

Pure Storage Inc.(PSTG)

\$14.00 (As of 03/26/20)

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: F

Summary

Pure Storage is banking on robust adoption of cloud storage solutions, including Cloud Block Store, ObjectEngine Cloud, and CloudSnap. Moreover, the company continues to enhance all-flash portfolio including AIRI, FlashArray, FlashBlade and FlashStack offerings with new low-latency and high-bandwidth support capabilities, which is a positive. Furthermore, the company is well poised to benefit from incremental adoption of latest subscription-based Evergreen, Modern Data Experience and Pure as-a-Service solutions. Nevertheless, pricing declines and tough business environment remain concerns. Further, growing expenses on product development amid stiff competition NetApp and Dell is a headwind. Notably, shares have underperformed the industry in the past year.

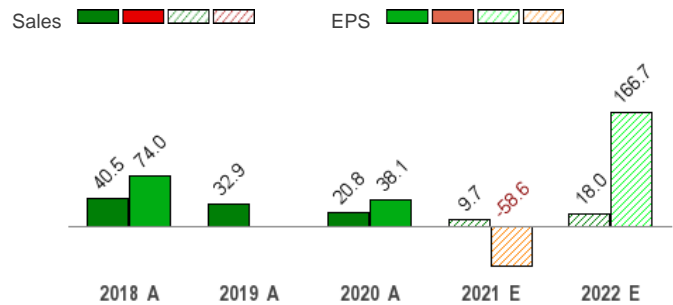
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$23.53 - \$7.93
20 Day Average Volume (sh)	5,129,272
Market Cap	\$3.6 B
YTD Price Change	-18.2%
Beta	1.66
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Computer- Storage Devices
Zacks Industry Rank	Top 5% (13 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.6%
Last Sales Surprise	0.6%
EPS F1 Est- 4 week change	-83.6%
Expected Report Date	05/19/2020
Earnings ESP	0.0%
P/E TTM	53.9
P/E F1	116.7
PEG F1	5.9
P/S TTM	2.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	424 E	490 E	555 E	634 E	2,128 E
2021	352 E	425 E	483 E	557 E	1,803 E
2020	327 A	396 A	428 A	492 A	1,643 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	-\$0.11 E	\$0.03 E	\$0.14 E	\$0.28 E	\$0.32 E
2021	-\$0.16 E	-\$0.05 E	\$0.08 E	\$0.23 E	\$0.12 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 03/26/2020. The reports text is as of 03/27/2020.

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 eliminate 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, in 2018, the company had launched 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.

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 comprised around 7,500 organizations, including more than 40% of the Fortune 500. The company's customers includes 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 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 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 fast gaining traction in the flash storage market, which is evident from its accelerating customer base. Customer growth have been exemplary – count surging from 300 in first-quarter fiscal 2015 to 4,800 in first-quarter fiscal 2019 – a CAGR of 100%. During the fourth quarter of fiscal 2020, Pure Storage added more than 500 customers, bringing the total count to more than 7,500 organizations. 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.

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 28% in fiscal 2019. 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 \$1.283 billion as of Feb 2, 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 doesn't 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 4.69, which compares unfavorably with some extent with what the industry witnessed over the last year. 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 Q4 Earnings & Revenues Top Estimates

Pure Storage Inc. reported non-GAAP earnings of 23 cents per share in fourth-quarter fiscal 2020, beating the Zacks Consensus Estimate by 4.6%. Moreover, the bottom line improved 64.3% on a year-over-year basis.

Total revenues rose 17% from the year-ago quarter's level to \$492 million. Moreover, the top line surpassed the Zacks Consensus Estimate of \$489.2 million. Notably, the figure came within management's guidance of \$484-\$496 million.

Year-over-year increase in revenues can be attributed to strong FlashBlade implementation and new deal wins from three major international banks. Moreover, growth was driven by robust adoption of subscription offerings, including Pure as-a-Service, Cloud Block Store, and Evergreen.

Segmental Details

In the fiscal fourth quarter, Product revenues (contributed 76.5% to total revenues) of \$376.5 million increased 10.7% on a year-over-year basis, primarily on the back of existing customers and continued expansion of the customer base.

During the reported quarter, Pure Storage added more than 500 customers, bringing the total count to more than 7,500 organizations.

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

Subscription revenues (23.5%) of \$115.5 million surged 40.7% 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.

Margin Highlights

Non-GAAP gross margin expanded 350 basis points (bps) from the year-ago quarter's level to 72.1%. Management had anticipated non-GAAP gross margin in the range of 67.5-70.5%. Better-than-expected gross margin was primarily driven by product differentiation, and margin expansion of Product and Subscription services.

Non-GAAP Product gross margin expanded 550 bps from the year-ago quarter's level to 73.3%.

Non-GAAP Subscription gross margin was 68.1%, which expanded 130 bps on a year-over-year basis.

Total operating expenses climbed 14.1% year over year to \$348.9 million. As a percentage of total revenues, the figure came in at 70.9%, which contracted 150 bps on a year-over-year basis.

Pure Storage reported a non-GAAP operating margin of 12.4%, which expanded 500 bps on a year-over-year basis.

Balance Sheet & Cash Flow

Pure Storage exited the quarter ended Feb 2, 2020 with cash, cash equivalents and marketable securities of \$1.299 billion, up from \$1.24 billion as of Oct 31, 2019.

Cash flow from operations during the reported quarter was \$69.9 million compared with \$64.3 million in the fiscal third quarter.

Free cash flow came in at \$56.2 million compared with \$45.6 million in the prior quarter.

Guidance

Pure Storage expects revenues of approximately \$365 million in first-quarter fiscal 2021. Pure Storage anticipates non-GAAP gross margin of approximately 69.5%. Non-GAAP operating profit is anticipated at approximately \$60 million.

Moreover, for fiscal 2021, the company expects revenues of approximately \$1.9 billion. The company expects non-GAAP gross margin of approximately 69.5%. Non-GAAP operating loss is anticipated at \$40 million.

Quarter Ending **01/2020**

Report Date	Feb 27, 2020
Sales Surprise	0.58%
EPS Surprise	4.55%
Quarterly EPS	0.23
Annual EPS (TTM)	0.26

Recent News

On Feb 27, 2020, Pure Storage rolled out third-generation all-NVMe FlashArray//X to aid customers with higher performance capabilities and enable faster time-to-market.

On Feb 18, 2020, Pure Storage announced that the company has joined Google Cloud's Anthos Ready Storage Initiative, expanding partnership with Google Cloud.

On Dec 3, 2019, Pure Storage announced that Nu Skin, provider of beauty and wellness products, will utilize Pure's Cloud Block Store for AWS.

Valuation

Pure Storage shares are down 25.5% in the past six-month period and 41.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are down 20% and 2.5% in the past six-month period, respectively. Over the past year, the Zacks sub-industry is down 21% while the sector is up 0.5%.

The S&P 500 index is down 11.6% in the past six-month period and 7.5% in the past year.

The stock is currently trading at 1.88X forward 12-month sales, which compares to 1.17X for the Zacks sub-industry, 3.08X for the Zacks sector and 2.85X for the S&P 500 index.

Over the past three years, the stock has traded as high as 4.41X and as low as 1.18X, with a 5-year median of 2.64X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$19 price target reflects 2.55X 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	1.88	1.17	3.08	2.85
	3-Year High	4.41	1.43	3.58	3.43
	3-Year Low	1.18	0.9	2.62	2.76
	3-Year Median	2.64	1.16	3.19	3.15
P/B TTM	Current	4.69	2.62	4.55	3.54
	3-Year High	10.27	3.93	5.7	4.56
	3-Year Low	2.93	2.08	3.57	3.02
	3-Year Median	6.59	3	4.54	3.92
EV/Sales TTM	Current	1.81	1.23	3.6	2.65
	3-Year High	5.03	1.69	4.48	3.46
	3-Year Low	0.98	0.99	3.05	2.24
	3-Year Median	2.95	1.42	3.77	3.01

As of 03/26/2020

Industry Analysis Zacks Industry Rank: Top 5% (13 out of 253)



Top Peers

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

Industry Comparison Industry: Computer- Storage Devices				Industry Peers		
	PSTG Neutral	X Industry	S&P 500	HPE Neutral	IBM Neutral	NTAP Neutral
VGM Score	C	-	-	F	D	B
Market Cap	3.65 B	741.22 M	18.50 B	13.57 B	100.29 B	9.39 B
# of Analysts	8	7	13	7	7	8
Dividend Yield	0.00%	0.00%	2.35%	4.56%	5.74%	4.52%
Value Score	F	-	-	C	C	A
Cash/Price	0.49	0.35	0.07	0.29	0.11	0.38
EV/EBITDA	-34.84	1.43	11.16	4.63	8.28	5.14
PEG Ratio	5.37	3.83	1.74	0.95	1.58	0.87
Price/Book (P/B)	4.68	3.26	2.44	0.79	4.76	33.29
Price/Cash Flow (P/CF)	NA	10.69	9.87	2.78	5.71	8.46
P/E (F1)	105.58	12.18	15.29	6.23	8.64	10.38
Price/Sales (P/S)	2.22	1.21	1.93	0.48	1.30	1.68
Earnings Yield	0.86%	6.43%	6.47%	16.05%	11.57%	9.63%
Debt/Equity	0.73	0.12	0.70	0.54	2.58	4.06
Cash Flow (\$/share)	-0.29	0.10	7.01	3.79	19.75	5.02
Growth Score	A	-	-	F	D	C
Hist. EPS Growth (3-5 yrs)	NA%	-4.75%	10.85%	-3.49%	-3.50%	26.08%
Proj. EPS Growth (F1/F0)	-59.05%	4.44%	2.89%	-4.52%	1.96%	-9.54%
Curr. Cash Flow Growth	-39.40%	-20.90%	5.93%	-2.58%	2.09%	21.12%
Hist. Cash Flow Growth (3-5 yrs)	1.04%	2.60%	8.55%	-3.09%	-3.76%	2.57%
Current Ratio	3.31	1.47	1.23	0.79	1.02	1.20
Debt/Capital	42.29%	28.17%	42.57%	35.19%	72.05%	80.25%
Net Margin	-12.23%	-2.58%	11.64%	4.22%	12.23%	18.19%
Return on Equity	-21.34%	1.01%	16.74%	13.68%	62.27%	123.49%
Sales/Assets	0.77	0.90	0.54	0.55	0.53	0.71
Proj. Sales Growth (F1/F0)	11.45%	0.00%	2.37%	-6.03%	-0.57%	-11.06%
Momentum Score	F	-	-	C	C	D
Daily Price Chg	11.55%	5.07%	6.21%	12.14%	6.65%	12.63%
1 Week Price Chg	-18.17%	-13.97%	-16.96%	-12.47%	-11.64%	-11.18%
4 Week Price Chg	-7.04%	-16.78%	-15.70%	-16.30%	-15.19%	-9.43%
12 Week Price Chg	-21.35%	-21.86%	-23.67%	-34.88%	-16.64%	-32.37%
52 Week Price Chg	-34.79%	-35.90%	-13.99%	-31.00%	-19.32%	-37.01%
20 Day Average Volume	5,129,272	498,152	4,286,768	16,763,346	9,238,134	3,521,422
(F1) EPS Est 1 week change	-27.22%	0.00%	-0.15%	-3.66%	-2.21%	-3.49%
(F1) EPS Est 4 week change	-83.56%	-0.89%	-2.28%	-8.93%	-2.24%	-3.89%
(F1) EPS Est 12 week change	-83.56%	-1.63%	-3.22%	-9.49%	-1.07%	-6.00%
(Q1) EPS Est Mthly Chg	-26.49%	-3.48%	-1.60%	-15.10%	-8.08%	-11.75%

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	F
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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