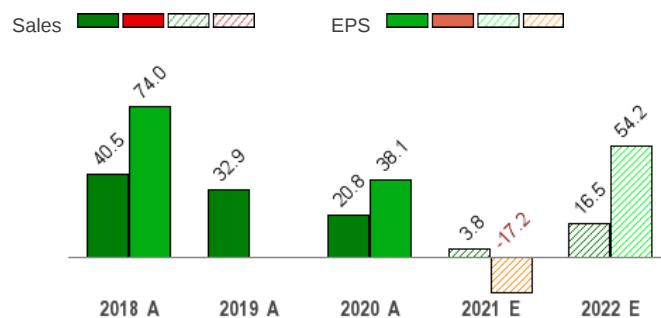
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$20.50 - \$7.93
20 Day Average Volume (sh)	3,055,198
Market Cap	\$4.8 B
YTD Price Change	4.9%
Beta	1.65
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Computer- Storage Devices
Zacks Industry Rank	Bottom 22% (197 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	87.5%
Last Sales Surprise	7.5%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	08/19/2020
Earnings ESP	0.0%
P/E TTM	51.3
P/E F1	74.8
PEG F1	3.8
P/S TTM	2.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	422 E	473 E	519 E	590 E	1,988 E
2021	367 A	395 E	438 E	507 E	1,706 E
2020	327 A	396 A	428 A	492 A	1,643 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	-\$0.06 E	\$0.03 E	\$0.12 E	\$0.24 E	\$0.37 E
2021	-\$0.02 A	\$0.00 E	\$0.07 E	\$0.18 E	\$0.24 E
2020	-\$0.11 A	\$0.01 A	\$0.13 A	\$0.23 A	\$0.29 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/22/2020. The reports text is as of 07/23/2020.

Overview

Founded in 2009 and headquartered in Mountain View, CA, Pure Storage Inc. (PSTG) provides software-defined all-flash solutions that are uniquely fast and cloud-capable for customers.

The company is the pioneer of Evergreen Storage business model of hardware and software innovation, support and maintenance, which eliminates the 3–5 year forklift refresh cycle of legacy storage systems.

Pure Storage's primary offerings are FlashArray and FlashBlade products, which include Purity Operating Environment (Purity OE) software, Pure1 cloud-based software, and FlashStack, the company's joint converged infrastructure solution with Cisco.

Notably, the company also offers Cloud Data Services, a suite of new cloud offerings that aids customers to invest in single storage architecture. This data platform helps customers scale their businesses through real-time and accurate analytics, hereby increasing operational efficiency and enhancing user experience.

Moreover, the company's FlashArray features CloudSnap that enables efficient and cost-effective cloud backup as well as array- and volume-level recovery. Also, the company's Cloud Block Store offering delivers consistent data services, resiliency as well as APIs that helps customers run applications seamlessly across their hybrid cloud. Further, the Pure as-a-Service offering features on-premise and cloud storage as a service, that unifies hybrid clouds with a single subscription.

The company's platforms are designed to maximize the performance of flash, by taking advantage of native high bandwidth and low latency PCIe/NVMe networking.

Pure Storage became a public company in Oct 2015. The company's customer base comprises around 7,800 organizations, including more than 40% of the Fortune 500. The company's customers include enterprise and commercial organizations, cloud, Global Systems Integrators, consumer web, education, energy, financial services, governments, healthcare, manufacturing, media, retail and telecommunications.

The company reported revenues of \$1.643 billion in fiscal 2020.

Product revenues amounted to 75.4% of the total revenues, while Support contributed the rest of 24.6%.

Pure Storage faces significant competition from the likes of Hitachi, NetApp, Dell EMC, HP Enterprise, Lenovo and IBM.



Reasons To Buy:

- ▲ Adoption of flash storage is increasing rapidly, particularly at enterprises, due to inherent advantages of speed (i.e. responsiveness), portability, efficiency and reliability over legacy storage systems. Moreover, ongoing data explosion has become a major driver for flash storage systems. Market research firm IDC forecasts that by 2025, the global datasphere will grow to 175 zettabytes (that is a trillion gigabytes) compared with 33 zettabytes (ZB) generated in 2018. More importantly, almost 49% of this will be stored in the public cloud infrastructure. Due to the high performance and low latency features of flash-storage, it is the ideal storage technology to harness this data explosion. We believe that being a pure-play flash storage provider Pure Storage is well positioned to benefit from this trend. Shared storage (including NAS/SAN/Object/ Backup appliance) has a total addressable market (TAM) of almost \$26 billion, which presents significant growth opportunities. The company's expanding product portfolio that includes platforms like NVMe, Purity FlashBlade, 75 blades up to 8 PB of storage, Object Storage, and Active Cluster, Cloud solutions that run on Amazon Web Services or AWS holds promise.
- ▲ All-Flash Arrays (AFA) is gradually becoming the preferred storage choice of data-center operators as they have become more cost-effective as compared with traditional data storage systems. Moreover, usage of flash arrays lowers power consumption that reduces data center operating expenses (low electricity bill) over the long term. AFAs also require less space and they usually have a simpler user interface which makes management of the systems easy. These features are driving top-line growth. Gartner placed the company in the leader's quadrant in its latest Magic Quadrant for Primary Storage. We note that Pure Storage is regarded as a pioneer of the all-flash array category and the solid growth projections bodes well for long-term growth.
- ▲ The company is rapidly gaining traction in the flash storage market, which is evident from its accelerating customer base. Customer growth has been exemplary, count surging from 300 in first-quarter fiscal 2015 to 7,800 in first-quarter fiscal 2021, at a CAGR of 72.1%. Increasing spending from top 25 customers is a major growth driver. Improving penetration into Global 2000 and Fortune 500 is also worth watching. We believe that customer base will continue to expand driven by the impressive product portfolio, innovative pipeline, strong partner base and growth potential from an almost untapped sales force (almost 60% has < 15 months tenure). Moreover, robust demand for FlashArray and FlashBlade products is projected to boost the top line.
- ▲ Pure Storage is targeting the 500 leading cloud providers to boost top-line growth. Moreover, increasing demand for flash storage (due to improving affordability) in the small and medium business (SMB) segment presents significant growth opportunity. The company also sees strong growth prospects in the data-driven markets of artificial intelligence (AI), machine learning, Internet of Things (IoT), Real-time Analytics, Log Analytics and Simulation. The company cited IDC data, which predicts that the cloud storage market will hit \$6 billion in fiscal 2020, witnessing a CAGR of 32%. The company's FlashBlade product has been gaining traction in the AI market. Additionally, the Pure1 META platform – which enables customers to forecast performance requirements to more accurately and timely provision of resources – has significant growth prospect over the long term.
- ▲ The company has a rich partner ecosystem, which is a growth driver. Its partnership with Cisco for FlashStack is worth mentioning. We believe that the hyper-converged solution will continue to gain traction among enterprises going forward. We believe that the expanding partner base, including NVIDIA will further drive customer base.
- ▲ Pure Storage has a strong balance sheet with ample liquidity position and no debt obligations. Cash, short-term investments and marketable securities were \$1.274 billion as of May 3, 2020. Moreover, the company generated \$35.1 million of cash flows from operations and \$11.3 million of free cash flow in the first quarter of fiscal 2021. It is to be noted that the company has been able to regularly increase its cash and marketable securities as well as its cash from operations since 2014. The increasing liquidity and cash flow trend reflect that the company is making investments in the right direction. During fiscal first quarter, Pure Storage returned \$70 million to shareholders via share repurchases of 5.96 million shares, with approximately \$65 million remaining in share repurchase authorization. Since it carries no long-term debt, the cash is available for pursuing strategic acquisitions, investment in growth initiatives and distribution to shareholders.

Growing adoption of flash storage, advantages of AFA in data centers, impressive product portfolio, strong partner base and growth prospect in emerging data-driven markets are key positives.

Reasons To Sell:

- ▼ Pure Storage faces intensifying competition in the flash-based storage market. The competition has resulted in a decline in the average selling price (ASP). Any decline in ASP is likely to impact the results if shipments do not improve considerably.
- ▼ Moreover, lack of big-shot international customers is a headwind for the company. We note that revenues from customers outside the U.S. were 27.9% in fiscal 2020. The company doesn't have significant presence in the Asia-Pacific market, which has strong demand for flash-based storage systems. This is a headwind in our view.
- ▼ Further, Pure Storage has been incurring operating losses since inception and has an accumulated deficit of \$1.374 billion as of May 3, 2020. The company does not expect to generate profit sooner amid continuing investments on research & development and sales & marketing. Despite the increasing top line, mounting losses does not augur well for investor confidence in our view.
- ▼ The company is trading at premium in terms of Price/Book (P/B). Pure Storage currently has a trailing 12-month P/B ratio of 6.26X, which compares unfavorably with some extent with what the industry witnessed over the last year. Additionally, the ratio is higher than the average level of 5.7X and is near the high end of the valuation range in this period. Hence, valuation looks slightly stretched from P/B perspective.

Intensifying competition, lack of international customers and mounting losses are major concerns.

Last Earnings Report

Pure Storage Q1 Earnings & Revenues Top Estimates

Pure Storage Inc. reported non-GAAP loss of 2 cents per share in first-quarter fiscal 2021, narrower than the Zacks Consensus Estimate of a loss of 16 cents. The company had reported a loss of 11 cents per share in the year-ago quarter.

Total revenues improved 12% from the year-ago quarter's level to \$367.1 million. Moreover, the top line surpassed the Zacks Consensus Estimate by 7.5%.

Year-over-year increase in revenues can be attributed to strong FlashBlade and FlashBlade implementation and new deal win from a major national bank based in the United States. Moreover, robust adoption of subscription offerings, including Pure as-a-Service, Cloud Block Store, and Evergreen, contributed to growth.

Quarter Details

In the fiscal first quarter, Product revenues (contributed 67% to total revenues) of \$246.9 million increased 3.4% on a year-over-year basis, primarily on the back of existing customers and continued expansion of customer base.

During the reported quarter, Pure Storage added more than 300 customers, bringing the total count to more than 7,800 organizations.

Robust adoption of strong product portfolio, including the likes of FlashArray, FlashStack and FlashBlade business segments, is a key catalyst.

Subscription revenues (33%) of \$120.2 million surged 36.6% on a year-over-year basis, driven by the company's ongoing support contracts and robust adoption of Pure as-a-Service, Cloud Block Store, and Evergreen subscription services.

Total revenues in the United States during the reported quarter came in at \$264 million, up 15% year over year. Meanwhile, total International revenues of \$103 million, improved 5% on a year-over-year basis.

Margin Highlights

Non-GAAP gross margin expanded 380 basis points (bps) from the year-ago quarter's level to 71.9%. The expansion in gross margin can be attributed to growth in revenues and margin expansion of Product and Subscription services.

Non-GAAP Product gross margin expanded 460 bps from the year-ago quarter's level to 73.3%.

Non-GAAP Subscription gross margin came in at 68.9%, which expanded 260 bps on a year-over-year basis.

Total operating expenses climbed 8.9% year over year to \$341.7 million. As a percentage of total revenues, the figure came in at 93.1%, which contracted 300 bps on a year-over-year basis.

Pure Storage reported a non-GAAP operating loss of 5.4 million in the fiscal first quarter, compared with operating loss of 31.2 million in the prior-year quarter.

Balance Sheet & Cash Flow

Pure Storage exited the quarter ended May 3, 2020 with cash, cash equivalents and marketable securities of \$1.274 billion, compared with \$1.299 billion as of Feb 2, 2020.

Cash flow from operations during the reported quarter was \$35.1 million compared with \$69.9 million in the fiscal fourth quarter.

Free cash flow came in at \$11.3 million compared with \$56.2 million in the prior quarter.

During fiscal first quarter, Pure Storage returned \$70 million to shareholders via share repurchases of 5.96 million shares, with approximately \$65 million remaining in share repurchase authorization.

Total deferred revenues in the fiscal first quarter came in at \$706 million, compared with \$697 million at the end of fiscal fourth quarter. The upside was led by growth in multiple subscription service offerings.

Guidance

Pure Storage withdrew guidance for fiscal 2021 and refrained from providing fiscal second-quarter outlook citing uncertainty in demand due to COVID-19-related business impact.

Quarter Ending **04/2020**

Report Date	May 28, 2020
Sales Surprise	7.50%
EPS Surprise	87.50%
Quarterly EPS	-0.02
Annual EPS (TTM)	0.35

Recent News

On Jul 15, Pure Storage announced that its FlashBlade offering has been adopted by Crater Labs to power its advance AI and machine learning systems. This includes risk identification models that help customers detect risk triggers in a post pandemic world.

On Jul 1, Pure Storage announced that its offerings have been selected by Children's of Alabama hospital to help reduce log-in times for clinical applications and optimize the time spent taking care of patients.

On Jun 25, Pure Storage announced that its FlashArray and FlashBlade offerings have been recognized by TrustRadius and garnered "Top Rated Award" wins in the Enterprise Flash Array Storage and Object Storage categories, respectively.

On Jun 10, Pure Storage introduced Purity 6.0 for FlashArray, the latest version of its flagship software suite, which is designed to aid customers store, manage, safeguard, access and mobilize their data efficiently.

On May 28, Pure Storage announced that its flash storage solutions have been adopted by ServiceNow to drive performance and data management, and boost business value. Expanding customer base is expected to aid the company in driving revenues in the quarters ahead.

On May 4, Pure Storage launched the Purity FB 3.0 update for its storage solution software – Flashblade. The update will enable real time performance to speed up modern application workflows.

Valuation

Pure Storage shares are up 4.9% in the year-to-date period and 12.4% in the trailing 12-month period. Stocks in the Zacks sub-industry are down 22.3% while the same in the Zacks Computer & Technology sector are up 16.7% in the year-to-date period. Over the past year, the Zacks sub-industry is down 16.2% while the sector is up 26.1%.

The S&P 500 index is up 1.4% in the year-to-date period and 8.7% in the past year.

The stock is currently trading at 2.58X forward 12-month sales compared with 0.99X for the Zacks sub-industry, 4X for the Zacks sector and 3.61X for the S&P 500 index.

Over the past three years, the stock has traded as high as 4.41X and as low as 1.21X, with a three-year median of 2.64X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$19 price target reflects 2.73X forward 12-month sales.

The table below shows summary valuation data for PSTG

Valuation Multiples - PSTG					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	2.58	0.99	4	3.61
	3-Year High	4.41	1.41	4	3.61
	3-Year Low	1.21	0.87	2.62	2.76
	3-Year Median	2.64	1.16	3.23	3.17
P/B TTM	Current	6.26	2.84	6.07	4.46
	3-Year High	10.27	3.94	6.12	4.56
	3-Year Low	2.79	2.11	3.59	3.03
	3-Year Median	6.58	3.03	4.62	3.95
EV/Sales TTM	Current	2.4	1.27	4.65	3.2
	3-Year High	5.03	1.71	4.65	3.46
	3-Year Low	0.96	0.99	3.05	2.24
	3-Year Median	2.93	1.4	3.82	3.02

As of 07/22/2020

Industry Analysis Zacks Industry Rank: Bottom 22% (197 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Micron Technology, Inc. (MU)	Outperform	1
Hewlett Packard Enterprise Company (HPE)	Neutral	4
International Business Machines Corporation (IBM)	Neutral	4
NetApp, Inc. (NTAP)	Neutral	3
Nutanix Inc. (NTNX)	Neutral	3
Seagate Technology PLC (STX)	Neutral	3
Teradata Corporation (TDC)	Neutral	4
Western Digital Corporation (WDC)	Underperform	3

Industry Comparison Industry: Computer- Storage Devices				Industry Peers		
	PSTG	X Industry	S&P 500	HPE	IBM	NTAP
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	4	4	3
VGM Score	C	-	-	A	C	C
Market Cap	4.75 B	1.45 B	22.74 B	12.53 B	114.25 B	9.95 B
# of Analysts	10	5	14	6	6	10
Dividend Yield	0.00%	0.00%	1.81%	4.92%	5.07%	4.27%
Value Score	F	-	-	A	A	A
Cash/Price	0.28	0.20	0.06	0.41	0.11	0.29
EV/EBITDA	-52.20	7.10	13.19	4.44	8.97	7.22
PEG Ratio	3.93	2.08	3.05	2.01	3.54	1.14
Price/Book (P/B)	6.26	6.26	3.14	0.77	5.52	41.12
Price/Cash Flow (P/CF)	NA	10.20	12.31	2.57	6.51	9.79
P/E (F1)	77.38	11.48	22.34	7.78	11.62	13.53
Price/Sales (P/S)	2.82	1.23	2.40	0.46	1.51	1.84
Earnings Yield	1.34%	4.68%	4.27%	12.82%	8.60%	7.40%
Debt/Equity	0.77	0.20	0.75	0.71	2.68	4.74
Cash Flow (\$/share)	-0.17	0.08	6.94	3.79	19.75	4.59
Growth Score	A	-	-	C	C	C
Hist. EPS Growth (3-5 yrs)	NA%	-6.87%	10.82%	-3.21%	-3.16%	27.41%
Proj. EPS Growth (F1/F0)	-15.86%	9.98%	-9.08%	-29.19%	-13.54%	-17.88%
Curr. Cash Flow Growth	-37.62%	-37.62%	5.51%	-2.58%	2.09%	-17.99%
Hist. Cash Flow Growth (3-5 yrs)	11.70%	1.84%	8.55%	-3.09%	-3.76%	1.04%
Current Ratio	3.12	1.49	1.30	0.89	1.04	1.18
Debt/Capital	43.38%	43.38%	44.41%	41.54%	72.83%	82.57%
Net Margin	-11.36%	-1.29%	10.46%	-0.13%	10.44%	15.13%
Return on Equity	-17.24%	1.66%	15.29%	12.35%	51.06%	168.65%
Sales/Assets	0.75	0.90	0.54	0.52	0.50	0.71
Proj. Sales Growth (F1/F0)	3.82%	0.00%	-2.27%	-12.81%	-4.43%	-5.21%
Momentum Score	C	-	-	A	D	F
Daily Price Chg	0.96%	0.00%	0.60%	0.93%	2.07%	-1.25%
1 Week Price Chg	-0.12%	0.18%	3.82%	4.43%	5.71%	4.35%
4 Week Price Chg	8.73%	3.09%	7.55%	5.18%	10.52%	9.81%
12 Week Price Chg	19.68%	4.54%	7.51%	-5.43%	-0.02%	0.25%
52 Week Price Chg	12.41%	20.51%	-3.37%	-33.85%	-14.24%	-23.51%
20 Day Average Volume	3,055,198	610,560	2,037,153	9,542,419	5,569,665	2,330,368
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-1.66%	-0.05%
(F1) EPS Est 4 week change	0.00%	0.00%	0.14%	0.00%	-1.88%	-0.42%
(F1) EPS Est 12 week change	37.68%	-18.07%	-3.51%	-15.41%	-1.88%	-14.99%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	-7.40%	-0.48%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	F
Growth Score	A
Momentum Score	C
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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