

Response to PureStorage filing of S-1 for IPO for FlashSystem Sales

“PureStorage Files S-1 with SEC”

As has been well reported, PureStorage began the process of doing an IPO to become a public company and raise additional funds for operations. The stated intent was to raise \$300M with the public offering while primary investors would still retain control under a two-tier stock system.

Many of the published articles pointed out that PureStorage lost \$183M on \$174M of revenue. The numbers all point to a business model that does not lead to profitability or break-even within a timeframe of the expenditures for the money raised by the IPO. We believe the information needs to be explained to potential and current FlashSystem customers so they can be aware of the risks of making long-term commitments to PureStorage as a vendor for critical information storage.

1. The losses have been driven by exorbitant expenditures to buy customers. In this case, the company has spent \$153M in the last year on marketing and sales to obtain a base of customers. The apparent strategy was to reach a level that allowed it to gain an exaggerated valuation and go public so that investors could make good on their investments. These expenditures led to overstating of their revenue estimates and a perception that they would be wildly successful. Spending \$470M of the investments and then needing another \$300M for operations while losing money overall has brought into question the business strategy.
2. As a result of maintaining an old style two-controller architecture, the PureStorage system is still a first generation product from the standpoint of additional capabilities and functions. It is also the only product with no diversification for additional revenue opportunities. This adds to the skepticism about the potential longevity of the company.
3. The large losses and the requirements for an SEC filing now bring greater scrutiny to the practices of PureStorage. Will they be able to continue to buy customers at a loss? Or, will the company's behavior have to change? Can it change, become profitable, and have a return on shareholder

investment before the investment money is exhausted? It is unclear but a healthy dose of skepticism is in order.

For potential or current FlashSystem customers, all of these points should be discussed as the long-term viability of PureStorage is in doubt.