



Pure Storage (NYSE: PSTG)

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April 2021

LEXINGTONWORTH



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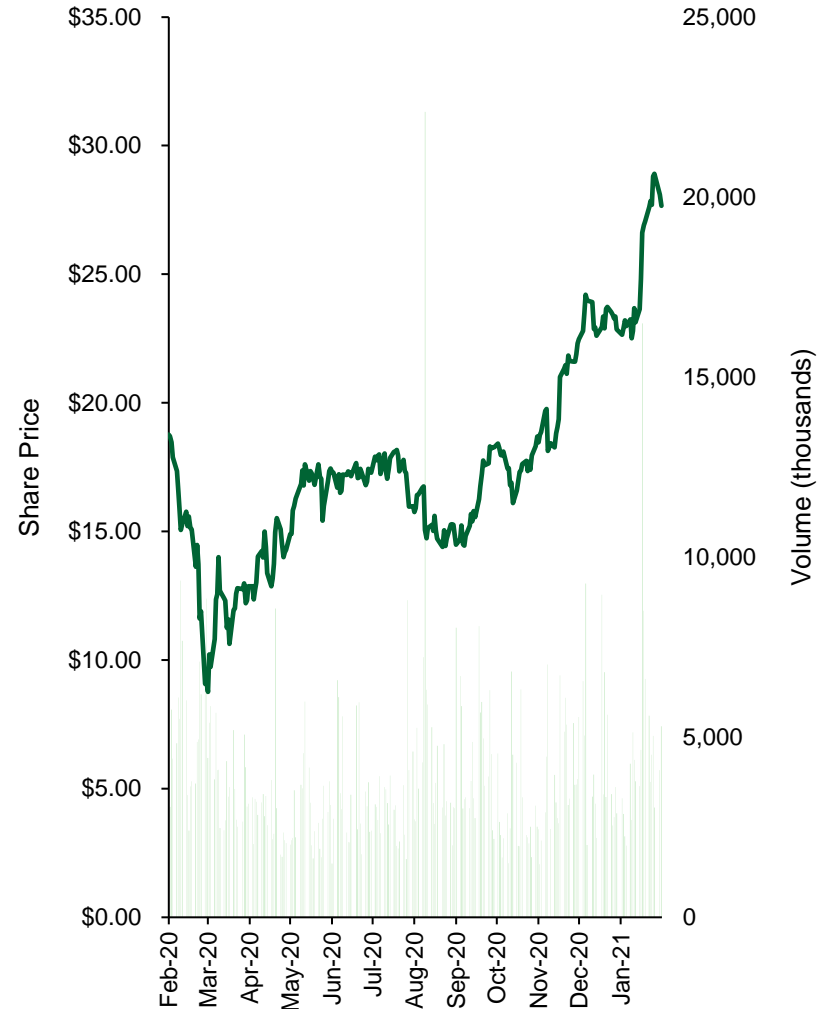


Company Description

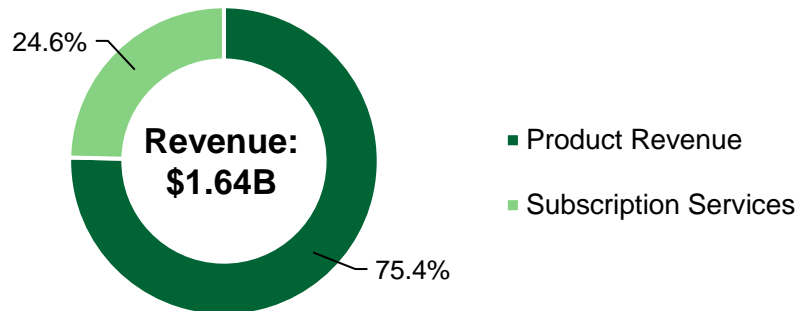
Pure Storage was founded in Delaware in 2009 as “OS76” and was renamed to “Pure Storage” in 2010. The company provides technology services and on-premise, cloud, and hybrid flash storage solutions to over 8000 businesses.

Their data solutions also provide development, analytics, production, and disaster recovery services. Pure Storage is able to provide their customers a low cost of ownership and increased flexibility by providing subscription services.

Price-Volume Chart (1-Year)



2020 Segmented Revenue



Product Revenue- Cloud data infrastructure consisting of “FlashArray” and “FlashBlade”

Subscription Services- Includes “Evergreen Storage Subscription”, “Pure-as-a-Service”, and “Cloud Block Store”



Charles Giancarlo
Chairman & CEO

Charlie joined PSTG as the CEO in 2017. He also spent 14 years at Cisco holding various executive roles. Charlie has an MBA from Harvard Business School.



Kevan Kryslar
CFO

Kevan joined PSTG in 2019 as the CFO. He has over 25 years of experience in finance and business transformation, having worked at VMware and KPMG in executive roles.

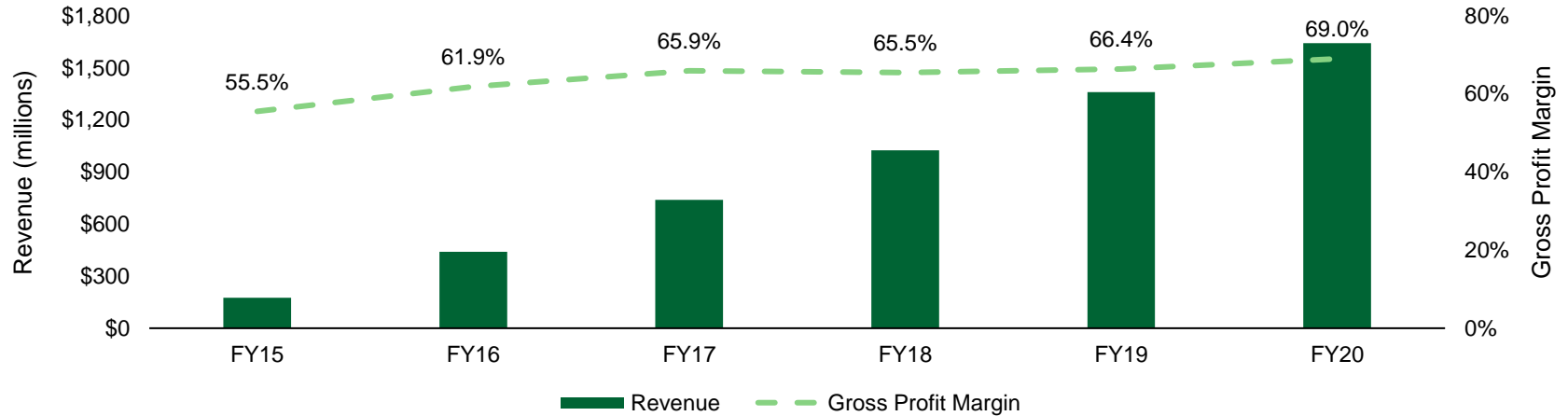


John Colgrove
Co-Founder & CTO

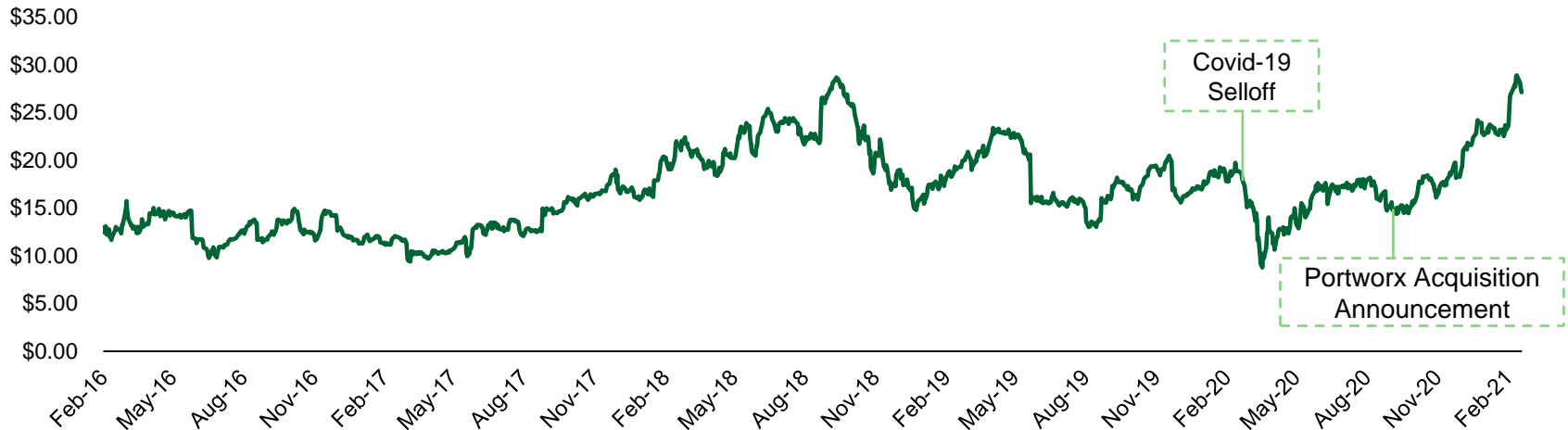
John Co-founded PSTG in 2009. John was also a founding engineer at Veritas Software which merged with Symantec in 2005.



Revenue and Margins

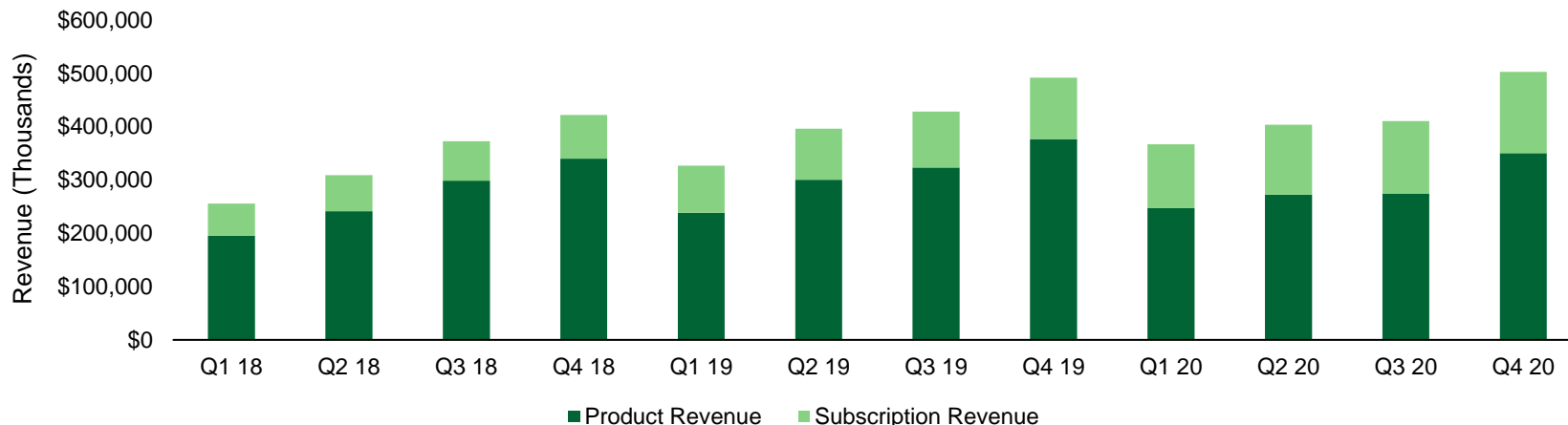


5-year Stock price

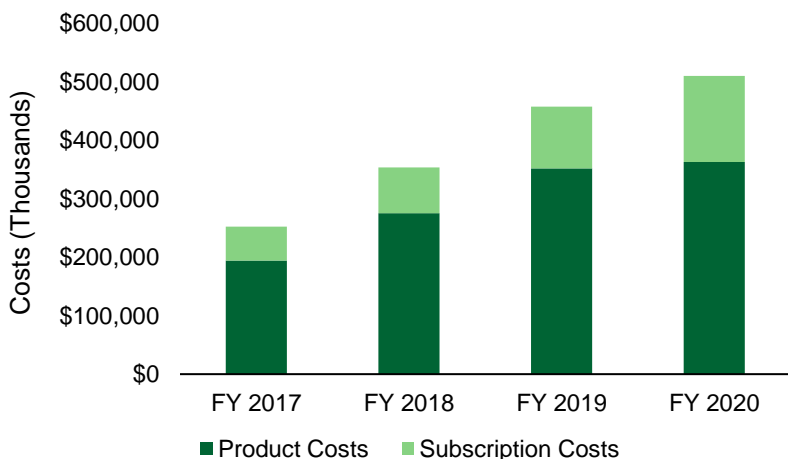




Revenue Seasonality



Cost Profile



Key Stats (Feb 19, 2021)

Share Price	\$24.19
52-Week Range	\$7.93-\$29.53
Market Cap	\$6.2B
Cash & Short Term Investments	\$1.2B
Total Debt	\$903.7m
Enterprise Value	\$7.25B



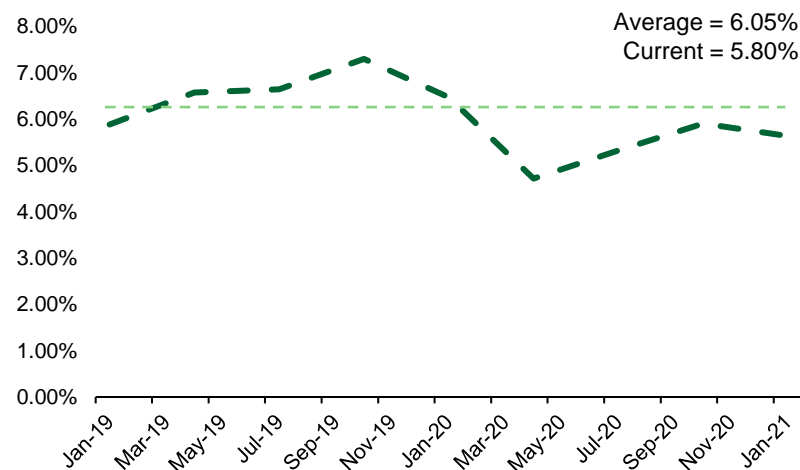
Shareholder Summary

<i>(Shares outstanding in thousands)</i>	# of S.O	% of S.O
Insiders		
John Colgrove	13,909	5.10%
Scott Dietzen	2,126	0.78%
Charles Giancarlo	971	0.36%
David Hatfield	704	0.26%
Kevan Kryslar	390	0.14%
Paul Mountford	371	0.14%
Institutions		
ARK Investment Management	41,160	15.09%
The Vanguard Group	21,730	7.96%
Fidelity	21,130	7.75%
Champlain Investment Partners	19,300	7.08%
T. Rowe Price	17,100	6.27%
William Blair Investment Management	15,700	5.76%
Nikko Asset Management	12,570	4.61%
BlackRock	3,820	3.60%
First Trust Advisors	6,710	2.46%
Disciplined Growth Investors	5,580	2.05%
Other Institutions	89,539	30.62%
Total Shares Outstanding	272,811	100%

Largest ETF Holders

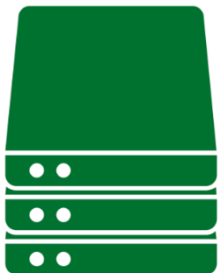
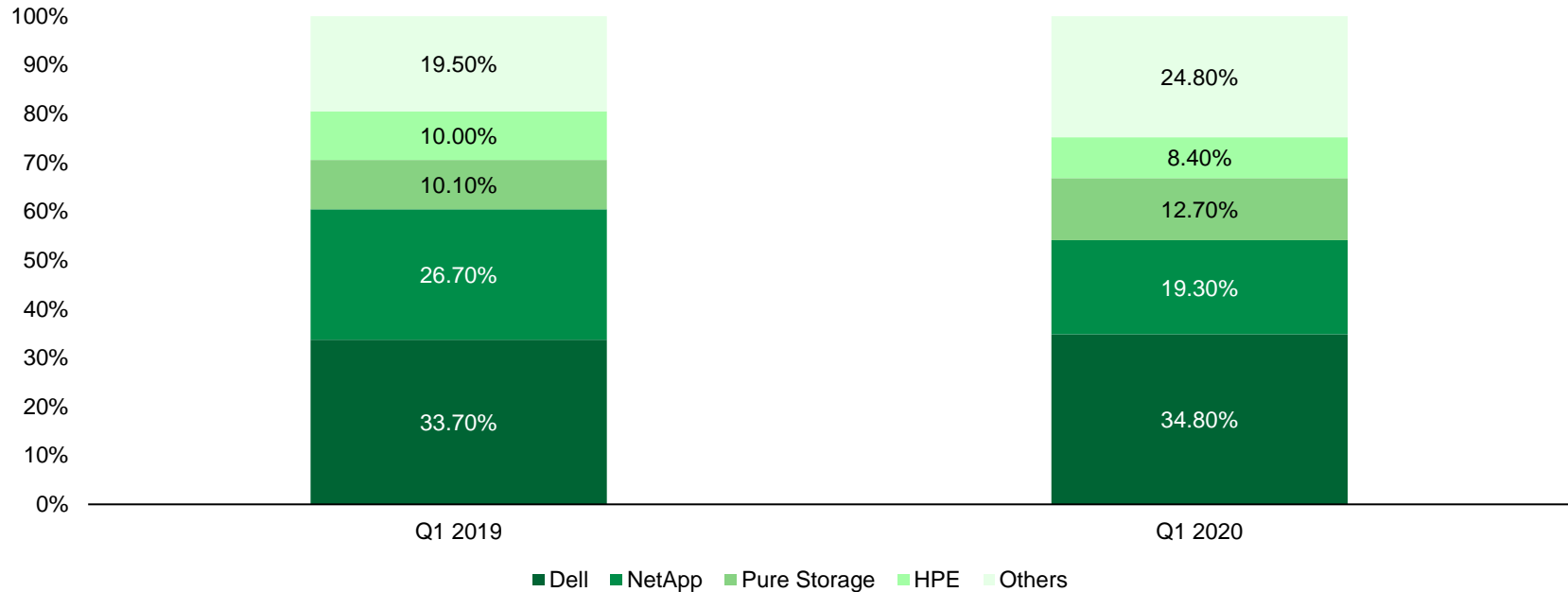
ETF Name	Ticker	% Allocation
ER Shares Entrepreneur	ENTR	2.85%
First Trust Cloud Computing	SKYY	2.45%
ARK Innovations	ARKK	2.14%
ARK Genomic Revolution	ARKG	1.92%
ARK Next Generation Internet	ARKW	1.87%

Short Interest





All-Flash Array Market Share

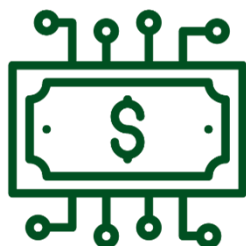


- All-flash array industry is expected to grow at a CAGR of 26.3% from 2021-2026.
- Growth in block storage will aid in the growth of this industry
- Few key players in enterprise flash storage



Risks

Lower Cost of Storage



- As demand for flash storage continues to increase and creating the drives becomes more efficient, the price per gigabyte may decline.
- Results in lower profits and more reliance on increased sales by volume

$$\text{Cost per gigabyte} = 10^{-0.2502 * (\text{year} - 1980) + 6.304}$$

Increasing Competition

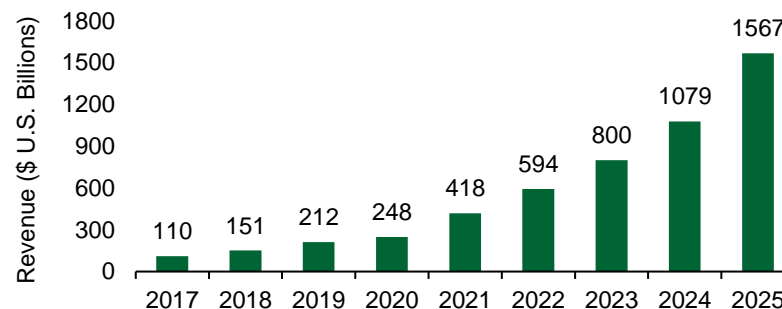


- Increasing competition from smaller, newer entrants
- Competition between existing firms decreases pricing power

Catalysts

Growth in IoT Market

IoT Market Revenue



- Growth in the Internet of Things (IoT) will require increase data storage infrastructure.
- Pure Storage FlashStack is a flash storage solution that is designed for IoT applications.

Growth in Cloud Storage



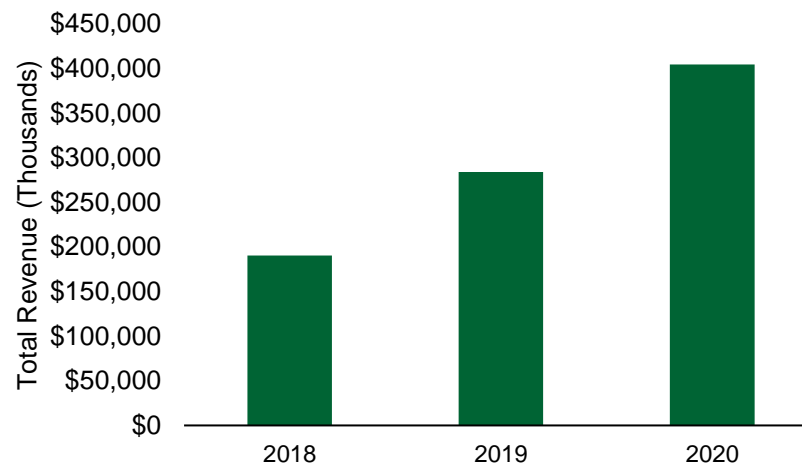
- Cloud storage is expected to grow at a CAGR of 24.18% from 2020-2025.
- Cloud storage provides cost-effective and flexible solutions for data storage.



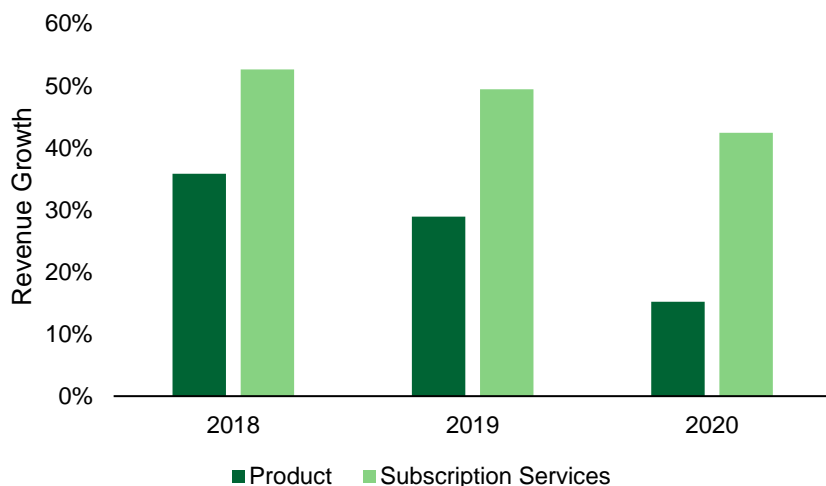
Subscription Sales Growth Compared to Products

- Cloud Data Management subscriptions include Evergreen Storage subscription, Pure as-a-Service (PaaS), and Cloud Block Store
- All products and services are offered on a subscription basis
- Subscriptions are at an incline due to their beneficial impact on the environment compared to the physical products

Total Revenue of Subscription Sales



Revenue Growth



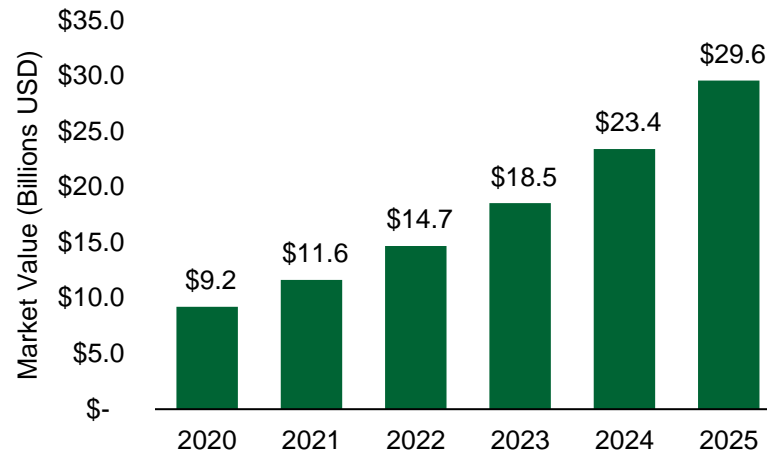
- Costs of subscription services primarily consists of personnel costs in relation to delivering the subscription
- During fiscal year end 2019 to 2020, the subscription revenue increased by 42%
- Subscription services will increase as a percentage revenue over time



Enterprises Switching Back to Traditional Servers

- Unpredictable costs with the public cloud due to its limitless resources and egress charges
- Regulatory concerns may persist, which could limit where data is hosted
- Hybrid approach incorporates the benefits of both cloud computing and existing on-premise data centres

Growth in All-Flash Array Market

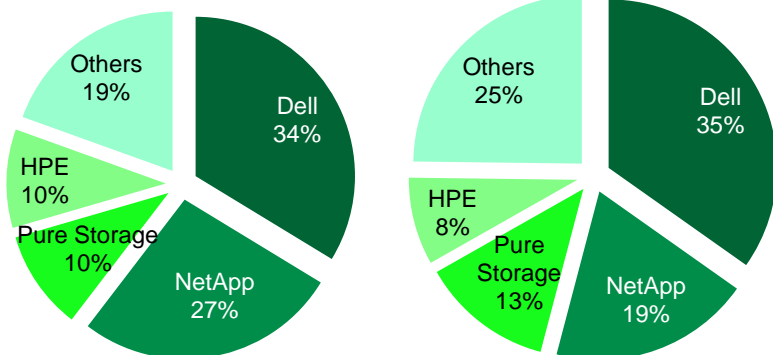


All-Flash Array Market Share Revenue

2019 Q1

2020 Q1

■ Dell ■ NetApp ■ Pure Storage ■ HPE ■ Others



- The global all-flash array market is projected to grow at a CAGR of **26.3%** during the period from 2020 to 2025
- The increased demand for a higher storage performance and the adoption of flash storage is expected to drive the market
- Pure Storage has overtaken IBM and ranked 3rd in the all-flash array market
- Pure Storage is rated highest in Gartner's 2020 primary arrays Magic Quadrant, over taking NetApp



DCF Base Case Output

Gordon Growth Method	
PV of Forecast Period	5,335
<i>% of Enterprise Value</i>	36.0%
Terminal Value	
Terminal Year UFCF	1,572
Perpetuity Growth Rate	2.0%
Terminal Value	17,118
PV of Terminal Value	9,469
<i>% of Enterprise Value</i>	64.0%
Enterprise Value	14,804
Less: Net Debt	351
Equity Value	15,156
Fully Diluted Shares Outstanding	273
Implied Share Price	\$55.56
Current Share Price	\$24.19
Implied Margin of Safety	129.7%

Terminal Multiple Method	
Cumulative PV of Free Cash Flow	5,335
<i>% of Enterprise Value</i>	74.6%
Terminal Value	
Terminal Year EBITDA	411
EBITDA Multiple	8.0x
Terminal Value	3,290
PV of Terminal Value	1,820
<i>% of Enterprise Value</i>	25.4%
Enterprise Value	7,155
Less: Net Debt	351
Equity Value	7,507
Fully Diluted Shares Outstanding	273
Implied Share Price	\$27.52
Current Share Price	\$24.19
Implied Margin of Safety	13.8%

Base Case Sensitivity Analysis

Terminal Growth Share Price Sensitivity (\$)

Terminal Growth	WACC				
	10.4%	10.9%	11.4%	11.9%	12.4%
1.0%	57.52	54.57	51.90	49.48	47.28
1.5%	59.74	56.53	53.63	51.03	48.66
2.0%	62.24	58.71	55.56	52.73	50.17
2.5%	65.04	61.15	57.69	54.61	51.84
3.0%	68.23	63.90	60.08	56.70	53.68

Exit Multiple Share Price Sensitivity (\$)

Exit Multiple	WACC				
	10.4%	10.9%	11.4%	11.9%	12.4%
7.0x	27.54	27.10	26.68	26.27	25.87
7.5x	27.97	27.53	27.10	26.68	26.27
8.0x	28.41	27.96	27.52	27.09	26.67
8.5x	28.85	28.39	27.93	27.49	27.06
9.0x	29.29	28.81	28.35	27.90	27.46



Comparable Companies Universe

Company	Equity Value	TEV	LTM EV/Revenue	NTM EV/Revenue	LTM EV/EBITDA	NTM EV/EBITDA
Net App	\$15,315	\$14,171	2.5x	2.4x	12.4x	10.0x
Quantum Corp	\$514	\$694	2.0x	1.8x	31.0x	17.8x
Super Micro Computers	\$1,876	\$1,631	0.5x	0.5x	10.9x	7.8x
Nutanix	\$5,695	\$5,567	4.3x	3.9x	0.0x	0.0x
Average			2.3x	2.1x	13.6x	8.9x
Pure Storage	\$6,111	\$5,766	3.5x	2.8x	N/A	31.9x

Analysis

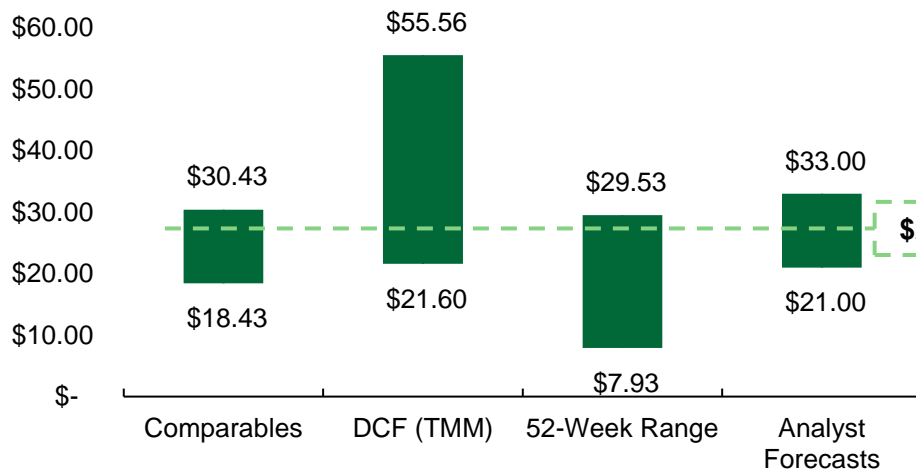
- Pure storage is trading 33.33% above the average of its peers forward Revenue
- Comparable companies were picked due to similar business and industry and management guidance
- Used the EV/Revenue multiple to value Pure Storage

Valuation Summary

FWD EV/Revenue	3.6x
Pure Storage FWD Revenue	\$2,236
Total Enterprise Value	\$7,961
- Net Debt	-\$345
- Preferred Stock	\$0
- Non Controlling Interest	\$0
Equity Value	\$8,306
Shares Outstanding (mm)	273
Implied Share Price	\$30.43



Football Field



Analysis	Average	Weight
Comparables	\$24.43	40%
DCF	\$38.58	30%
52-Week Range	\$18.73	10%
Analyst Forecast	\$29.13	20%

Weighted Average Price Target:
\$29.04

Select Broker Price Targets





Appendices



Mark Jawornicki

Position: Portfolio Manager

Program: Honours Commerce

Year: 3rd

Experience: Red Oak Succession Capital, Private Equity Analyst



Esther Chen

Position: Portfolio Manager

Program: Honours Commerce

Year: 4th

Experience: Eldon Group, Management Consulting



Nikita Gaind

Position: Associate

Program: Honours Commerce

Year: 3rd

Experience: Scotiabank, Senior Accounting Clerk



Leon Tam

Position: Associate

Program: Honours Commerce

Year: 4th

Experience: HSBC, Corporate Banking Analyst



Capital Structure	Total Value	Weight
Equity	\$5,472.4	89.90%
Debt	\$615.0	10.10%
Preferred Equity	-	0.00%
Total	\$6,087.4	100.00%

Cost of Equity Analysis	
10-Year U.S. Treasury	1.6%
Market Risk Premium	7.9%
Beta	1.437
Cost of Equity	12.9%

Cost of Debt Analysis	
YTM	Mkt Value of Debt (\$mm)
-3.43%	615
Weighted Average:	-3.43%

WACC Analysis	
10-Year U.S. Treasury	1.6%
Market Risk Premium	7.9%
Beta	1.437
Cost of Equity	12.9%
Weighted Average Price	-
Weighted Average Div./Share	-
Total Shares Outstanding	-
Cost of Preferred Equity	-
Cost of Debt	(3.4%)
Tax Rate	26.0%
After-Tax Cost of Debt	(2.5%)
WACC	11.4%



Bull Case Assumptions						
	2021E	2022E	2023E	2024E	2025E	2026E
Revenue Growth	6.3%	15.0%	20.0%	28.0%	35.0%	25.0%
EBITDA Margin	11.0%	15.0%	25.0%	25.0%	30.0%	15.0%
Tax Rate	26.0%	26.0%	26.0%	26.0%	26.0%	26.0%
AR, % of Revenue	26.4%	26.4%	26.4%	26.4%	26.4%	26.4%
Inventories, % of Revenue	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%
AP, % of Revenue	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%
Additions to PP&E, % of sales	(42.6%)	(42.6%)	(42.6%)	(42.6%)	(42.6%)	(42.6%)
PP&E Depreciation, % of gross	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Other D&A, % of Gross	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%

Base Case Assumptions						
	2021E	2022E	2023E	2024E	2025E	2026E
Revenue Growth	1.3%	10.0%	15.0%	23.0%	30.0%	20.0%
EBITDA Margin	6.0%	10.0%	20.0%	20.0%	25.0%	10.0%
Tax Rate	26.0%	26.0%	26.0%	26.0%	26.0%	26.0%
AR, % of Revenue	26.2%	26.2%	26.2%	26.2%	26.2%	26.2%
Inventories, % of Revenue	3.4%	3.4%	3.4%	3.4%	3.4%	3.4%
AP, % of Revenue	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Additions to PP&E, % of sales	(47.6%)	(47.6%)	(47.6%)	(47.6%)	(47.6%)	(47.6%)
PP&E Depreciation, % of gross	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Other D&A, % of Gross	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%

Bear Case Assumptions						
	2021E	2022E	2023E	2024E	2025E	2026E
Revenue Growth	(3.8%)	5.0%	10.0%	18.0%	25.0%	15.0%
EBITDA Margin	1.0%	5.0%	15.0%	15.0%	20.0%	5.0%
Tax Rate	26.0%	26.0%	26.0%	26.0%	26.0%	26.0%
AR, % of Revenue	26.0%	26.0%	26.0%	26.0%	26.0%	26.0%
Inventories, % of Revenue	(0.1%)	(0.1%)	(0.1%)	(0.1%)	(0.1%)	(0.1%)
AP, % of Revenue	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Additions to PP&E, % of sales	(52.6%)	(52.6%)	(52.6%)	(52.6%)	(52.6%)	(52.6%)
PP&E Depreciation, % of gross	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Other D&A, % of Gross	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%



Gordon Growth Method – Bull Case	
PV of Forecast Period	5,887
<i>% of Enterprise Value</i>	34.2%
Terminal Value	
Terminal Year UFCF	1,882
Perpetuity Growth Rate	2.0%
Terminal Value	20,494
PV of Terminal Value	11,336
<i>% of Enterprise Value</i>	65.8%
Enterprise Value	17,223
Less: Net Debt	351
Equity Value	17,575
Fully Diluted Shares Outstanding	273
Implied Share Price	\$64.42
Current Share Price	\$24.19
Implied Margin of Safety	166.3%

Gordon Growth Method – Bear Case	
PV of Forecast Period	4,844
<i>% of Enterprise Value</i>	37.9%
Terminal Value	
Terminal Year UFCF	1,316
Perpetuity Growth Rate	2.0%
Terminal Value	14,327
PV of Terminal Value	7,925
<i>% of Enterprise Value</i>	62.1%
Enterprise Value	12,769
Less: Net Debt	351
Equity Value	13,120
Fully Diluted Shares Outstanding	273
Implied Share Price	\$48.09
Current Share Price	\$24.19
Implied Margin of Safety	98.8%

Terminal Multiple Method – Bull Case	
Cumulative PV of Free Cash Flow	5,887
<i>% of Enterprise Value</i>	62.6%
Terminal Value	
Terminal Year EBITDA	795
EBITDA Multiple	8.0x
Terminal Value	6,360
PV of Terminal Value	3,518
<i>% of Enterprise Value</i>	37.4%
Enterprise Value	9,405
Less: Net Debt	351
Equity Value	9,756
Fully Diluted Shares Outstanding	273
Implied Share Price	\$35.76
Current Share Price	\$24.19
Implied Margin of Safety	47.8%

Terminal Multiple Method – Bear Case	
Cumulative PV of Free Cash Flow	4,844
<i>% of Enterprise Value</i>	87.4%
Terminal Value	
Terminal Year EBITDA	158
EBITDA Multiple	8.0x
Terminal Value	1,262
PV of Terminal Value	698
<i>% of Enterprise Value</i>	12.6%
Enterprise Value	5,542
Less: Net Debt	351
Equity Value	5,894
Fully Diluted Shares Outstanding	273
Implied Share Price	\$21.60
Current Share Price	\$24.19
Implied Margin of Safety	(10.7%)



Revenue – Base Case

Historical						Forecast					
Year	2016	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E	2026E
Revenue	440	739	1,025	1,360	1,643	1,694	1,864	2,143	2,636	3,427	4,113
Revenue Growth %	-	67.9%	38.6%	32.7%	20.9%	1.3%	10.0%	15.0%	23.0%	30.0%	20.0%