Pure Storage Inc.(PSTG)

$15.05 (As of 08/26/20)

Price Target (6-12 Months): **$16.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 02/19/20) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5) Zacks Style Scores: Value: F | Growth: A | Momentum: A	**4-Sell** VGM:A

Summary

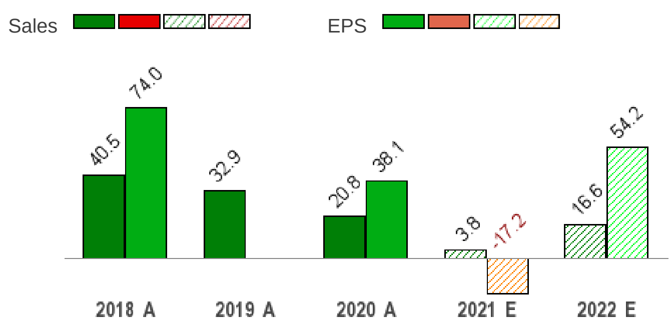
Pure Storage delivered better-than-anticipated fiscal second-quarter results, with revenues and earnings growing year over year. The results reflect robust adoption of Pure as-a-Service and Evergreen subscription services. The company is poised to gain from solid uptake of Cloud Block Store, ObjectEngine Cloud, and CloudSnap. Additionally, solid pipeline and strength in recurring revenues hold promise. Furthermore, the company is expected to gain from strength in FlashArray and FlashBlade businesses. Notably, shares of the company have outperformed the industry on a year-to-date basis. However, bleak fiscal third-quarter outlook remains a concern. Coronavirus crisis-led business uncertainty and sluggish enterprise IT spending are likely to dampen growth. Also, growing expenses on product development amid stiff competition from NetApp is a headwind.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	$20.50 - $7.93
20 Day Average Volume (sh)	4,585,599
Market Cap	$4.0 B
YTD Price Change	-12.0%
Beta	1.62
Dividend / Div Yld	$0.00 / 0.0%
Industry	Computer- Storage Devices
Zacks Industry Rank	Bottom 3% (244 out of 252)
Last EPS Surprise	42.9%
Last Sales Surprise	2.2%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	11/19/2020
Earnings ESP	0.0%
P/E TTM	37.6
P/E F1	62.7
PEG F1	3.2
P/S TTM	2.4

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2022	422 E	473 E	519 E	590 E	1,988 E
2021	367 A	404 A	438 E	507 E	1,705 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	$0.06 A	$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 08/26/2020. The reports text is as of 08/27/2020.

Overview

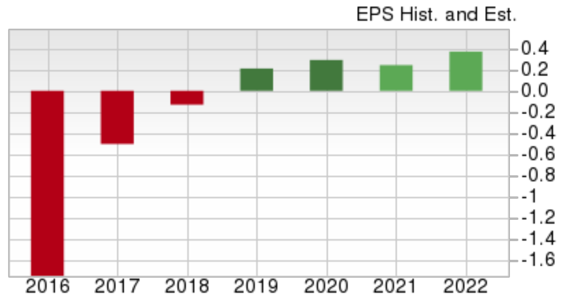
Founded in 2009 and headquartered in Mountain View, CA, Pure Storage Inc. (PSTG) provides software-defined all-flash solutions that are uniquely fast and cloud-capable for customers.

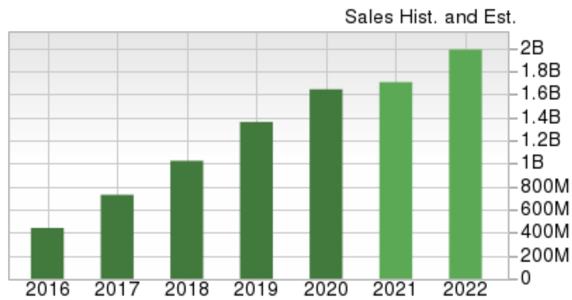
The company is the pioneer of Evergreen Storage business model of hardware and software innovation, support and maintenance, which eliminates the 3–5 year forklift refresh cycle of legacy storage systems.

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 8,150 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:

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.

- 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%. During the second-quarter of fiscal 2021, Pure Storage added more than 300 customers, bringing the total count to more than 8,150 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.

- Pure Storage has a strong balance sheet with ample liquidity position and no debt obligations. As of Aug 2, 2020, Pure Storage with cash, cash equivalents and marketable securities of $1.293 billion, compared with $1.274 billion as of May 3, 2020. Cash flow from operations in the second quarter of fiscal 2021 was $50.7 million compared with $35.1 million in the fiscal first quarter. Free cash flow was $25.7 million in the second quarter of fiscal 2021 compared with $11.3 million in the prior quarter. 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 second quarter, Pure Storage returned Pure Storage returned $20 million to shareholders via share repurchases of 1.18 million shares in the second quarter of fiscal 2021, with approximately $45 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.

Reasons To Sell:

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

- 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 $1.438 billion as of Aug 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 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 5.27X, which compares unfavorably with some extent with what the industry witnessed over the last year. Hence, valuation looks slightly stretched from P/B perspective.

Last Earnings Report

Pure Storage Q2 Earnings Beat Estimates

Quarter Ending	07/2020
Report Date	**Aug 25, 2020**
Sales Surprise	**2.15%**
EPS Surprise	**42.86%**
Quarterly EPS	**0.06**
Annual EPS (TTM)	**0.40**

Pure Storage Inc. reported non-GAAP earnings of 6 cents per share in second-quarter fiscal 2021, comparing favorably with the Zacks Consensus Estimate of a breakeven. The company had reported earnings of 1 cent per share in the year-ago quarter.

Total revenues improved 2% from the year-ago quarter's level to $403.7 million. Further, the top line surpassed the Zacks Consensus Estimate by 2.15%.

Year-over-year increase in revenues can be attributed to momentum in subscription services, including Pure as-a-Service, Cloud Block Store, and Evergreen.

Quarter Details

In the fiscal second quarter, Product revenues (contributed 67% to total revenues) of $272.3 million declined 9% on a year-over-year basis owing to coronavirus crisis induced sluggishness across the United States. Nevertheless, management noted strength in FlashBlade business segments 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 8,150 organizations.

Robust adoption of FlashArray was also noteworthy.

Subscription revenues (33%) of $131.4 million surged 37% 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 amounted to $282 million, down 4% year over year. Meanwhile, total International revenues of $122 million, improved 20% on a year-over-year basis.

Margin Highlights

Non-GAAP gross margin expanded 40 basis points (bps) from the year-ago quarter's level to 69.8%. 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 10 bps from the year-ago quarter's level to 70.1%.

Non-GAAP Subscription gross margin came in at 69.2%, which expanded 180 bps on a year-over-year basis.

Total operating expenses increased 1.7% year over year to $338.8 million. As a percentage of total revenues, the figure came in at 83.9%, which contracted 20 bps on a year-over-year basis.

Pure Storage reported a non-GAAP operating income of $11.2 million in the fiscal second quarter, against an operating loss of $3.2 million in the prior-year quarter.

Balance Sheet & Cash Flow

Pure Storage exited the quarter ended Aug 2, 2020, with cash, cash equivalents and marketable securities of $1.293 billion, compared with $1.274 billion as of May 3, 2020.

Cash flow from operations during the reported quarter was $50.7 million compared with $35.1 million in the fiscal first quarter.

Free cash flow was $25.7 million compared with $11.3 million in the prior quarter.

During fiscal second quarter, Pure Storage returned $20 million to shareholders via share repurchases of 1.18 million shares, with approximately $45 million remaining in share repurchase authorization.

Total deferred revenues in the fiscal second quarter were $725 million, compared with $706 million at the end of fiscal first quarter.

Remaining performance obligations (RPO) at the end of fiscal second quarter were $956.4 million, up 4.9% and 24.2% on a sequential and a year-over-year basis, respectively. The metric represents total committed non-cancelable future revenues.

Guidance

Pure Storage refrained from providing formal fiscal third-quarter guidance citing uncertainty in demand due to COVID-19-related business impact. However, management anticipates that total revenues will remain flat on a quarter-over-quarter basis.

Recent News

On Aug 25, Pure Storage rolled out second generation FlashArray//C, cost effective storage array solution to provide customers with higher performance capabilities and enable them to run complex cloud workloads onto a single platform.

On Aug 12, Pure Storage unveiled its latest offering, Pure FlashRecover, in partnership with Cohesity. Pure FlashRecover provides all-flash data backup and recovery in case of a ransomware attack for the enterprises.

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.

Valuation

Pure Storage shares are down 12.6% in the year-to-date period and 4.9% in the trailing 12-month period. Stocks in the Zacks sub-industry are down 30.9%, while the same in the Zacks Computer & Technology sector are up 28.6% in the year-to-date period. In the past year, the Zacks sub-industry is down 17.1%, while the sector is up 46.6%.

The S&P 500 index is up 8.1% in the year-to-date period and 20.9% in the past year.

The stock is currently trading at 2.14X forward 12-month sales compared with 0.92X for the Zacks sub-industry, 4.34X for the Zacks sector and 3.81X 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 $16 price target reflects 2.28X 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	2.14	0.92	4.34	3.81
	3-Year High	4.41	1.41	4.34	3.81
	3-Year Low	1.21	0.87	2.62	2.76
	3-Year Median	2.64	1.16	3.23	3.19
P/B TTM	Current	5.27	2.47	5.85	4.71
	3-Year High	10.27	3.94	5.85	4.71
	3-Year Low	2.79	2.11	3.59	3.03
	3-Year Median	6.57	3.03	4.64	3.97
EV/Sales TTM	Current	1.96	1.11	5.05	3.42
	3-Year High	5.03	1.71	5.05	3.46
	3-Year Low	0.96	0.99	3.05	2.24
	3-Year Median	2.91	1.39	3.84	3.04

As of 08/26/2020

Industry Analysis **Zacks Industry Rank:** Bottom 3% (244 out of 252)

Top Peers

Company (Ticker)	Rec	Rank
Hewlett Packard Enterprise Company **(HPE)**	Neutral	3
International Business Machines Corporation **(IBM)**	Neutral	4
Micron Technology, Inc. **(MU)**	Neutral	3
NetApp, Inc. **(NTAP)**	Neutral	4
Nutanix Inc. **(NTNX)**	Neutral	3
Seagate Technology PLC **(STX)**	Neutral	3
Teradata Corporation **(TDC)**	Neutral	3
Western Digital Corporation **(WDC)**	Neutral	5

Industry Comparison Industry: Computer- Storage Devices

	PSTG	X Industry	S&P 500	HPE	IBM	NTAP
				Industry Peers		
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	4	4
VGM Score	A	-	-	A	A	B
Market Cap	3.99 B	790.08 M	23.69 B	12.42 B	110.58 B	9.37 B
# of Analysts	10	3	14	6	6	10
Dividend Yield	0.00%	0.00%	1.65%	4.96%	5.25%	4.55%
Value Score	F	-	-	A	A	B
Cash/Price	0.29	0.19	0.07	0.43	0.13	0.31
EV/EBITDA	-42.36	6.71	13.37	4.93	8.64	6.71
PEG Ratio	3.14	1.69	3.04	2.04	3.42	1.09
Price/Book (P/B)	5.25	5.25	3.17	0.77	5.35	38.58
Price/Cash Flow (P/CF)	NA	9.19	12.78	2.55	6.29	9.19
P/E (F1)	61.83	12.89	21.63	7.90	11.21	12.91
Price/Sales (P/S)	2.36	1.45	2.50	0.46	1.46	1.71
Earnings Yield	1.59%	4.84%	4.44%	12.62%	8.92%	7.75%
Debt/Equity	0.77	0.19	0.75	0.85	2.68	4.74
Cash Flow ($/share)	-0.17	-0.07	6.94	3.79	19.75	4.59
Growth Score	A	-	-	C	C	B
Hist. EPS Growth (3-5 yrs)	NA%	-7.13%	10.41%	-3.21%	-3.28%	27.41%
Proj. EPS Growth (F1/F0)	-16.21%	-7.51%	-4.92%	-30.89%	-13.54%	-19.28%
Curr. Cash Flow Growth	-37.62%	-37.62%	5.22%	-2.58%	2.09%	-17.99%
Hist. Cash Flow Growth (3-5 yrs)	11.70%	1.04%	8.50%	-3.09%	-3.76%	1.04%
Current Ratio	3.12	1.51	1.34	0.99	1.04	1.18
Debt/Capital	43.38%	43.38%	44.18%	45.87%	72.83%	82.57%
Net Margin	-11.25%	-1.49%	10.25%	0.00%	10.44%	14.47%
Return on Equity	-13.64%	3.31%	14.66%	11.51%	51.06%	228.24%
Sales/Assets	0.74	0.93	0.50	0.50	0.50	0.73
Proj. Sales Growth (F1/F0)	3.78%	0.00%	-1.45%	-12.60%	-4.43%	-6.09%
Momentum Score	A	-	-	A	B	B
Daily Price Chg	-10.15%	0.00%	-0.18%	3.64%	-0.38%	1.05%
1 Week Price Chg	2.94%	0.00%	-1.45%	-3.52%	-1.68%	-0.75%
4 Week Price Chg	-11.73%	0.08%	2.10%	-0.41%	-0.92%	-0.52%
12 Week Price Chg	-12.80%	-3.14%	3.61%	-6.48%	-3.78%	-7.62%
52 Week Price Chg	-3.59%	-2.02%	3.61%	-27.67%	-6.47%	-9.85%
20 Day Average Volume	4,585,599	401,273	1,883,291	10,810,825	3,598,403	3,592,547
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	5.72%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	-15.28%	0.93%	5.72%	0.00%	-0.88%
(F1) EPS Est 12 week change	29.05%	-5.55%	3.41%	6.43%	-1.88%	-2.21%
(Q1) EPS Est Mthly Chg	0.00%	-6.65%	0.00%	6.29%	0.00%	-0.79%

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.

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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	A
VGM Score	A

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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