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Salesforce Announces Record First Quarter Fiscal 2020 Results

- **First Quarter Revenue of \$3.74 Billion, up 24% Year-Over-Year, 26% in Constant Currency**
- **Current Remaining Performance Obligation of Approximately \$11.8 Billion, up 23% Year-Over-Year, 24% in Constant Currency**
- **Remaining Performance Obligation of Approximately \$24.9 Billion, up 22% Year-Over-Year**
- **First Quarter Operating Cash Flow of \$1.97 Billion, up 34% Year-Over-Year**
- **Initiates Second Quarter Revenue Guidance of \$3.94 Billion to \$3.95 Billion**
- **Raises FY20 GAAP Earnings Per Share Guidance to \$0.78 to \$0.80**
- **Raises FY20 Non-GAAP Earnings Per Share Guidance to \$2.88 to \$2.90**

SAN FRANCISCO, Calif. - Jun. 4, 2019 - Salesforce (NYSE: CRM), the global leader in CRM, today announced results for its fiscal first quarter ended April 30, 2019.

"I am thrilled with our results this quarter, and I am especially excited to have delivered record revenue in Q1 and operating cash flow of almost \$2 billion, up 34% year-over-year," said Marc Benioff, chairman and co-CEO, Salesforce. "We have a massive opportunity in front of us and are well-positioned for long-term growth as the world's #1 CRM."

"Our strong revenue growth in the quarter reflects the strength of our business and the tremendous demand we're seeing from customers worldwide," said Keith Block, co-CEO, Salesforce. "Companies of every size and industry are undergoing a digital transformation to better serve their customers and they are choosing Salesforce as their partner."

Salesforce delivered the following results for its fiscal first quarter:

Revenue: Total first quarter revenue was \$3.74 billion, an increase of 24% year-over-year, and 26% in constant currency. Subscription and support revenues were \$3.50 billion, an increase of 24% year-over-year. Professional services and other revenues were \$241 million, an increase of 23% year-over-year.

Earnings per Share: First quarter GAAP diluted earnings per share was \$0.49, and non-GAAP diluted earnings per share was \$0.93. Mark-to-market accounting of the company's strategic investments, required by ASU 2016-01, benefited GAAP diluted earnings per share by \$0.27 based on the US tax rate of 25% and non-GAAP diluted earnings per share by \$0.27 based on our non-GAAP tax rate of 22.5%.

Cash: Cash generated from operations for the first quarter was \$1.97 billion, an increase of 34% year-over-year. Total cash, cash equivalents and marketable securities ended the first quarter at \$6.38 billion.

Remaining Performance Obligation: Remaining performance obligation ended the first quarter at approximately \$24.9 billion, an increase of 22% year-over-year. This includes approximately \$500 million related to the remaining performance obligation from MuleSoft. Current remaining performance obligation ended the first quarter at approximately \$11.8 billion, an increase of 23% year-over-year, 24% in constant currency.

As of June 4, 2019, the company is initiating revenue, earnings per share and current remaining performance obligation growth guidance for its second quarter of fiscal year 2020. For the full fiscal year 2020, the company is maintaining its revenue and operating cash flow guidance, and raising its non-GAAP earnings per share guidance, previously provided April 15, 2019. The company is also raising its GAAP earnings per share guidance previously provided on March 4, 2019. The guidance below assumes no change to the value of our strategic investment portfolio resulting from ASU 2016-01 as it is not possible to forecast future gains and losses. While historically our investment portfolio has had a positive impact on our financial results, that may not be true for future periods, particularly in periods of significant market fluctuations that affect the publicly traded companies within our strategic investment portfolio. The impact of future gains or losses from our strategic portfolio could be material. In addition, the guidance below is based on estimated GAAP tax rates that reflect the company's currently available information, and excludes forecasted discrete tax items such as excess tax benefits from stock-based compensation. The GAAP tax rates may fluctuate due to future acquisitions or other transactions.

	Q2 FY20 Guidance	Full Year FY20 Guidance
Revenue	\$3.94 - \$3.95 billion	\$16.10 - \$16.25 billion
Y/Y Growth	20%	21% - 22%
GAAP (loss) earnings per share	(\$0.08) - (\$0.07)	\$0.78 - \$0.80
Non-GAAP earnings per share	\$0.46 - \$0.47	\$2.88 - \$2.90
Operating Cash Flow Growth (Y/Y)	N/A	20% - 21%
Current Remaining Performance Obligation Growth (Y/Y)	20% to 21%	N/A

The following is a per share reconciliation of GAAP diluted earnings per share to non-GAAP diluted earnings per share guidance for the next quarter and the full year:

	Fiscal 2020	
	Q2	FY20
GAAP (loss) earnings per share range*	(\$0.08) - (\$0.07)	\$0.78 - \$0.80
Plus		
Amortization of purchased intangibles	\$ 0.16	\$ 0.60
Stock-based expense	\$ 0.49	\$ 1.87
Less		
Income tax effects and adjustments**	\$ (0.11)	\$ (0.37)
Non-GAAP diluted earnings per share***	\$0.46 - \$0.47	\$2.88 - \$2.90
Shares used in computing basic net (loss) income per share (millions)	778	781
Shares used in computing diluted net income per share (millions)	805	807

* The Company's GAAP (loss) earnings per share range includes the impact of the one-time non-cash accounting charge of approximately \$200 million resulting from the termination of its reseller agreement with Salesforce.org as previously discussed on April 15, 2019. The Company's GAAP tax provision is expected to be approximately (58%) for the three months ended July 31, 2019 and approximately 37% for the year ended January 31, 2020. The GAAP tax rates may fluctuate due to discrete tax items, future acquisitions or other transactions. The Company's projected GAAP basic and diluted (loss) earnings per share assumes no change to the value of our strategic investment portfolio resulting from ASU 2016-01 as it is not possible to forecast future gains and losses.

** The Company's non-GAAP tax provision uses a long-term projected tax rate of 22.5%, which reflects currently available information and could be subject to change.

*** The Company's projected non-GAAP basic and diluted (loss) earnings per share assumes no change to the value of our strategic investment portfolio resulting from ASU 2016-01 as it is not possible to forecast future gains and losses.

For additional information regarding non-GAAP financial measures see the reconciliation of results and related explanations below.

Quarterly Conference Call

Salesforce will host a conference call at 2:00 p.m. (PT) / 5:00 p.m. (ET) today to discuss its financial results with the investment community. A live web broadcast of the event will be available on the Salesforce Investor Relations website at www.salesforce.com/investor. A live dial-in is available domestically at 866-901-SFDC or 866-901-7332 and internationally at 706-902-1764, passcode 7177678. A replay will be available at (800) 585-8367 or (855) 859-2056 until midnight (ET) July 4, 2019.

About Salesforce

Salesforce, the global leader in CRM, empowers companies to connect with their customers in a whole new way. Salesforce has headquarters in San Francisco, with offices in Europe and Asia, and trades on the New York Stock Exchange under the ticker symbol "CRM." For more information about Salesforce, visit: www.salesforce.com.

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"Safe harbor" statement under the Private Securities Litigation Reform Act of 1995: This press release contains forward-looking statements about our financial and operating results, which may include expected GAAP and non-GAAP financial and other operating and non-operating results, including revenue, net income, diluted earnings per share, operating cash flow growth, operating margin improvement, expected revenue growth, expected current remaining performance obligation growth, expected tax rates, the one-time accounting non-cash charge that will be incurred in connection with the Salesforce.org combination; stock-based compensation expenses, amortization of purchased intangibles, shares outstanding, market growth and sustainability goals. The achievement or success of the matters covered by such forward-looking statements involves risks, uncertainties and assumptions. If any such risks or uncertainties materialize or if any of the assumptions prove incorrect, the company's results could differ materially from the results expressed or implied by the forward-looking statements we make.

The risks and uncertainties referred to above include -- but are not limited to -- risks associated with the effect of general economic and market conditions; the impact of geopolitical events; the impact of foreign currency exchange rate and interest rate fluctuations on our results; our business strategy and our plan to build our business, including our strategy to be the leading provider of enterprise cloud computing applications and platforms; the pace of change and innovation in enterprise cloud computing services; the seasonal nature of our sales cycles; the competitive nature of the market in which we participate; our international expansion strategy; our service performance and security, including the resources and costs required to avoid unanticipated downtime and prevent, detect and remediate potential security breaches; the expenses associated with new data centers and third-party infrastructure providers; additional data center capacity; real estate and office facilities space; our operating results and cash flows; new services and product features; our strategy of acquiring or making investments in complementary businesses, joint ventures, services, technologies and intellectual property rights; the performance and fair value of our investments in complementary businesses through our strategic investment portfolio; our ability to realize the benefits from strategic partnerships, joint ventures and investments; the impact of future gains or losses from our strategic investment portfolio, including gains or losses from overall market conditions that may affect the publicly traded companies within the company's strategic investment portfolio; our ability to execute our business plans; our ability to successfully integrate acquired businesses and technologies; our ability to continue to grow unearned revenue and remaining performance obligation; our ability to protect our intellectual property rights; our ability to develop our brands; our reliance on third-party hardware, software and platform providers; our dependency on the development and maintenance of the infrastructure of the Internet; the effect of evolving domestic and foreign government regulations, including those related to the provision of services on the Internet, those related to accessing the Internet, and those addressing data privacy, cross-border data transfers and import and export controls; the valuation of our deferred tax assets and the release of related valuation allowances; the potential availability of additional tax assets in the future; the impact of new accounting pronouncements and tax laws; uncertainties affecting our ability to estimate our tax rate; the impact of expensing stock options and other equity awards; the sufficiency of our capital resources; factors related to our outstanding debt, revolving credit facility, term loan and loan associated with 50 Fremont; compliance with our debt covenants and lease obligations; current and potential litigation involving us; and the impact of climate change.

Further information on these and other factors that could affect the company's financial results is included in the reports on Forms 10-K, 10-Q and 8-K and in other filings we make with the Securities and Exchange

Commission from time to time. These documents are available on the SEC Filings section of the Investor Information section of the company's website at www.salesforce.com/investor.

Salesforce.com, inc. assumes no obligation and does not intend to update these forward-looking statements, except as required by law.

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Consolidated Statements of Operations
(in millions, except per share data)
(Unaudited)

	Three Months Ended April 30,	
	2019	2018
Revenues:		
Subscription and support	\$ 3,496	\$ 2,810
Professional services and other	241	196
Total revenues	<u>3,737</u>	<u>3,006</u>
Cost of revenues (1)(2):		
Subscription and support	678	573
Professional services and other	236	194
Total cost of revenues	<u>914</u>	<u>767</u>
Gross profit	2,823	2,239
Operating expenses (1)(2):		
Research and development	554	424
Marketing and sales	1,697	1,329
General and administrative	362	295
Total operating expenses	<u>2,613</u>	<u>2,048</u>
Income from operations	210	191
Gains on strategic investments, net	281	211
Other expense	(9)	(17)
Income before provision for income taxes	482	385
Provision for income taxes	(90)	(41)
Net income	<u>\$ 392</u>	<u>\$ 344</u>
Basic net income per share	<u>\$ 0.51</u>	<u>\$ 0.47</u>
Diluted net income per share	\$ 0.49	\$ 0.46
Shares used in computing basic net income per share	771	729
Shares used in computing diluted net income per share	793	754

(1) Amounts include amortization of intangible assets acquired through business combinations, as follows:

	Three Months Ended April 30,	
	2019	2018
Cost of revenues	\$ 61	\$ 39
Marketing and sales	68	30

(2) Amounts include stock-based expense, as follows:

	Three Months Ended April 30,	
	2019	2018
Cost of revenues	\$ 43	\$ 34
Research and development	81	66
Marketing and sales	177	120
General and administrative	42	32

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Consolidated Statements of Operations
(As a percentage of total revenues)
(Unaudited)

	Three Months Ended April 30,	
	2019	2018
Revenues:		
Subscription and support	94%	93%
Professional services and other	6	7
Total revenues	100	100
Cost of revenues (1)(2):		
Subscription and support	18	19
Professional services and other	6	7
Total cost of revenues	24	26
Gross profit	76	74
Operating expenses (1)(2):		
Research and development	15	14
Marketing and sales	45	44
General and administrative	10	10
Total operating expenses	70	68
Income from operations	6	6
Gains on strategic investments, net	7	7
Other expense	0	0
Income before provision for income taxes	13	13
Provision for income taxes	(3)	(2)
Net income	10%	11%

- (1) Amounts include amortization of intangible assets acquired through business combinations as a percentage of total revenues, as follows:

	Three Months Ended April 30,	
	2019	2018
Cost of revenues	2%	1%
Marketing and sales	2	1

- (2) Stock-based expense as a percentage of total revenues, as follows:

	Three Months Ended April 30,	
	2019	2018
Cost of revenues	1%	1%
Research and development	2	2
Marketing and sales	5	4
General and administrative	1	1

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Consolidated Balance Sheets
(in millions)
(Unaudited)

	April 30, 2019	January 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,110	\$ 2,669
Marketable securities	2,269	1,673
Accounts receivable, net	2,153	4,924
Costs capitalized to obtain revenue contracts, net	786	788
Prepaid expenses and other current assets	717	629
Total current assets	10,035	10,683
Property and equipment, net	2,243	2,051
Operating lease right-of-use assets (1)	2,854	0
Costs capitalized to obtain revenue contracts, noncurrent, net	1,149	1,232
Strategic investments	1,548	1,302
Goodwill	12,854	12,851
Intangible assets acquired through business combinations, net	1,794	1,923
Capitalized software and other assets, net	677	695
Total assets	\$ 33,154	\$ 30,737
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable, accrued expenses and other liabilities	\$ 2,228	\$ 2,691
Operating lease liabilities, current (1)	675	0
Unearned revenue	7,585	8,564
Total current liabilities	10,488	11,255
Noncurrent debt	3,173	3,173
Noncurrent operating lease liabilities (1)	2,383	0
Other noncurrent liabilities	664	704
Total liabilities	16,708	15,132
Stockholders' equity:		
Common stock	1	1
Additional paid-in capital	14,383	13,927
Accumulated other comprehensive loss	(65)	(58)
Retained earnings	2,127	1,735
Total stockholders' equity	16,446	15,605
Total liabilities and stockholders' equity	\$ 33,154	\$ 30,737

(1) Reflects the prospective adoption of Accounting Standards Update No. 2016-02, "Leases (Topic 842)", which the Company adopted on February 1, 2019.

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Consolidated Statements of Cash Flows
(in millions)
(Unaudited)

	Three Months Ended April 30,	
	2019	2018
Operating activities:		
Net income	\$ 392	\$ 344
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	437	197
Amortization of costs capitalized to obtain revenue contracts, net	209	188
Expenses related to employee stock plans	343	252
Gains on strategic investments, net	(281)	(211)
Changes in assets and liabilities, net of business combinations:		
Accounts receivable, net	2,774	2,162
Costs capitalized to obtain revenue contracts, net	(124)	(118)
Prepaid expenses and other current assets and other assets	(97)	(90)
Accounts payable	15	50
Accrued expenses and other liabilities	(560)	(506)
Operating lease liabilities	(164)	0
Unearned revenue	(979)	(802)
Net cash provided by operating activities	<u>1,965</u>	<u>1,466</u>
Investing activities:		
Business combinations, net of cash acquired	(10)	(182)
Purchases of strategic investments	(159)	(147)
Sales of strategic investments	194	4
Purchases of marketable securities	(734)	(263)
Sales of marketable securities	86	938
Maturities of marketable securities	56	48
Capital expenditures	(159)	(122)
Net cash provided by (used in) investing activities	<u>(726)</u>	<u>276</u>
Financing activities:		
Proceeds from issuance of debt, net	0	2,470
Proceeds from employee stock plans	219	201
Principal payments on financing obligations (1)	(11)	(19)
Repayments of debt	(1)	(1,027)
Net cash provided by financing activities	<u>207</u>	<u>1,625</u>
Effect of exchange rate changes	<u>(5)</u>	<u>12</u>
Net increase in cash and cash equivalents	<u>1,441</u>	<u>3,379</u>
Cash and cash equivalents, beginning of period	<u>2,669</u>	<u>2,543</u>
Cash and cash equivalents, end of period	<u>\$ 4,110</u>	<u>\$ 5,922</u>

(1) Previously referred to as principal payments on capital lease obligations.

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Additional Metrics
(Unaudited)

	Apr 30, 2019	Jan 31, 2019	Oct 31, 2018	Jul 31, 2018	Apr 30, 2018	Jan 31, 2018
Full Time Equivalent Headcount	37,485	35,995	34,391	32,717	30,149	29,401
Financial data (in millions):						
Cash, cash equivalents and marketable securities	\$ 6,379	\$ 4,342	\$ 3,450	\$ 3,427	\$ 7,159	\$ 4,521
Strategic investments (1)	1,548	1,302	1,251	1,202	1,024	677
Operating lease liabilities (2)	3,058	NA	NA	NA	NA	NA
Principal due on the Company's outstanding debt obligations	3,197	3,198	3,699	3,700	3,200	1,727
Net cash provided by operating activities	1,965	1,331	143	458	1,466	1,052
Capital expenditures	159	167	136	170	122	138

(1) The strategic investments balance as of January 31, 2018 is prior to the adoption of Accounting Standards Update No. 2016-01, "Financial Instruments-Overall (Subtopic 825-10)" on February 1, 2018 which requires fair value adjustments of the Company's publicly traded and privately held equity investments. See discussion below for further details on the fair value adjustments.

(2) Effective February 1, 2019, the Company prospectively adopted Topic 842. Accordingly, the results for prior periods were not adjusted to conform to the current period measurement or recognition of results.

Supplemental Revenue Analysis

Remaining Performance Obligation

Transaction price allocated to the remaining performance obligations represents contracted revenue that has not yet been recognized, which includes unearned revenue and unbilled amounts that will be recognized as revenue in future periods. Transaction price allocated to the remaining performance obligation is influenced by several factors, including seasonality, the timing of renewals, average contract terms and foreign currency exchange rates. Unbilled portions of the remaining transaction price denominated in foreign currencies are revalued each period based on the period end exchange rates.

The portion of the remaining performance obligation that is unbilled is not recorded on the balance sheet. Remaining performance obligation consisted of the following (in billions):

	Current	Noncurrent	Total
As of April 30, 2019	\$ 11.8	\$ 13.1	\$ 24.9
As of January 31, 2019	\$ 11.9	\$ 13.8	\$ 25.7
As of October 31, 2018	\$ 10.0	\$ 11.2	\$ 21.2
As of July 31, 2018	\$ 9.8	\$ 11.2	\$ 21.0
As of April 30, 2018	\$ 9.6	\$ 10.8	\$ 20.4
As of January 31, 2018	\$ 9.6	\$ 11.0	\$ 20.6

Unearned Revenue

Unearned revenue represents amounts that have been invoiced in advance of revenue recognition and is recognized as revenue when transfer of control to customers has occurred or services have been provided. The change in unearned revenue was as follows (in millions):

	Three Months Ended April 30, 2019	Three Months Ended April 30, 2018
Unearned revenue, beginning of period	\$ 8,564	\$ 6,995
Billings and other*	2,714	2,211
Contribution from contract asset	44	(6)
Revenue recognized ratably over time	(3,488)	(2,868)
Revenue recognized over time as delivered	(172)	(137)
Revenue recognized at a point in time	(77)	(1)
Unearned revenue from business combinations	0	7
Unearned revenue, end of period	<u>\$ 7,585</u>	<u>\$ 6,201</u>

*Other includes, for example, the impact of foreign currency translation

Disaggregation of Revenue

Subscription and Support Revenue by the Company's core service offerings

Subscription and support revenues consisted of the following (in millions):

	Three Months Ended April 30,	
	2019	2018
Sales Cloud	\$ 1,073	\$ 965
Service Cloud	1,020	848
Salesforce Platform and Other	842	575
Marketing and Commerce Cloud	561	422
	<u>\$ 3,496</u>	<u>\$ 2,810</u>

Total Revenue by Geographic Locations

Revenues by geographical region consisted of the following (in millions):

	Three Months Ended April 30,	
	2019	2018
Americas	\$ 2,617	\$ 2,101
Europe	755	606
Asia Pacific	365	299
	<u>\$ 3,737</u>	<u>\$ 3,006</u>
	Three Months Ended April 30,	
	2019	2018
Americas	70%	70%
Europe	20	20
Asia Pacific	10	10
	<u>100%</u>	<u>100%</u>

Constant Currency Growth Rates

The Company presents constant currency information to provide a framework for assessing how the Company's underlying business performed excluding the effect of foreign currency rate fluctuations. To present this information, current and comparative prior period results for entities reporting in currencies other than United States dollars are converted into United States dollars at the weighted average exchange rate for the quarter being compared to for growth rate calculations presented, rather than the actual exchange rates in effect during that period.

Revenue constant currency growth rates were as follows:

	Three Months Ended April 30, 2019 compared to Three Months Ended April 30, 2018	Three Months Ended January 31, 2019 compared to Three Months Ended January 31, 2018	Three Months Ended April 30, 2018 compared to Three Months Ended April 30, 2017
Americas	25%	26%	19%
Europe	32%	31%	31%
Asia Pacific	27%	26%	30%
Total growth	26%	27%	22%

The Company presents constant currency information for current remaining performance obligation to provide a framework for assessing how the Company's underlying business performed excluding the effects of foreign currency rate fluctuations. To present the information, the Company converted the current remaining performance obligation balances in local currencies in previous comparable periods using the United States dollar currency exchange rate as of the most recent balance sheet date.

Current remaining performance obligation constant currency growth rates was as follows:

	April 30, 2019 compared to April 30, 2018
Total growth	24%

Supplemental Strategic Investment Information

Gains on strategic investments, net

All fair value adjustments of the Company's publicly traded and privately held equity investments are recorded through the statement of operations. Therefore, the Company anticipates additional volatility to the Company's statements of operations in future periods, due to changes in market prices of the Company's investments in publicly held equity investments and the valuation and timing of observable price changes and impairments of the Company's investments in privately held securities. These changes could be material based on market conditions and events. The results for the current fiscal period are not indicative of the results to be expected for any subsequent quarter or fiscal year.

Gains and losses recognized on strategic investments were as follows (in millions):

	Three Months Ended April 30,	
	2019	2018
Net gains recognized on publicly traded securities	\$ 150	\$ 211
Net gains (losses) recognized on privately held securities (1)	122	(9)
Net gains recognized on sales of equity securities	19	8
Net gains (losses) recognized on debt securities	(10)	1
Gains on strategic investments, net	\$ 281	\$ 211

(1) Gains on strategic investments, net were primarily due to the mark to market of one privately held investment of approximately \$106 million during the three months ended April 30, 2019.

Supplemental Debt Information

The carrying values of the Company's borrowings were as follows (in millions):

Instrument	Date of issuance	Maturity date	April 30, 2019	January 31, 2019
2021 Term Loan	May 2018	May 2021	\$ 500	\$ 499
2023 Senior Notes	April 2018	April 2023	993	993
2028 Senior Notes	April 2018	April 2028	1,488	1,488
Loan assumed on 50 Fremont	February 2015	June 2023	196	196
Total carrying value of debt			3,177	3,176
Less current portion of debt			(4)	(3)
Total noncurrent debt			\$ 3,173	\$ 3,173

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GAAP Results Reconciled to non-GAAP Results

The following table reflects selected GAAP results reconciled to non-GAAP results.

(in millions, except per share data)

(Unaudited)

	Three Months Ended April 30,	
	2019	2018
<u>Non-GAAP gross profit</u>		
GAAP gross profit	\$ 2,823	\$ 2,239
Plus:		
Amortization of purchased intangibles (1)	61	39
Stock-based expense (2)	43	34
Non-GAAP gross profit	<u>\$ 2,927</u>	<u>\$ 2,312</u>
<u>Non-GAAP operating expenses</u>		
GAAP operating expenses	\$ 2,613	\$ 2,048
Less:		
Amortization of purchased intangibles (1)	68	30
Stock-based expense (2)	300	218
Non-GAAP operating expenses	<u>\$ 2,245</u>	<u>\$ 1,800</u>
<u>Non-GAAP income from operations</u>		
GAAP income from operations	\$ 210	\$ 191
Plus:		
Amortization of purchased intangibles (1)	129	69
Stock-based expense (2)	343	252
Non-GAAP income from operations	<u>\$ 682</u>	<u>\$ 512</u>
<u>Non-GAAP non-operating income (3)</u>		
GAAP non-operating income	\$ 272	\$ 194
Plus:		
Amortization of debt discount, net	0	4
Non-GAAP non-operating income	<u>\$ 272</u>	<u>\$ 198</u>
<u>Non-GAAP net income</u>		
GAAP net income	\$ 392	\$ 344
Plus:		
Amortization of purchased intangibles (1)	129	69
Stock-based expense (2)	343	252
Amortization of debt discount, net	0	4
Less:		
Income tax effects and adjustments	(125)	(112)
Non-GAAP net income	<u><u>\$ 739</u></u>	<u><u>\$ 557</u></u>

	Three Months Ended April 30,	
	2019	2018
Non-GAAP diluted earnings per share		
GAAP diluted net income per share	\$ 0.49	\$ 0.46
Plus:		
Amortization of purchased intangibles	0.16	0.09
Stock-based expense	0.43	0.33
Amortization of debt discount, net	0.00	0.01
Less:		
Income tax effects and adjustments	(0.15)	(0.15)
Non-GAAP diluted earnings per share	<u>\$ 0.93</u>	<u>\$ 0.74</u>
Shares used in computing Non-GAAP diluted net income per share	<u>793</u>	<u>754</u>

- 1) Amortization of purchased intangibles were as follows:

	Three Months Ended April 30,	
	2019	2018
Cost of revenues	\$ 61	\$ 39
Marketing and sales	68	30
	<u>\$ 129</u>	<u>\$ 69</u>

- 2) Stock-based expense was as follows:

	Three Months Ended April 30,	
	2019	2018
Cost of revenues	\$ 43	\$ 34
Research and development	81	66
Marketing and sales	177	120
General and administrative	42	32
	<u>\$ 343</u>	<u>\$ 252</u>

- 3) GAAP non-operating income consists of investment income, interest expense, gains on strategic investments, net and other income.

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Computation of Basic and Diluted GAAP and non-GAAP Net Income Per Share

(in millions, except per share data)

(Unaudited)

	Three Months Ended April 30,	
	2019	2018
GAAP Basic Net Income Per Share		
Net income	\$ 392	\$ 344
Basic net income per share	\$ 0.51	\$ 0.47
Shares used in computing basic net income per share	771	729

	Three Months Ended April 30,	
	2019	2018
Non-GAAP Basic Net Income Per Share		
Non-GAAP net income	\$ 739	\$ 557
Basic Non-GAAP net income per share	\$ 0.96	\$ 0.76
Shares used in computing basic Non-GAAP net income per share	771	729

	Three Months Ended April 30,	
	2019	2018
GAAP Diluted Net Income Per Share		
Net income	\$ 392	\$ 344
Diluted net income per share	\$ 0.49	\$ 0.46
Shares used in computing diluted net income per share	793	754

	Three Months Ended April 30,	
	2019	2018
Non-GAAP Diluted Net Income Per Share		
Non-GAAP net income	\$ 739	\$ 557
Diluted Non-GAAP net income per share	\$ 0.93	\$ 0.74
Shares used in computing diluted Non-GAAP net income per share	793	754

Non-GAAP Financial Measures: This press release includes information about non-GAAP diluted earnings per share, non-GAAP tax rates and constant currency revenue and constant currency current remaining performance obligation growth rates (collectively the “non-GAAP financial measures”). These non-GAAP financial measures are measurements of financial performance that are not prepared in accordance with U.S. generally accepted accounting principles and computational methods may differ from those used by other companies. Non-GAAP financial measures are not meant to be considered in isolation or as a substitute for comparable GAAP measures and should be read only in conjunction with the company’s consolidated financial statements prepared in accordance with GAAP. Management uses both GAAP and non-GAAP measures when planning, monitoring, and evaluating the company’s performance.

The primary purpose of using non-GAAP measures is to provide supplemental information that may prove useful to investors and to enable investors to evaluate the company’s results in the same way management does. Management believes that supplementing GAAP disclosure with non-GAAP disclosure provides investors with a more complete view of the company’s operational performance and allows for meaningful period-to-period comparisons and analysis of trends in the company’s business. Further, to the extent that other companies use similar methods in calculating non-GAAP measures, the provision of supplemental non-GAAP information can allow for a comparison of the company’s relative performance against other companies that also report non-GAAP operating results.

Non-GAAP diluted earnings per share excludes, to the extent applicable, the impact of the following items: stock-based compensation, amortization of acquisition-related intangibles, and previously the net amortization of debt discount on the company’s convertible senior notes, as well as income tax adjustments. These items are excluded because the decisions that give rise to them are not made to increase revenue in a particular period, but instead for the company’s long-term benefit over multiple periods.

Specifically, management is excluding the following items from its non-GAAP earnings per share, as applicable, for the periods presented in the Q1 FY20 financial statements and for its non-GAAP estimates for Q2 and FY20:

- **Stock-Based Expenses:** The company’s compensation strategy includes the use of stock-based compensation to attract and retain employees and executives. It is principally aimed at aligning their interests with those of our stockholders and at long-term employee retention, rather than to motivate or reward operational performance for any particular period. Thus, stock-based compensation expense varies for reasons that are generally unrelated to operational decisions and performance in any particular period.
- **Amortization of Purchased Intangibles:** The company views amortization of acquisition-related intangible assets, such as the amortization of the cost associated with an acquired company’s research and development efforts, trade names, customer lists and customer relationships, and in some cases, acquired lease intangibles, as items arising from pre-acquisition activities determined at the time of an acquisition. While these intangible assets are continually evaluated for impairment, amortization of the cost of purchased intangibles is a static expense, one that is not typically affected by operations during any particular period.
- **Gains on Strategic Investments, net:** Upon the adoption of Accounting Standards Update 2016-01 on February 1, 2018, the company is required to record all fair value adjustments to its equity securities held within the strategic investment portfolio through the statement of operations. As it is not possible to forecast future gains and losses, the company assumes no change to the value of its strategic investment portfolio in its GAAP and non-GAAP estimates for future periods.
- **Income Tax Effects and Adjustments:** The company utilizes a fixed long-term projected non-GAAP tax rate in order to provide better consistency across the interim reporting periods by eliminating the effects of items such as changes in the tax valuation allowance and tax effects of acquisition-related costs, since each of these can vary in size and frequency. When projecting this long-term rate, the company evaluated a three-year financial projection that excludes the

direct impact of the following non-cash items: stock-based expenses and the amortization of purchased intangibles. The projected rate also assumes no new acquisitions in the three-year period, and considers other factors including the company's expected tax structure, its tax positions in various jurisdictions and key legislation in major jurisdictions where the company operates. For fiscal 2020, the company uses a projected non-GAAP tax rate of 22.5%, which reflects currently available information, as well as other factors and assumptions. The non-GAAP tax rate could be subject to change for a variety of reasons, including the rapidly evolving global tax environment, significant changes in the company's geographic earnings mix due to acquisition activity, or other changes to the company's strategy or business operations. The company will re-evaluate its long-term rate as appropriate.