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Pure Storage Research

Company Description: Engages in building a data platform that enables businesses to enhance performance and reduce complexity and costs worldwide. The company delivers its data platform through Purity Operating Environment, an optimized software for solid-state memory that offers enterprise-class storage and protocol services; FlashArray and FlashBlade optimized hardware products for solid-state memory to enhance the performance and density of flash, optimize its advanced software services, and reduce solution cost for customers; Pure1, a cloud-based management and support software; and FlashStack, a converged infrastructure solution. Its data platform is used for a range of use cases, including database applications, large-scale analytics, private and public cloud infrastructure, Webscale applications, virtual server infrastructure, and virtual desktop infrastructure; and helps customers scale their businesses through real-time and accurate analytics, increase employee productivity, improve operational efficiency, and deliver compelling user experiences to their customers and partners. The company was founded in 2009 and formerly known as OS76, Inc. and changed its name to Pure Storage, Inc. in January 2010 and is headquartered in Mountain View, California.

Ticker: PSTG

Price: $19.12

Market Cap: $4.5B

Performance: +20.6% YTD, -14.3% over last month, and down -14.9% over last 3 months

Fundamental Analysis vs NetApp (NTAP):

F P/E: 75.2x vs. 15.5x

F P/S: 3.0x vs. 2.9x

PEG: 4.3x vs. 1.0x

EV/EBITDA: 25.8x vs. 9.9x

Gross Margins: 65.6% vs. 63.4%

Net Income Margins: -15.8% vs. +4.8%

Analysis: PSTG just posted earnings and they beat expectations as they always do. In fact, PSTG has literally never missed a revenue or earnings estimate in their entire lifetime as a public company (three years ago this quarter).

- Q3 EPS of $0.13 beat by $0.04 and revenue estimates with $372.8M (+34% Y/Y) beat by $5.4M. Q4 guidance has revenue from $438M to $446M (consensus: $440.6M) with gross margin of 64.5% to 67.5% and operating margin of 8% to 12%.

- In-line FY18 guidance has revenue of $1.376B to $1.384B (consensus: $1.37B).

- Revenue breakdown: Product, $298.9M (consensus: $293.8M); Support, $73.9M (consensus: $72.9M).

- Non-GAAP gross margin was 68.1% and operating margin came in at 9.1%.

- FCF totaled $28.5M or $30.6M without the ESPP impact.

As much as we love the rev and earnings growth, we are more interested in the margins and we feel everyone else is keeping an eye on that as well. Much of the reasons we feel the shares are up post-market by about 6% is because gross margins grew from 66.4% last year to 68.1% this year. Product gross margins grew from 67% to 68.1%, support subscription gross margins jumped from 63.9% to 68.1%, and operating margins grew from 3.7% to 9.1%. When we were doing the research over the weekend this is something we were eying up hard so they knocked it out the park in this regard. Another big plus… Net income grew from $10.4M in Q3 2017 to $35.4M this quarter… more than 3x.

When you look at the flash memory industry, it should continue to keep growing. Our research has found that the enterprise flash storage market is expected to register a CAGR of 13.67%, from 2018 to 2023. A huge amount of raw data is being generated everyday, leading to data storage crisis for the companies. The enterprises storage market is presently the most active place; storage users have been subjected to repeated hype for the last couple of decades.

People have shifted from hard disk drives (HDDs) to solid-state drives (SSDs); they are further expected to move towards the upcoming all-flash arrays (AFAs). There has been a rapid growth in the flash drive revenues over the last few years, with enterprise storage devices recording a 50% annual growth per year. (edited)

PSTG and NTAP will both benefit as they are provide the following for companies:

- Increased density

  - Replacing older equipment with the latest all-flash systems can free up valuable space and decrease the money spent on power and cooling.

- Greater flexibility

  - With the IT environment evolving rapidly, you have to make storage choices that give you the greatest flexibility to move in different directions in the future.

- Infrastructure standardization

  - By eliminating specialized storage infrastructure to support different applications and standardizing your hardware selections, you create a simpler, more flexible data center that adapts to new requirements more readily

Speaking of NTAP, its time to compare the two. Now if you looked above here you noticed that PSTG is trading at super steep valuation compared to NetApp. In addition, if you look at the performances of the two its hard to make a case for PSTG:

PSTG vs. NTAP Performance

1 mo: -22% vs. -14%

3 mo: -21% vs. -16.7%

YTD: +10.5 vs. +23.7%

3 year: +1.5% vs. +131%

It’s really hard for us to get by the valuation here alongside the underperformance. If you’re really adamant on owning PureStorage, we’d allocate it together with NTAP this way you get more exposure to the growing market and can diversify a bit. Also NTAP has a 2.3% dividend yield while PSTG doesn’t have a dividend and NTAP also has a greater share of revenues in this $35B total addressable market of $6.3B vs. PSTG’s $1.4B.