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# EDITED TRANSCRIPT

Q1 2020 Salesforce.Com Inc Earnings Call

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## PRESENTATION

### Operator

Good day, ladies and gentlemen, and thank you for standing by. Welcome to the Salesforce Q1 fiscal year earnings conference call. (Operator Instructions) As a reminder, this conference call is being recorded for replay purposes.

It is now my pleasure to hand the conference over to John Cummings, Senior Vice President, Investor Relations. Sir, you may begin.

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### John Cummings *salesforce.com, inc. - SVP of IR*

Thanks so much, Brian. Good afternoon, everyone, and thanks for joining us for our fiscal first quarter '20 results conference call. Our results press release, SEC filings and a replay of today's call can be found on our IR website at [www.salesforce.com/investor](http://www.salesforce.com/investor). With me on the call today is Marc Benioff, Chairman and Co-CEO; Keith Block, Co-CEO; Mark Hawkins, President and CFO; and Bret Taylor, President and Chief Product Officer.

As a reminder, our commentary today will primarily be in non-GAAP terms. Reconciliations between our GAAP and non-GAAP results and guidance can be found in our earnings press release. Some of our comments today may contain forward-looking statements which are subject to risks, uncertainties and assumptions. Should any of these materialize or should our assumptions prove to be incorrect, actual company results could differ materially from these forward-looking statements. A description of these risks, uncertainties and assumptions and other factors that could affect our financial results are included in our SEC filings, including our most recent report on Form 10-Q.

With that, I hand it over to you, Marc.

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### Marc R. Benioff *salesforce.com, inc. - Co-Founder, Chairman & Co-CEO*

Okay. Thanks, so much, John, and thank you, everyone, for being on the call today. I am sorry. I'm a little bit late here. I was working on Cramer and that will be on in 45 minutes.

So let me just say, first of all, we are just happy to share that revenue in the quarter rose to more than \$3.7 billion, up 24% in dollars and 26% in constant currency. And in Q1, we delivered nearly \$2 billion in operating cash flow, up 34% year-over-year. And I just want to congratulate our entire team for these cash flow numbers because they are just phenomenal. For fiscal year 2020, we're guiding to \$16.25 billion at the high end of the range, representing 22% projected growth year-over-year, and that's up \$200 million from 90 days ago when we had our Q4 earnings call.

No ever enterprise software company of our size and scale is growing at this rate. Just last month, IDC Worldwide Software Tracker ranked Salesforce the #1 CRM for the sixth year in a row. And I'll tell you that is more important than ever, especially so many of our customers are going through these tremendous digital transformations and we all know every digital transformation begins and ends



with the customer. And when I'm with these CEOs all over the world, this is really front and center in their mind. It's probably as exciting to them and it's important to them as it was to CIOs who were buying for Y2K, which is almost 20 years ago. I think that digital transformation remains just a huge growth opportunity for our entire industry.

And it's not only that, in 2018, Salesforce gained more CRM market share than the other top vendors combined, 15 top vendors combined. That's amazing. We're #1 in sales, we're #1 in service and we're leading in so many other areas. We're #1 in model-driven application platforms driven by our amazing community of 6 million developers. We're also a leader in marketing and commerce and continue to gain share. And with MuleSoft we also have this #1 integration platform. It's incredible.

We have an amazing opportunity ahead of us and we're taking advantage of that through a relentless focus on innovation, which is why Forbes has ranked Salesforce as one of the most innovative companies for 8 years in a row. We have a powerful vision for the future with intelligent Customer 360, giving our B2B and our B2C customers a unified, 360-degree view of their customers across every touch point, sales, service, marketing, commerce, communities. And I'll tell you this vision that has been so well articulated now by our product organization that we call Customer 360, this is really driving tremendous opportunity at the highest levels in these customers and we'll talk about that, but every company needs to have this Customer 360 capability, doesn't really matter what industry you are, even the Federal government. It's just a tremendous driving force. And Customer 360 will continue to be a major growth engine for Salesforce going forward. At its core is our, of course, Salesforce Platform, which is the most powerful and easy way for companies to build modern, intelligent applications.

In Q1, we announced our new Einstein platform services that enable everybody, regardless of their technical skill, to build custom AI-powered apps with just a few clicks, and that has been so important for our customers because just as we've infused these Einstein AI capabilities across our entire product line and made Einstein Voice and also Einstein Vision capabilities available to every Salesforce app, we're now doing this exact same thing with another critical technology for our customers, which is blockchain. So when you look at our platform, you see this incredible capability of not just AI, not just blockchain, not just mobile, I mean there are so many things that are in the platform and the ability for our customers to easily build these state-of-the-art applications. It's pretty awesome -- or just simply extend our CRM apps. Last week, at TrailheaDX, our sold-out developer conference in San Francisco, we introduced Salesforce Blockchain. It is a breakthrough. Every customer app can have blockchain capabilities. It's the world's first declarative blockchain service solution and it's built in deeply now into all of our apps. It's built in deeply into our platform. It's built natively on our platform, enabling customers to easily create blockchain applications through simple drag-and-drop as they can with every other Salesforce app. And I'll tell you in Minneapolis, on Friday, demonstrating it to one of our very large customers and showing how they can use it for their supply chain and it's just incredible what it's going to do for so many of our customers in every industry.

Also, our ecosystem just developed in a huge economy around Salesforce, one that is going to create more than 3 million jobs and more than \$850 billion in GDP by 2022, and that is why we're so excited about Trailhead, which is our online learning platform and our online reskilling platform that empowers everyone. Now we have more than 1.4 million learners changing their careers and their lives on Trailhead, and I'm sure so many of you have met these inspiring people and their incredible stories of how they transformed themselves using Trailhead. And in the quarter, our new My Trailhead product became generally available and now any of our customers can actually create their own branded service just like what we have done and reskill all their employees, customers and partners, too. So it will be a huge driver of workforce development, which is why we were so excited that 2 weeks ago, we were with Ivanka Trump and our first ever Trailblazer day in Indianapolis, in our headquarters in Indiana, where we signed the White House Pledge to America's Workers. And we plan to give more than 1 million Americans the skills they need and -- to earn these Salesforce credentials. So that is -- and do everything necessary to make them successful and to get top jobs in our ecosystem over the next 5 years.

Finally, at Salesforce, our vision has always been to change the way the world does business and at the same time improve the state of the world. And that's why I'm extremely excited today that Salesforce.org is reunified officially as part of Salesforce, providing an even better experience for all of our nonprofit education and philanthropy customers, empowering them to fulfill their missions and tightly unifying our .org employees with our company -- they already sit in our buildings and already here with us but now they're fully part of our structure as well. And it's tremendous opportunity to accelerate our work in this incredible nonprofit world.

And now as you're going to hear from Keith, we're well positioned to continue on our path to organically double our revenue again in the



next 4 years, achieving a revenue target of \$26 billion to \$28 billion for fiscal year 2023. And now over to Keith.

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**Keith G. Block** *salesforce.com, inc. - Co-CEO & Director*

Okay. Thanks, Marc. Thanks, everybody, for joining us in the call today. As Marc said, we have never been positioned for the future better than we are right now. We delivered strong revenue growth in the quarter and we're seeing great momentum across all of our clouds and all of our industries. In fact, for the first time ever, Sales Cloud -- Service Cloud exceeded \$1 billion in revenue for the quarter, becoming our second cloud. That is pretty awesome, right? That is unbelievably...

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**Marc R. Benioff** *salesforce.com, inc. - Co-Founder, Chairman & Co-CEO*

\$1.25 billion for Service Cloud. A lot of these other cloud companies that we read about all the time, they're not even doing \$1.25 billion, and here, bam, Service Cloud. So congratulations.

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**Keith G. Block** *salesforce.com, inc. - Co-CEO & Director*

No. It's pretty amazing. So it is becoming our second cloud, as Marc said, to surpass an annual revenue run rate of \$4 billion, which is pretty incredible.

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**Marc R. Benioff** *salesforce.com, inc. - Co-Founder, Chairman & Co-CEO*

It is pretty awesome.

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**Keith G. Block** *salesforce.com, inc. - Co-CEO & Director*

And MuleSoft, by the way, also had an outstanding Q1, capping off a record first year and celebrating its anniversary here as part of Salesforce.

Now we are well prepared, as Marc said, to deliver on our FY '20 goal and also our goal of \$26 billion to \$28 billion in revenue for fiscal year 2023. So we're all excited about that.

Quarter after quarter, we continue to take share and outpace the competition. I think that's pretty clear. As Marc alluded to, we have been meeting with CEOs around the world, and the common theme that we're hearing is the importance of transforming their customer experience and the value of providing a 360-degree view of the customer. And that's something that Salesforce does better than anybody, and that's why we continue to see massive demand for our solutions from both new customers and existing customers across the world, every industry, every market segment. And as you can see this, it's in our results, 25% year-over-year revenue growth in the Americas, 27% in APAC and 32% in EMEA in constant currency, very, very proud of those results.

Now a great example of a customer who understands the importance of transformation in the customer is Dell, who's really done a fantastic job in their transformation around customer experience. Dell is a long-time customer. They're a strategic partner. And in the quarter, they've expanded with us to deliver more automated and intelligent customer service experiences with Einstein Bots and predictions and (inaudible) very, very important.

In Q1, we also built and strengthened relationships with some of the leading companies around the world, including Tokio Marine Holdings, one of Japan's largest insurance providers. They're standardizing sales and service and marketing on Salesforce, which is very, very cool. And they also were deploying Financial Services Cloud to 1 million agents in over 50,000 agencies. We also expanded with Hera Group, an Italian utility company. I just came back from Italy last week. This is a company that is serving over 4.4 million citizens. And we also formed a new relationship with People's Choice Credit Union, one of the largest credit unions in Australia. You can see this as an ongoing phenomenon globally. Again, very, very excited about what's happening.

We continue to deepen our relationship with U.S. federal government. The Department of Education recently selected Salesforce as its platform to modernize and streamline the experience of millions of citizens with federal student loan. Excuse me.

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**Marc R. Benioff** *salesforce.com, inc. - Co-Founder, Chairman & Co-CEO*

Are you okay?

**Keith G. Block** *salesforce.com, inc. - Co-CEO & Director*

I am good.

**Marc R. Benioff** *salesforce.com, inc. - Co-Founder, Chairman & Co-CEO*

All right.

**Keith G. Block** *salesforce.com, inc. - Co-CEO & Director*

All right. Southwest Airlines, which has won awards...

**Marc R. Benioff** *salesforce.com, inc. - Co-Founder, Chairman & Co-CEO*

What are you drinking?

**Keith G. Block** *salesforce.com, inc. - Co-CEO & Director*

I'm drinking coffee.

**Marc R. Benioff** *salesforce.com, inc. - Co-Founder, Chairman & Co-CEO*

It isn't...

**Keith G. Block** *salesforce.com, inc. - Co-CEO & Director*

Or maybe I should switch. Anyway, Southwest Airlines, Marc, which has won awards for their world-class customer service, is creating an entirely new employee experience with a centralized knowledge center built on Salesforce. Using Service Cloud and Communities, Southwest is transforming the delivery of their HR services with new sales service chat and mobile capabilities for more than 60,000 employees.

It's also about our partner ecosystem. We all know the importance of our partners and they continue to play a critical role in our customers' transformation. And not only were partners involved in 63% of our new business in Q1, but they were some of our leading adopters as well. Accenture selected My Trailhead. This is very important to instill their culture of continuous learning and provide top talents for their clients -- this is their business, and leveraging custom content through reskilling their employees on topics like artificial intelligence, networking and leadership development. Again, think about the business that Accenture and these other providers are in. It's all about talent and bringing value to the table.

We're also seeing strong momentum beyond the United States. Australia's Telstra was another great My Trailhead win from the quarter. I was recently with their CEO and Board, discussing the strategic importance of reskilling the workforce as the common theme. And it's top of mind, as Marc alluded to, for every CEO in the world. It comes up in every single conversation.

Our vertical solutions continue to drive success and value for our customers. In Q1, we launched Einstein Analytics for financial services. This is the first complete intelligence platform for wealth and banking. And in the quarter, we had incredible Financial Services Cloud wins with [buy-ins and CIBC]. We also released new Health Cloud capabilities to provide a [complete human] factors that contribute to a patient's health, again, very, very important, enabling providers to deliver better care and improved outcomes. In Q1, Cerner, a leading provider of health care information and EHR technologies, chose to replace their current CRM in Salesforce to continue transforming how they engage with their consumers and their providers.

Finally, as I mentioned, it's been a year since we acquired MuleSoft and we are absolutely thrilled with the combined success. In April, MuleSoft was named the leader in the Gartner Magic Quadrant for Enterprise Integration Platform as a Service, and that makes us the only company to be recognized a leader in both this and Gartner's most recent Magic Quadrant for Full Life Cycle API Management.

So to close, I want to thank our customers, our partners, our employees, our strong results this quarter. And with that, I'll turn the call over to Mark Hawkins.



**Mark J. Hawkins *salesforce.com, inc.* - President & CFO**

Well, thanks, Keith. And as you've heard from Marc and Keith, we're pleased with our first quarter results, delivering strong revenue growth across each of our clouds and geographies, year-over-year operating margin improvement and a record quarter of operating cash flow.

Let me take you through some of the details from Q1. First quarter revenue grew 24% in dollars and 26% in constant currency. As you can see, we experienced FX headwinds in Q1, which on a dollar basis represented \$61 million or 2 full points of growth year-over-year. Our industry-leading product portfolio continue to deliver strong subscription and support revenue growth in U.S. dollars year-over-year. Sales Cloud grew 11% in U.S. dollars. Service Cloud grew 20% and, this quarter, as noted, eclipsed the \$4 billion annual run rate. Marketing and commerce grew 33%. Platform and other grew 46%, including approximately \$140 million in subscription and support revenue for MuleSoft, of which 55% is treated as term license. Keep in mind the FX headwind for total revenue affected each of the clouds on a similar proportional basis.

Diving into MuleSoft a bit more. We continue to execute well with MuleSoft, contributing \$170 million to total revenue in the first quarter. While this is our final quarter of discrete revenue reporting for MuleSoft, we intend to provide additional color on MuleSoft going forward as appropriate.

Our renewal rate remain healthy in Q1 and dollar attrition continues to remain below 10%. In fact, our attrition rate continued to improve modestly in the first quarter year-over-year similar to the year-over-year improvement in attrition that we saw last quarter in Q4 '19.

Q1 GAAP EPS was \$0.49 and non-GAAP EPS was \$0.93. Required mark-to-market adjustments of our strategic investments benefited both GAAP and non-GAAP in the first quarter by approximately \$0.27.

Turning to cash flow. I was very pleased with our strong cash collections in the first quarter, which drove the operating cash flow of \$1.97 billion, up 34% year-over-year. In fact, in Q1, we generated more operating cash flow than we did in our entire fiscal year 2016.

CapEx for the quarter was \$159 million, leading to free cash flow, as defined as operating cash flow less CapEx, of \$1.81 billion, up 34% over Q1 of last year.

Our remaining performance obligation, representing all future revenues under contracts, ended the first quarter at approximately \$24.9 billion, up 22% over the last year. Current RPO balance, or cRPO, which is business that is both billed and unbilled and is expected to be recognized as revenue in the next 12 months, was approximately \$11.8 billion, up 23% year-over-year. On a constant-currency basis, cRPO was up 24% year-over-year after considering an FX headwind of more than \$100 million. While we made changes to our sales organization as we do every Q1, we did not see a material impact to our cRPO, as you can see in these results.

Before I turn to guidance, let me turn -- touch on the FX environment and the combination of Salesforce.org and the related impact to Q2 and FY '20 guidance. First, regarding FX, as is evident in our results, we're seeing a substantial decline in our FX rates since our Q4 call. The Great British pound, for example, decreased approximately 5% since our fiscal fourth quarter 2019 earnings call, and our euro declined by approximately 2% over the same period. Second, regarding Salesforce.org, with the recently announced closing, we continue to expect to Salesforce.org to contribute approximately \$150 million to \$200 million in revenue in FY '20 with approximately \$40 million to \$50 million of this revenue recognized in Q2. And as previously discussed, we will incur a onetime non-cash accounting charge of approximately \$200 million in the second quarter relating to our settlement of the reseller agreement with Salesforce.org, which impacts our Q2 GAAP and non-GAAP EPS guide by approximately \$0.20. We expect the combination of Salesforce.org to be additive to our long-term revenue targets and we'll provide more detail during our annual Analyst Day in the fall.

Now turning to Q2 and FY '20 guidance. We are now expecting north of \$200 million in FX headwinds for the year. And given this context, we are pleased to be able to absorb these headwinds and still furnish FY '20 revenue guidance of \$16.1 billion to \$16.25 billion for 21% to 22% growth year-over-year. And with the dollar strengthening relatively to GBP and the euro, we're not only experiencing headwind to revenue but also have an increase in pressure in operating margins as well. In that context, along with the integration and

transaction expenses associated with the combination of Salesforce.org, we were also pleased to be able to maintain our plan of delivering flat to 25 basis points of non-GAAP operating margin improving year-over-year. As a result, we are raising our FY '20 GAAP diluted EPS to \$0.78 to \$0.80 and our non-GAAP diluted EPS to \$2.88 to \$2.90. And as a reminder, our EPS guidance assumes no future contributions for mark-to-market accounting as required by ASU 2016-01. For operating cash flow, we maintain our FY '20 operating cash flow guidance of 20% to 21%. For Q2, we expect revenues in the range of \$3.94 billion to \$3.95 billion; GAAP diluted loss per share of \$0.08 to \$0.07; and non-GAAP diluted earnings per share of \$0.40 to \$0.47. We also expect cRPO to be approximately 20% to 21% year-over-year in the second quarter.

To close, we had another quarter of strong results and we maintain to be on track for FY '20 revenue and profitability goals and achieve our long-term organic target of \$26 billion to \$28 billion in FY '23. I'd like to thank our employees, customers, partners and shareholders for their continued support. And with that, I'd like to open up the call for questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) And our first question will come from the line of Heather Bellini with Goldman Sachs.

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### Heather Anne Bellini *Goldman Sachs Group Inc., Research Division - MD & Analyst*

I had a couple. Marc, I was wondering if we could spend a little bit more time on MuleSoft. And if you could just share with us some examples of how it's helping you expand your reach within your existing customers and any success you might be able to share about how it's brought new customers into the Salesforce fold. And then I just had a quick follow-up for Mark Hawkins. Just -- you mentioned the cRPO that you -- the headwinds in the quarter from FX. Were you expecting -- could you share with us the -- were you expecting an FX headwind in the quarter for cRPO? Because that's where we're getting things as well.

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### Marc R. Benioff *salesforce.com, inc. - Co-Founder, Chairman & Co-CEO*

Well, thanks. Let me just hit on that just briefly. And I'll tell you right now, we really pivoted our entire company into something that we call Customer 360. It's a pretty hard pivot for a company and we're so excited about this opportunity. And a lot of this is because of the tremendous momentum that we've seen over the last year with MuleSoft. And this idea that what our customers want us to do is to be able to take everything they're doing in regards to their customers. So that is their sales, their service, their marketing and their journeys, their commerce and their customer engagement systems, apps they're building, APIs that they're building for developers to integrate with those customers, all the analytics, the custom applications by industry, the communities, the learning and reskilling systems that I mentioned and the employee experience as well. And to bring it all together using all these amazing technologies that are becoming so important to us, like blockchain and AI, whether it's vision or voice, it's incredible what is happening just in the last 2 years or 3 years, put it all on a phone, deliver it all as a programmatic capability, make it secure and then wrap it all together, put a bow on it and call it Customer 360.

And we're the only ones who are really trying to do this. It's kind of interesting because as I meet with customers all over the world -- in this quarter, I've been basically nonstop on the road. I've been in Japan. I've been throughout the United States. I've been through Europe and Keith as well. And we basically come back and go, "Wow, this is what all these customers are trying to do." And this is really our vision. And what has accelerated it for us? And our ability to execute it and yet it's a [hard fit] for us is MuleSoft because MuleSoft has given us the ability to come in to the customers and say -- and we're going to bring it, everything you have into that 360. We're not going to be a silo. We're not going to be all about this application that we're building that our platform is giving you the ability to connect all of your systems together into one. And so, so many exciting customer stories around that, that I could touch on but, Bret, do you want to just kind of go a little deeper into that vision?

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### Bret Steven Taylor *salesforce.com, inc. - President & Chief Product Officer*

Yes. I mean, it's actually a great time. We just our TrailheaDX developer conference in San Francisco last week and MuleSoft was really highlighted. One of the stories that went on stage and the keynote with ASICS that really captures that vision of Customer 360 that Marc was talking about, in that story, we were just talking about that ASICS is building their mobile app and their e-commerce experience. And as Marc said, [to treat that] Customer 360 with every ASICS customer has a personalized, one-to-one experience. It wasn't just



about our technology. So it was about the order management system, the on-prem systems, the legacy systems. And all that data is trapped. And if you talk to the CEOs who are trying to do these digital transformations, they're trying to create those next-generation customer experiences to integrate with smart watches and smart speakers and smart TVs and smart thermostats. Their barrier is the legacy systems and that data trapped in legacy systems.

And MuleSoft has been such an accelerator for that vision technologically, which is why if you walked throughout the floor in TrailheaDX last week, MuleSoft was in everyone's mind. We launched this product called MuleSoft Community Manager, which enables companies to create ecosystems around their APIs. APIs are becoming the lingua franca of how companies communicate with each other, and you can see really the convergence of our technologies and our Community Cloud and the API organization of MuleSoft, I think, really transform the way companies are thinking about their data and thinking about integrations strategically.

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**Marc R. Benioff** *salesforce.com, inc. - Co-Founder, Chairman & Co-CEO*

Yes. The thing that really comes across when we're talking about that, Bret, is this vision of building a Customer 360 -- much of the story that happened just last week was with a customer at lunch and we're talking about everything you just said but they're concerned because maybe they're going to make a decision about what their social implementation is, whatever -- maybe they're making the decision about their customer service call center over here, maybe they're making the decision around their marketing systems or their sales force or their apps. They want to bring it all together. They need to have -- they need to be able to have a unified customer view. So is that a daunting challenge for these companies? So how are you going to make that easy for them?

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**Bret Steven Taylor** *salesforce.com, inc. - President & Chief Product Officer*

It is. Let's take e-commerce as an example. We're just talking about ASICS. If you are a modern retailer, it's not just about making a storefront anymore, just integrate with Pinterest and Instagram, just to be able to show off where your customers are. And that's evolving day by day, week by week, month by month. The MuleSoft team will tell you, MuleSoft is just a technology. It increases the clock speed of digital transformation. And I think what I hear from the most strategic Chief Digital Officers and CEOs is their focus isn't just deployment solution. It's making sure that the pace of innovation are as the company increases. And I think fundamentally, [that is more profitable].

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**Marc R. Benioff** *salesforce.com, inc. - Co-Founder, Chairman & Co-CEO*

Okay. And unfortunately, Keith just left the room in a coughing fit. But Mark, do you want to just touch on a little bit and give us some, building on MuleSoft power and how important it's been to the company.

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**Mark J. Hawkins** *salesforce.com, inc. - President & CFO*

Well, for sure. I mean, MuleSoft has been just a great offering for us. It's with great customer response. We're super happy with it. That's for sure. It's been great for talking customers who have them really talk about our entire Customer Success Platform and how this is even helping us more enable that. So that's a very positive, Marc.

The other thing I might touch on is the subject -- question that Heather asked regarding the RPO, cRPO in particular. And we did incur this \$100 million FX headwind. This is clearly significantly incremental to anything we would have expected for sure. And the other thing that I'd like to call out and we talked a lot about is the management team. We're looking today -- on the hunt for \$200 million at a revenue level for an FX headwind, historic moment. So this is clearly something different that's happening. What I'm pleased with is we're able to absorb this and still deliver our fiscal year high-end guide number of \$16.250 billion or 22% growth this year.

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**Marc R. Benioff** *salesforce.com, inc. - Co-Founder, Chairman & Co-CEO*

Okay. And I have to tell you -- and you touched on this a little bit in your script for foreign exchange, but this -- you've gone through this foreign exchange environment, making it very heavy for us, right? Like how much foreign exchange headwind do you have for the quarter or for the year?

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**Mark J. Hawkins** *salesforce.com, inc. - President & CFO*

Well, for example, in the first quarter, we took a \$61 million headwind in revenue alone, for example. We have \$200 million that we're looking at as a headwind for this year thus far. And there are a lot of things -- the good news is we've got that covered within our plan and a little place that we can deliver -- what we're delivering with that.

**Marc R. Benioff** *salesforce.com, inc. - Co-Founder, Chairman & Co-CEO*

And it's amazing you're going to deliver \$16.250 billion for the year but you're still picking up all these foreign exchange.

**Mark J. Hawkins** *salesforce.com, inc. - President & CFO*

\$200 million.

**Keith G. Block** *salesforce.com, inc. - Co-CEO & Director*

The thing that I appreciate is our predictive business model. It's really something that we talk a lot with our investors about, and that really helps us what is a lot harder or things like foreign exchange, as I think our investors understand.

**Marc R. Benioff** *salesforce.com, inc. - Co-Founder, Chairman & Co-CEO*

You can't predict foreign exchange very well. Is that what you're...

**Keith G. Block** *salesforce.com, inc. - Co-CEO & Director*

It's hard to -- for the market to do that, and I would second that as well.

**Marc R. Benioff** *salesforce.com, inc. - Co-Founder, Chairman & Co-CEO*

Very good. He's back in the room now. So we will keep him together.

**Keith G. Block** *salesforce.com, inc. - Co-CEO & Director*

Thank you.

**Marc R. Benioff** *salesforce.com, inc. - Co-Founder, Chairman & Co-CEO*

And I don't know if cough drops were taken but definitely, it's not working.

**Keith G. Block** *salesforce.com, inc. - Co-CEO & Director*

I'm not taking that.

**Operator**

And our next question will come from the line of Karl Keirstead with Deutsche Bank.

**Karl Emil Keirstead** *Deutsche Bank AG, Research Division - Director and Senior Equity Research Analyst*

Marc Benioff, I wanted to ask you. I think everybody on this call realizes that it's -- there's a little bit more macro uncertainty out there, but I wanted to ask whether as you and Keith and Mark Hawkins sat down to set the guide for 2Q and the full year, whether you're assuming any broader spending environment change for Salesforce?

**Marc R. Benioff** *salesforce.com, inc. - Co-Founder, Chairman & Co-CEO*

So I think that's a really good question. I mean I'll just give you my -- I mean I'm not an economist. Everyone on the call knows that. I am just out in the field talking to customers like all of you are, and I've been all over the world the last 90 days and I have talked to hundreds and hundreds of customers face to face. And I would say that this is -- we're still in a very strong economy. Maybe this is not a 2018 economy but it's a 2017 economy. I think last year, of course, we had that radical, crazy acceleration because of the [factors] but there's still a strong buy-in motion by all these CEOs. But I will say that I think that they do all have some anxiety around what's going on with this trade situation. And even in a customer that I was with as early as last week, they, I think, are not very happy with how that could potentially impact them, but I don't see it coming in on the economy right now.

Now we don't do business really in China. So we're not a good company to talk about that kind of trade situation. These trade things don't affect us. We're mostly free of that. But when we look into the customers' eyes, we're always like saying to ourselves, "Are they buying? Are they investing?" And the thing that hits me -- and this is where I am and I'm going to -- I'll let Keith talk about this again, which is that I am just really impressed with how every CEO and really C-suite that I'm talking to is actually quite fast with digital transformation. And I think they all see the tremendous revenue growth opportunities now from these new technologies. Maybe they didn't understand what blockchain was. Maybe they didn't understand AI. Maybe they didn't understand some of the subtleties of



mobility and all of the opportunity, but something has kind of changed in the last, I would say, 18 to 24 months.

And sitting at the very table that we're at right now, we had the CEO of a very large health care company here, I guess, maybe about 2 weeks ago. I was doing a demonstration, showing them, talking to the computer. Your artificial intelligence sales understand what we're saying and talking back to us, which was amazing. And then also the ability then to use the camera to have a direct artificial intelligence analysis of what's going on in a retail shop, which was so cool. And we've demonstrated that before. And now how we integrated into the blockchain, where you could see the whole transparency of the supply chain was amazing. And of course, we did it on a mobile phone. It was secure. And then bam, we had Customer 360. And you know what? The CEO was not shocked. They're kind of following along. As we got moving at that level, I think that CEOs have very much become Chief Information Officers or Chief Digital Officers themselves, and we're now rolling into that level of executive. And because of that, I think they really have the ability to transform their companies. In many cases, those visions are not coming from middle managers, who are obviously deeply involved, but from the Chief Executives or C-suite themselves. And Keith, do you want to try to relate that if you can?

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**Keith G. Block *salesforce.com, inc. - Co-CEO & Director***

(inaudible) still with me. So...

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**Marc R. Benioff *salesforce.com, inc. - Co-Founder, Chairman & Co-CEO***

You're the right person to talk about blockchain, by the way.

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**Keith G. Block *salesforce.com, inc. - Co-CEO & Director***

Yes. That was my Uncle Blockchain. So many, many points here. None of us are economists. Mark Hawkins is probably the closest that we have to anybody being an economist. But that being said, I do think we're in an enviable position as a company because of what's going on with digital transformation around the world. And I recently returned from EMEA and I was with CEOs from financial services institutions from the U.K. and France and Italy and they're all talking about digital transformation and the customer experience and the importance of providing that customer experience and customer loyalty and providing higher levels of service with our technology. I was also with the CEOs of a few retail companies in the U.K. and France. And before I left the United States -- and obviously, retail is a challenged market.

And these companies are reinventing themselves and the experience they have, at least with the CEO of one of the largest pharmas in the world, and he's talking about a direct relationship directly with the patient for the drugs that they're bringing to market. And these are things that we couldn't think about 2 years ago, 3 years ago, 4 years ago. Or consumer packaged goods companies began -- one of the largest CPG companies in the world, I was sitting out, talking about how that CPG company gets closer to their end consumer and how they can optimize their own retail execution. There are so many possibilities here.

And Marc nailed it. I mean the CEO, the modern CEO has become the Chief Digital Officer or the Chief Transformation Officer, and that's why these companies keep coming to Salesforce because we really are the only company that can provide this capability and this 360-degree view of the customer. This is the holy grail. They -- so Marc and I have been in this industry for quite a while. This is the holy grail for customers and we're in a great position now.

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**Marc R. Benioff *salesforce.com, inc. - Co-Founder, Chairman & Co-CEO***

So when you look at customer's ability to absolutely deploy the effects of technology, where are they? Are they, at this point, able to really see this technology and then deploy it? And then are you seeing that transformation? Or is there still technology transfer issue?

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**Keith G. Block *salesforce.com, inc. - Co-CEO & Director***

Well, there's many, many companies, I think, who are in very early days. In fact, if you talk to one of our largest evolving partners, they'll tell you that no less than 20% of their classic, most strategic customers have engaged in the digital transformation. So there's a lot of room to run the marketplace.

Going back to the first question about MuleSoft, who would have thought that a CEO would be thinking about the integration and the importance of data being strategic to their transformation? And that is the value and the beauty about what MuleSoft brings to the table.

So we have an opportunity here again around this digital transformation, and one of the beauties of a product like Trailhead and My Trailhead is helping these companies do their transformation and scale them up with modern technology because the modern worker has to have modern skills. And that's what Trailhead and My Trailhead really provide for these customers. So we really are coming out with an amazing innovation at the right time to satisfy the needs of these customers. And it's really working on very nicely for us and the customer.

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**Operator**

And our next question will come from the line of Derrick Wood with Cowen and Company.

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**James Derrick Wood Cowen and Company, LLC, Research Division - MD & Senior Software Analyst**

Great. I guess for Keith, head count adds in the quarter were quite strong for Q1 and up 24% on a year-over-year basis. It's almost the highest in 2 years. So are there any areas you would highlight you're accelerating investments whether at certain function, geography or product area? And I guess as a follow-up, since you're getting so large and almost 40,000 employees, can you just touch on how you ensure -- you continue to manage onboarding and attrition and maybe how attrition is tracking these days?

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**Keith G. Block *salesforce.com, inc.* - Co-CEO & Director**

So thanks for the call. Look, we -- I think you know that we've got a very, very strong international strategy. So we've invested significantly globally. But certainly, outside the United States, as we continue to take share, we've obviously made a commitment to our industry strategy. So you'd continue to see us verticalize whether it's in our products or whether it's our customers and our partners and our head count as well. MuleSoft, of course, is certainly a growth area for us. It's our core cloud.

So look, there's a lot of opportunities for us to make these investments. But at the end of the day, all the investments that we make rotate around making sure that we're driving success for our customers. And when we think about onboarding and as we bring in all these new people, one of the advantages that we have in the marketplace is that we have this amazing technology called Trailhead. And we -- all of our employees get upskilled using Trailhead. And it allows us to get these people hitting the ground, running a lot faster than you would say through traditional learning system.

So we will continue to invest internationally and we'll continue to invest internationally in our key markets, in our international geographies, of course in the United States. We will continue to invest in our customer success because at the end of the day, the customer success is what it's all about. In fact, we've gone through this amazing transformation under Brian Millham in our customer success organization, and we'll continue to leverage Trailhead, which I think has been very, very important to us. In fact, I would encourage all of you to go ahead and go to our website and try Trailhead and see how it can change your life. How's that?

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**Operator**

And our next question will come from the line of Kirk Materne with Evercore ISI.

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**Stewart Kirk Materne *Evercore ISI Institutional Equities, Research Division - Senior MD***

Keith, I actually wanted to follow up on your comments around My Trailhead, especially as it relates to the comment you had on Accenture. Can My Trailhead become a force multiplier for you from a go-to-market perspective, especially in places like Europe and Asia where you might not had the reach historically? It seems to me that, that could be a potential way for you guys to accelerate even faster in those markets where you have the demand but maybe not the people on the ground to go capture the demand. So I would love just kind of your thoughts on that.

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**Keith G. Block *salesforce.com, inc.* - Co-CEO & Director**

So let me answer this and then I'm going to pivot and ask Bret to comment on it from a broader perspective. Look, as Marc and I go around the world, every CEO has this something that is top of mind besides their digital transformation, and that is around their workforce development and their reskilling. And that's why My Trailhead is so powerful. When you think about the digital transformation that these CEOs are going through, whether it's in the United States, quite frankly, or whether it's internationally, responsible CEOs are thinking about how do they absorb this amazing technology, how do they reskill their workers as they think about digital transformation, how do they act responsibly from a social perspective. Because if you think about it, these CEOs, they're in charge of tens of thousands,

hundreds and thousands of people, and they care about their people.

And that's where My Trailhead is an excellent example and an excellent solution about not just how they can scale their people up on these modern technologies but also to prepare them for this modern world. And we see this again everywhere in the world. We've set special programs with companies all over the world to talk about how they reskill the workforce. I mentioned in the opening comments the meeting I had with the CEO of Telstra and his executive team and how concerned they were about the modern workforce and what they wanted to do about reskilling their workforce. Marc and I have the same conversations with CEOs all over the world. So My Trailhead is a force multiplier. It is so important on so many levels when you think about modern skills and we're very, very excited about it. I mean, Bret, do you want to comment more from a product perspective?

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**Bret Steven Taylor *salesforce.com, inc. - President & Chief Product Officer***

Yes. I mean I'll bring up this TrailheadDX conference because I think the things Keith are talking about has really come out strong at that event. One of the women that we highlighted in the event was a woman named Angela Mahoney, who runs this organization called RAD Women, which is an organization to train women to become experts on the Salesforce technology in just 10 weeks and get them into Salesforce ecosystem. This is entirely done by independent organizations who are just trying to help people with this big problem of workforce development and empower people to get into the technology ecosystem.

And what's incredible about it, at the end of this conference, we said we're going to bring into, I think, 100 something cities. But that wasn't us. What we did is we put all of this content in a box. And our ecosystem, our community is going to put on these events because they want to spread the word about the opportunity with this technology and the opportunities at Trailhead. That's exactly what Angie mentioned in her question, which is our community is spreading the word on our behalf because there's so much opportunity on the other side. It all comes to this [inclusive view]. So we really think of Trailhead as one of the most significant differentiators of our platform. Our community is helping to teach other people about these amazing technologies. It's obviously helping us financially but it's also helping, I think, a lot more members of our society, benefit from the economic opportunities of technology, which is an incredible opportunity for the world.

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**Operator**

And our next question will come from the line of Tom Roderick with Stifel.

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**Thomas Michael Roderick *Stifel, Nicolaus & Company, Incorporated, Research Division - MD***

So I know you've been getting a lot of questions this quarter just around not just the general environment but also some of the strategies related to the installed base and how you're handling renewals. I'd love to hear beyond just what is happening and what are you doing with renewals, but what is the broader strategy as you go to market? And this is probably a good question for Keith. As you think about the role of renewals and customer success with respect to the broader portfolio, how do you approach that customer? And is that philosophy changing at all?

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**Keith G. Block *salesforce.com, inc. - Co-CEO & Director***

Yes. So thank you for the question. But I think you know from our business model the importance of renewal, and that's why customer success is one of our most important value. We have an entire organization, the customer success team, that is focused on success, but it goes beyond the customer success. So it really is a cultural thing. I believe amongst the 40,000 employees who wake up every day have been focused on customer success. So renewals, which -- are very, very small, and our attrition is excellent. I mean it's unprecedented particularly for a company of our size and scale. That is obviously an indication with our customer satisfaction.

Now we have doubled down in this transformation around making sure that our customer experience is second to none. And what's interesting about that is as companies become a large company that -- at our size, they forget their focus on the customer. This is a company, Salesforce, that since day 1 was dedicated to driving success for the customers. And a lot of companies along the way, they just lose their focus on the customer. And we have doubled down and renewed our focus on the customer. And again, part of that is renewals. But it really is about providing an incredible experience, a seamless experience at every single touch point that the customer have. And

that's why Gartner recently recognized Salesforce as an incredibly strong company as it relates to customer experience. They're giving us that recognition. They know it's going on in the marketplace. And it's because it's part of our culture. We're dedicating ourselves to it and we're not going to lose who we are, whereas other companies have made that strategic mistake along the way.

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**Operator**

And our next question will come from Alex Zukin with Piper Jaffray.

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**Aleksandr J. Zukin Piper Jaffray Companies, Research Division - MD and Senior Research Analyst**

Two really quick ones. Maybe first for Marc, you mentioned some Salesforce reorganization and the fact of them having impact on current RPO this quarter. Can you maybe touch on what kind of reorgs or what are you doing this year from a strategic go-to-market perspective around the sales team that's a little different from last year? And then maybe just given the continuous mention around Trailhead and talent as being important strategic differentiators, have you given any thought to expanding your role in the talent kind of market from organic or inorganic manner?

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**Keith G. Block salesforce.com, inc. - Co-CEO & Director**

Alex, this is Keith. Why don't I take the question? So look, at the beginning of the fiscal year, we make some adjustments. As you know, we periodically do that and we do it to take advantage of the market opportunity to support the long-term growth plan that we have. That's why we make adjustments. When you think about the endgame here, these decisions are really about getting close to our customers, right? And that is about driving the highest level of our customer success. Any of these adjustments that we made, they're essential and important and strategic in fueling our long-term growth, which has been exceptional, as we know, at this size and scale. And we are very optimistic about where we are in FY '20 and the demand that we are seeing in the marketplace, and we're excited about where we're going with these adjustments. So we feel strongly about where we are.

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**Operator**

And our next question -- go ahead.

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**Marc R. Benioff salesforce.com, inc. - Co-Founder, Chairman & Co-CEO**

So I just wanted to touch a little bit on the part of that employee experience. I just think -- and I think Bret should probably touch on this too, which is -- how this has really become, I think, a critical part of Customer 360. It's that the employees inside of our customers, they need to have a good experience and have access to all of those customer information as well. And probably a great example this quarter was Southwest Airlines since actually, a long-term customer of ours and has been using our Service Cloud to deliver amazing customer service experience, and we've really enjoyed working with them. But now Southwest is really turning to this employee experience. And they use our Communities product and they use Service Cloud and they use a centralized HR help desk for 60,000 employees to check their benefits, manage rotation time and questions via chat and also in a mobile device.

I don't want to think in any way that we're going into HRMS or anything like that. This is really something that's very much enhancing the customer experience in regards to employee experience and the intersection between employees and customers. And there are many areas where this has touched down for us. It can be our employee portal that we've provided for our customers. It can be provided in these HR help desks. It can be the integration of the customer information into the employee collaboration system. And it's one of the key reasons we acquired Quip, which has been -- just continues to be a tremendous accessory at Salesforce. And Quip is all about getting employee productivity and productivity up and collaboration. And Bret, do you want to handle your vision here on employee experience and all the things that you're doing in our product to enhance the employees' experience with Customer 360?

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**Bret Steven Taylor salesforce.com, inc. - President & Chief Product Officer**

Yes. Whether you're in the airline industry or the hotel industry or the retail industry, the most important thing is you're empowering your employees or really touching the customer community and the customers to provide that Customer 360. And really the words that I hear time and time again from CEOs is around enablement. How do I help my employees through this transformation, the digital transformation of technology that it's not just about the technology. It's about the human beings going through that change. So that's why we have things like My Trailhead, which takes that learning platform that Keith and Marc talked about. They enable companies to use it for their own transformation. That's why we have Quip for Salesforce, which is embedding productivity and collaboration into every

single one of our products. And we think it's so important really to focus on this trailblazing employee and not just the technology and have enablement via strategic capability of our platform.

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**Marc R. Benioff** *salesforce.com, inc. - Co-Founder, Chairman & Co-CEO*

Yes. I would just add that I think one of the key things is -- and I'd love your take on this, Bret, is that we -- when we're talking with our customers and when we're talking to specifically the C-suite positioning themselves,, one of the things that I always say specifically is, look, we need to understand. We only have really one word in our company and that's customer. We're just here to do that for you. We're not going to do the HR piece. We're not doing the financial piece. We're not doing all these other things. So that (inaudible) we do this and we've got -- but one of the things after 20 years I've been focused on this word customer and -- it has morphed and it has changed. It has evolved. And when you look at the Customer 360 approach, it's very different than, of course, where we were even just 10 years ago or 5 years ago. So how do you see that intersection between employee and customer? And where do you see that transformation going?

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**Bret Steven Taylor** *salesforce.com, inc. - President & Chief Product Officer*

Marc, I think the main word I think of is stakeholder. When you think about what it means to provide a Customer 360, it's now surrounding -- everyone engages with their customer with the right information. It might be a pharmacist. It might be a doctor. It might be a state agent. It might be someone or a customer service agent talking on the phone with his customer, and we really need to make sure we're serving every stakeholder that makes up that Customer 360, which is why the employee is a key constituent in providing that. But to me, it doesn't really determine (inaudible) a customer, whether it's helping you unlock your data for that Customer 360 and MuleSoft or enabling your employees with Quip and Trailhead. It's all about enabling this digital transformation that starts and ends with the customer.

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**Marc R. Benioff** *salesforce.com, inc. - Co-Founder, Chairman & Co-CEO*

So Amy is sitting at the table and I thought I'd really be remiss if I didn't say that she is one of the key players on our team this year and what Amy has really given us is a light on privacy and the security of our data and making sure that our customers have that privacy because when you take all of these Customer 360, put a light on it, Amy, how do you see that evolving over the last quarter or 2 in regards to privacy, which has been a major shift going on, I think, worldwide. Certainly, we've going through the GDPR shift. Where are we going with that?

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**Amy E. Weaver** *salesforce.com, inc. - President of Legal & Corporate Affairs, General Counsel and Secretary*

Sure. Well, thanks, Marc. GDPR, as you mentioned, just celebrated its first birthday. So we are through the first year and I'm happy to have that going on. I think that really the next big step in United States is pushing for a federal law. California, as you know, passed the CCPA and that's an important first step, but we really believe that all Americans regardless of their zipcode or which state they're in, deserve very strong privacy protection. And that's why we've been advocating at the present time in D.C., advocating for a comprehensive federal privacy law.

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**Marc R. Benioff** *salesforce.com, inc. - Co-Founder, Chairman & Co-CEO*

So this would be like a national privacy law, which states -- going to state by state. So California is the first. Like a domino effect, we want to have the federal government step up and really deliver on national privacy law. Is that what you're saying?

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**Amy E. Weaver** *salesforce.com, inc. - President of Legal & Corporate Affairs, General Counsel and Secretary*

Right. That was one of the real benefits of GDPR. We went from a patchwork of privacy laws all over Europe to one law that companies can work with as well as all of the citizens know what to expect wherever they are in Europe. That's what we need in the U.S. And we need something which really requires companies to be transparent about their privacy practices; for individuals to have more control of their personal data than they do currently; and also, frankly, for companies to be held accountable for their actions.

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**Marc R. Benioff** *salesforce.com, inc. - Co-Founder, Chairman & Co-CEO*

Well, I think that's just an awesome vision. I don't think anything would accelerate our Customer 360 vision more than having that in the United States as well as in Europe. Thank you for that.

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**Operator**

And our next question will come from the line of Terry Tillman with SunTrust Bank.



**Terrell Frederick Tillman *SunTrust Robinson Humphrey, Inc., Research Division - Research Analyst***

My question just relates to -- as we progress through the rest of the fiscal year and Customer 360 with the last couple of questions and the answer has been focused on that, how do we help investors in terms of looking at metrics and barometers of success? Is it 7-, 8-figure deals? Or are certain cloud products more likely to be pulled through? Or a cash because of a Customer 360 conversation? I just wanted to learn some more perspective on that.

**Keith G. Block *salesforce.com, inc. - Co-CEO & Director***

Well, let me -- this is Keith. Let me address that. So if you go back to really where we are in this modern age with this amazing technology, where there is incredible disruption which is -- really should bring opportunity. And we're really in a growth era. When you think about what's important to a CEO besides taking care of their employees, they're thinking about growth. We're not in the age of "cut your way to prosperity" anymore. That's a 20-year-old phenomenon. This is really about growth. And the most important thing about growth is with the customer in the center of your world and that means Customer 360.

So when we're out there talking with our customers, we're looking for a solution. We're looking for a platform to grow. They want to think about this Customer 360. So the way I would think about it is that every CEO has a strategic mission and an obligation to all their stakeholders around growth and success. And it is all about putting that customer in the center of the world. So that will -- that just means that when we're out talking solutions, we will become more strategic, have a deeper relationship with these CEOs and C-suite because we're solving their #1 problem. Their #1 problem is about growth and putting that customer in the center of the world.

So that is the way that I would be thinking about that. It's that this brings Salesforce to a whole new position in terms of its relationships and deep meaning into the [duty to strategizing] with the customers.

**Marc R. Benioff *salesforce.com, inc. - Co-Founder, Chairman & Co-CEO***

Keith, we also have this amazing motion going on in your organization. You've got new logos and you keep adding these logos to the organization. But then sometimes, we have new logos coming maybe on a single -- one of our clouds, if you will, for Sales Cloud or the Service Cloud or the Commerce Cloud or the Integration Cloud, like Bret was talking about a little bit. And then once you have a new logo, then you have those kind of transaction of throughput where you go to work and make them a multi-cloud customer or a vertical customer taking on the vertical applications. How do you see that balance between new logos and existing customers and continuing to build market share?

**Keith G. Block *salesforce.com, inc. - Co-CEO & Director***

Well, we do have a new logo motion as well as an installed base motion. They're both very, very healthy and new opportunity to be a focus area for us. But at the end of the day, we're here to solve these customer solutions and drive success for them. And that means that we position the right solution at the right time, which may be a particular product or maybe as a whole transformation. At the pace and (inaudible). And that is why a new logo motion or what we call land-and-expand, [recede-and-grow] has been successful for this company. And it's also -- because more recently, we were able to do this enterprise transformation. And we've [referenced in enabling] customers on this call, some of which were [negative] logos for the first time with one or more clouds and some [returned] the deep transformation like Dell, and that will continue to be a successful motion for us as we march on to our hard goals in 2023.

**Operator**

Ladies and gentlemen, thank you for your participation on today's conference call. This does conclude our program, and we may all disconnect. Everybody, have a wonderful day.



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