

Evan Goldstein
Salesforce
Investor Relations
415-819-2987
evan.goldstein@salesforce.com

Stephanie Barnes
Salesforce
Public Relations
415-722-0883
stephanie.barnes@salesforce.com

Salesforce Announces Strong First Quarter Fiscal 2022 Results Raises FY22 Revenue Guidance to \$25.9 Billion to \$26.0 Billion

- **First Quarter Revenue of \$5.96 Billion, up 23% Year-Over-Year, 20% in Constant Currency**
- **Current Remaining Performance Obligation of Approximately \$17.8 Billion, up 23% Year-Over-Year, 20% in Constant Currency**
- **First Quarter Operating Cash Flow of \$3.23 Billion, up 74% Year-Over-Year**
- **First Quarter GAAP Operating Margin of 5.9% and Non-GAAP Operating Margin of 20.2%**
- **Raises FY22 GAAP Operating Margin Guidance to Approximately 1.4% and Non-GAAP Operating Margin Guidance to Approximately 18.0%**
- **Initiates Second Quarter FY22 Revenue Guidance of \$6.22 Billion to \$6.23 Billion, up Approximately 21% Year-Over-Year**

SAN FRANCISCO, Calif. - May 27, 2021 - Salesforce (NYSE: CRM), the global leader in CRM, today announced results for its first quarter of fiscal 2022 ended April 30, 2021.

“We had the best first quarter in our company’s history,” said Marc Benioff, Chair & CEO, Salesforce. “We believe our Customer 360 platform is proving to be the most relevant technology for companies accelerating out of the pandemic. With incredible momentum throughout our core business, we’re raising our revenue guidance for this fiscal year by \$250 million to approximately \$26 billion and non-GAAP operating margin to 18 percent. We’re on our path to reach \$50 billion in revenue in FY26.”

“Our performance in the first quarter was strong across all financial metrics,” said Amy Weaver, President and Chief Financial Officer, Salesforce. “We saw record levels of new business and strength across all products, regions, and customer sizes. Our impressive start to this year helps fuel our momentum for the rest of the year as we keep pace toward our goal of \$50 billion in revenue in FY26.”

Salesforce delivered the following results for its fiscal first quarter:

Revenue: Total first quarter revenue was \$5.96 billion, an increase of 23% year-over-year, and 20% in constant currency. Subscription and support revenues for the quarter were \$5.54 billion, an increase of 21% year-over-year. Professional services and other revenues for the quarter were \$0.43 billion, an increase of 47% year-over-year.

Operating Margin: First quarter GAAP operating margin was 5.9%. First quarter non-GAAP operating margin was 20.2%.

Earnings per Share: First quarter GAAP diluted earnings per share was \$0.50, and non-GAAP diluted earnings per share was \$1.21. Mark-to-market accounting of the company’s strategic investments benefited GAAP diluted earnings per share by \$0.23 based on a U.S. tax rate of 25% and non-GAAP diluted earnings per share by \$0.24 based on a non-GAAP tax rate of 21.5%.

Cash: Cash generated from operations for the first quarter was \$3.23 billion, an increase of 74% year-over-year. Total cash, cash equivalents and marketable securities ended the first quarter at \$15.02 billion.

Remaining Performance Obligation: Remaining performance obligation ended the first quarter at approximately \$35.0 billion, an increase of 19% year-over-year. Current remaining performance obligation ended the first quarter at approximately \$17.8 billion, an increase of 23% year-over-year, 20% in constant currency.

As of May 27, 2021, the company is initiating its revenue guidance, GAAP earnings per share guidance, non-GAAP earnings per share guidance, and current remaining performance obligation growth guidance for its second quarter of fiscal year 2022. As of May 27, 2021, the company is raising its revenue guidance previously provided on December 1, 2020 and updated on February 25, 2021 for its full fiscal year 2022. As of May 27, 2021 the company is raising its operating cash flow guidance, GAAP earnings per share guidance, non-GAAP earnings per share guidance, GAAP operating margin guidance and non-GAAP operating margin guidance previously provided on February 25, 2021 for its full fiscal year 2022.

Management will provide further commentary around these guidance assumptions on its earnings call, which is expected to occur on May 27, 2021 at 2:00 PM Pacific Time.

Our guidance assumes no change to the value of the company's strategic investment portfolio as it is not possible to forecast future gains and losses. 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 FY22 Guidance	Full Year FY22 Guidance
Revenue ⁽¹⁾	\$6.22 - \$6.23 Billion	\$25.9 - \$26.0 Billion
Y/Y Growth	~21%	~22%
GAAP operating margin	N/A	~1.4%
Non-GAAP operating margin	N/A	~18.0%
GAAP earnings (loss) per share	(\$0.10) - (\$0.09)	\$0.22 - \$0.24
Non-GAAP earnings per share	\$0.91 - \$0.92	\$3.79 - \$3.81
Operating Cash Flow Growth (Y/Y)	N/A	~12% - 13%
Current Remaining Performance Obligation Growth (Y/Y)	~20%	N/A

⁽¹⁾ Full Year FY22 revenue guidance includes contributions from Slack Technologies, Inc. of approximately \$500 million, net of purchase accounting, and assumes a closing date in late Q2. The reduction to prior Slack guidance takes into account our refined expectation on Slack closing date, which we now expect to be near the very end of Q2.

The following is a reconciliation of GAAP operating margin guidance to non-GAAP operating margin guidance for the full year:

	Full Year FY22 Guidance
GAAP operating margin ⁽¹⁾	1.4%
Plus	
Amortization of purchased intangibles ⁽²⁾	6.0%
Stock-based expense ⁽²⁾	10.6%
Non-GAAP operating margin ⁽¹⁾	18.0%

⁽¹⁾ GAAP operating margin is the proportion of GAAP income from operations as a percentage of GAAP revenue. Non-GAAP operating margin is the proportion of non-GAAP income from operations as a percentage of GAAP revenue.

⁽²⁾ The percentages shown above have been calculated based on the midpoint of the low and high ends of the revenue guidance for full year FY22.

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

	Fiscal 2022	
	Q2	FY22
GAAP earnings (loss) per share range ⁽¹⁾⁽²⁾	(\$0.10) - (\$0.09)	\$0.22 - \$0.24
Plus		
Amortization of purchased intangibles	\$ 0.29	\$ 1.59
Stock-based expense	\$ 0.65	\$ 2.81
Less		
Income tax effects and adjustments ⁽³⁾	\$ 0.07	\$ (0.83)
Non-GAAP diluted earnings per share ⁽²⁾	\$0.91 - \$0.92	\$3.79 - \$3.81
Shares used in computing basic GAAP net income per share (millions)	928	953
Shares used in computing diluted Non-GAAP net income per share (millions)	952	979

⁽¹⁾The Company's GAAP tax provision is expected to be approximately 132% for the three months ended July 31, 2021, and approximately 44% for the year ended January 31, 2022. The GAAP tax rates may fluctuate due to discrete tax items and related effects in conjunction with certain provisions in the Tax Cuts and Jobs Act, future acquisitions or other transactions.

⁽²⁾The Company's projected GAAP and Non-GAAP diluted earnings (loss) per share assumes no change to the value of our strategic investment portfolio as it is not possible to forecast future gains and losses. While historically the company's strategic investment portfolio has had a positive impact on the company's financial results, that may not be true for future periods, particularly in periods of significant market fluctuations that affect the publicly traded companies within the company's strategic investment portfolio. The impact of future gains or losses from the company's strategic investment portfolio could be material.

⁽³⁾The Company's Non-GAAP tax provision uses a long-term projected tax rate of 21.5%, which reflects currently available information and could be subject to change.

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

Quarterly Conference Call

Salesforce plans to host a conference call at 2:00 p.m. (PT) / 5:00 p.m. (ET) to discuss its financial results with the investment community. A live webcast and replay details of the event will be available on the Salesforce Investor Relations website at www.salesforce.com/investor.

About Salesforce

Salesforce, the global CRM leader, empowers companies of every size and industry to digitally transform and create a 360° view of their customers. For more information about Salesforce (NYSE: CRM), 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 the company's financial and operating results, which may include expected GAAP and non-GAAP financial and other operating and non-operating results, including revenue, net income, earnings per share, operating cash flow growth, operating margin, expected revenue growth, expected current remaining performance obligation growth, expected tax rates, stock-based compensation expenses, amortization of purchased intangibles, shares outstanding, market growth, environmental, social and governance goals, expected capital allocation, including mergers and acquisitions, capital expenditures and other investments, expectations regarding closing contemplated acquisitions and contributions from acquired companies. 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 it makes.

The risks and uncertainties referred to above include -- but are not limited to -- risks associated with the impact of, and actions we may take in response to, the COVID-19 pandemic, related public health measures and resulting

economic downturn and market volatility; our ability to maintain security levels and service performance meeting the expectations of our customers, and the resources and costs required to avoid unanticipated downtime and prevent, detect and remediate performance degradation and security breaches; the expenses associated with our data centers and third-party infrastructure providers; our ability to secure additional data center capacity; our reliance on third-party hardware, software and platform providers; 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; current and potential litigation involving us or our industry, including litigation involving acquired entities such as Tableau, and the resolution or settlement thereof; regulatory developments and regulatory investigations involving us or affecting our industry; our ability to successfully introduce new services and product features, including any efforts to expand our services; the success of our strategy of acquiring or making investments in complementary businesses, joint ventures, services, technologies and intellectual property rights; our ability to complete, on a timely basis or at all, announced transactions, including our proposed acquisition of Slack Technologies, Inc.; our ability to realize the benefits from acquisitions, strategic partnerships, joint ventures and investments; our ability to successfully integrate acquired businesses and technologies; our ability to compete in the market in which we participate; the success of our business strategy and our plan to build our business, including our strategy to be a leading provider of enterprise cloud computing applications and platforms; our ability to execute our business plans; our ability to continue to grow unearned revenue and remaining performance obligation; the pace of change and innovation in enterprise cloud computing services; the seasonal nature of our sales cycles; our ability to limit customer attrition and costs related to those efforts; the success of our international expansion strategy; the demands on our personnel and infrastructure resulting from significant growth in our customer base and operations, including as a result of acquisitions; our ability to preserve our workplace culture, including as a result of our decisions regarding our current and future office environments or work-from-home policies; our dependency on the development and maintenance of the infrastructure of the Internet; our real estate and office facilities strategy and related costs and uncertainties; fluctuations in, and our ability to predict, our operating results and cash flows; the variability in our results arising from the accounting for term license revenue products; the performance and fair value of our investments in complementary businesses through our strategic investment portfolio; 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 our strategic investment portfolio; our ability to protect our intellectual property rights; our ability to develop our brands; the impact of foreign currency exchange rate and interest rate fluctuations on our results; 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; uncertainties regarding our tax obligations in connection with potential jurisdictional transfers of intellectual property, including the tax rate, the timing of the transfer and the value of such transferred intellectual property; uncertainties regarding the effect of general economic and market conditions; the impact of geopolitical events; uncertainties regarding the impact of expensing stock options and other equity awards; the sufficiency of our capital resources; risks related to the availability and funding of our bridge loan facility and term loan associated with our proposed acquisition of Slack Technologies, Inc. and other indebtedness; our ability to comply with our debt covenants and lease obligations; and the impact of climate change, natural disasters and actual or threatened public health emergencies, including the ongoing COVID-19 pandemic.

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 it makes 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,	
	2021	2020
Revenues:		
Subscription and support	\$ 5,536	\$ 4,575
Professional services and other	427	290
Total revenues	5,963	4,865
Cost of revenues (1)(2):		
Subscription and support	1,122	966
Professional services and other	433	288
Total cost of revenues	1,555	1,254
Gross profit	4,408	3,611
Operating expenses (1)(2):		
Research and development	951	859
Marketing and sales	2,544	2,390
General and administrative	559	502
Total operating expenses	4,054	3,751
Income (loss) from operations	354	(140)
Gains on strategic investments, net	288	192
Other expense	(38)	(5)
Income before benefit from (provision for) income taxes	604	47
Benefit from (provision for) income taxes	(135)	52
Net income	\$ 469	\$ 99
Basic net income per share	\$ 0.51	\$ 0.11
Diluted net income per share	\$ 0.50	\$ 0.11
Shares used in computing basic net income per share	921	896
Shares used in computing diluted net income per share	940	913

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

	Three Months Ended April 30,	
	2021	2020
Cost of revenues	\$ 168	\$ 159
Marketing and sales	120	112

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

	Three Months Ended April 30,	
	2021	2020
Cost of revenues	\$ 82	\$ 52
Research and development	173	166
Marketing and sales	238	223
General and administrative	71	63

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

	Three Months Ended April 30,	
	2021	2020
Revenues:		
Subscription and support	93 %	94 %
Professional services and other	7	6
Total revenues	100	100
Cost of revenues (1)(2):		
Subscription and support	19	20
Professional services and other	7	6
Total cost of revenues	26	26
Gross profit	74	74
Operating expenses (1)(2):		
Research and development	16	18
Marketing and sales	43	49
General and administrative	9	10
Total operating expenses	68	77
Income (loss) from operations	6	(3)
Gains on strategic investments, net	5	4
Other expense	(1)	0
Income before benefit from (provision for) income taxes	10	1
Benefit from (provision for) income taxes	(2)	1
Net income	8 %	2 %

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

	Three Months Ended April 30,	
	2021	2020
Cost of revenues	3 %	3 %
Marketing and sales	2	2

- (2) Amounts include stock-based expense as a percentage of total revenues, as follows:

	Three Months Ended April 30,	
	2021	2020
Cost of revenues	1 %	1 %
Research and development	3	3
Marketing and sales	4	5
General and administrative	1	1

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Consolidated Balance Sheets
(in millions)

	April 30, 2021	January 31, 2021
Assets	(unaudited)	
Current assets:		
Cash and cash equivalents	\$ 8,544	\$ 6,195
Marketable securities	6,479	5,771
Accounts receivable, net	3,174	7,786
Costs capitalized to obtain revenue contracts, net	1,166	1,146
Prepaid expenses and other current assets	1,081	991
Total current assets	20,444	21,889
Property and equipment, net	2,490	2,459
Operating lease right-of-use assets, net	3,065	3,204
Noncurrent costs capitalized to obtain revenue contracts, net	1,736	1,715
Strategic investments	3,944	3,909
Goodwill	26,640	26,318
Intangible assets acquired through business combinations, net	3,925	4,114
Deferred tax assets and other assets, net	2,641	2,693
Total assets	<u>\$ 64,885</u>	<u>\$ 66,301</u>
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable, accrued expenses and other liabilities	\$ 3,439	\$ 4,355
Operating lease liabilities, current	726	766
Unearned revenue	11,158	12,607
Total current liabilities	15,323	17,728
Noncurrent debt	2,672	2,673
Noncurrent operating lease liabilities	2,734	2,842
Other noncurrent liabilities	1,589	1,565
Total liabilities	22,318	24,808
Stockholders' equity:		
Common stock	1	1
Additional paid-in capital	36,232	35,601
Accumulated other comprehensive loss	(68)	(42)
Retained earnings	6,402	5,933
Total stockholders' equity	42,567	41,493
Total liabilities and stockholders' equity	<u>\$ 64,885</u>	<u>\$ 66,301</u>

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

	Three Months Ended April 30,	
	2021	2020
Operating activities:		
Net income	\$ 469	\$ 99
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	685	658
Amortization of costs capitalized to obtain revenue contracts, net	314	247
Expenses related to employee stock plans	564	504
Gains on strategic investments, net	(288)	(192)
Changes in assets and liabilities, net of business combinations:		
Accounts receivable, net	4,616	3,094
Costs capitalized to obtain revenue contracts, net	(355)	(25)
Prepaid expenses and other current assets and other assets	(17)	(11)
Accounts payable and accrued expenses and other liabilities	(1,093)	(757)
Operating lease liabilities	(216)	(203)
Unearned revenue	(1,451)	(1,555)
Net cash provided by operating activities	<u>3,228</u>	<u>1,859</u>
Investing activities:		
Business combinations, net of cash acquired	(425)	(103)
Purchases of strategic investments	(277)	(342)
Sales of strategic investments	556	601
Purchases of marketable securities	(1,809)	(834)
Sales of marketable securities	581	337
Maturities of marketable securities	498	227
Capital expenditures	(171)	(323)
Net cash used in investing activities	<u>(1,047)</u>	<u>(437)</u>
Financing activities:		
Proceeds from issuance of debt, net of issuance costs	(10)	0
Proceeds from employee stock plans	225	258
Principal payments on financing obligations	(49)	(48)
Repayments of debt	(1)	(1)
Net cash provided by financing activities	<u>165</u>	<u>209</u>
Effect of exchange rate changes	<u>3</u>	<u>(4)</u>
Net increase in cash and cash equivalents	2,349	1,627
Cash and cash equivalents, beginning of period	6,195	4,145
Cash and cash equivalents, end of period	<u>\$ 8,544</u>	<u>\$ 5,772</u>

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Additional Metrics
(Unaudited)

	April 30, 2021	January 31, 2021	October 31, 2020	July 31, 2020	April 30, 2020	January 31, 2020
Full time equivalent headcount	59,895	56,606	54,557	54,255	51,613	49,703
Financial data (in millions):						
Cash, cash equivalents and marketable securities (1)	\$ 15,023	\$ 11,966	\$ 9,492	\$ 9,283	\$ 9,802	\$ 7,947
Strategic investments	3,944	3,909	3,927	2,555	1,902	1,963
Principal due on the Company's outstanding debt obligations (1)	2,689	2,690	2,691	2,692	2,693	2,694

- (1) In December 2020, the Company entered into a definitive agreement to acquire Slack Technologies, Inc. ("Slack"), which is expected to close late in the second quarter of fiscal 2022, subject to satisfaction of customary closing conditions, including regulatory approvals, for an estimated \$15.7 billion of cash consideration and 45 million shares of Salesforce common stock based on Slack common shares outstanding as of April 30, 2021. The Company expects to fund the cash portion of the consideration with a combination of new debt (which is not reflected in the table above) and cash on the Company's balance sheet.

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, 2021	\$ 17.8	\$ 17.2	\$ 35.0
As of January 31, 2021	18.0	18.1	36.1
As of October 31, 2020	15.3	15.0	30.3
As of July 31, 2020	15.2	15.4	30.6
As of April 30, 2020	14.5	14.8	29.3
As of January 31, 2020	15.0	15.8	30.8

Disaggregation of Revenue

Subscription and Support Revenue by the Company's service offerings

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

	Three Months Ended April 30,	
	2021	2020
Sales	\$ 1,388	\$ 1,245
Service	1,506	1,252
Platform and Other (1)	1,747	1,364
Marketing and Commerce	895	714
	<u>\$ 5,536</u>	<u>\$ 4,575</u>

- (1) Subscription and support revenues from Tableau and Mulesoft combined represented 41 percent and 36 percent of Platform and Other, for the three months ended April 30, 2021 and 2020, respectively.

Total Revenue by Geographic Locations

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

	Three Months Ended April 30,	
	2021	2020
Americas	\$ 4,094	\$ 3,370
Europe	1,302	1,034
Asia Pacific	567	461
	<u>\$ 5,963</u>	<u>\$ 4,865</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, 2021 compared to Three Months Ended April 30, 2020	Three Months Ended January 31, 2021 compared to Three Months Ended January 31, 2020	Three Months Ended April 30, 2020 compared to Three Months Ended April 30, 2019
Americas	22%	18%	29%
Europe	17%	20%	41%
Asia Pacific	17%	21%	28%
Total growth	20%	19%	31%

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 were as follows:

	April 30, 2021 compared to April 30, 2020	January 31, 2021 compared to January 31, 2020	April 30, 2020 compared to April 30, 2019
Total growth	20%	18%	24%

Supplemental Cash Flow Information
Free cash flow analysis, a non-GAAP measure
(in millions)

	Three Months Ended April 30,	
	2021	2020
GAAP net cash provided by operating activities	\$ 3,228	\$ 1,859
Capital expenditures	(171)	(323)
Free cash flow	<u>\$ 3,057</u>	<u>\$ 1,536</u>

Supplemental Debt Information

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

Instrument	Date of issuance	Maturity date	April 30, 2021	January 31, 2021
2023 Senior Notes	April 2018	April 2023	\$ 996	\$ 996
2028 Senior Notes	April 2018	April 2028	1,491	1,491
Loan assumed on 50 Fremont	February 2015	June 2023	189	190
Total carrying value of debt			<u>2,676</u>	<u>2,677</u>
Less current portion of debt			<u>(4)</u>	<u>(4)</u>
Total noncurrent debt			<u>\$ 2,672</u>	<u>\$ 2,673</u>

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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,	
	2021	2020
<u>Non-GAAP operating expenses</u>		
GAAP operating expenses	\$ 4,054	\$ 3,751
Less:		
Amortization of purchased intangibles (1)	120	112
Stock-based expense (2)	482	452
Non-GAAP operating expenses	<u>\$ 3,452</u>	<u>\$ 3,187</u>
<u>Non-GAAP income from operations</u>		
GAAP income (loss) from operations	\$ 354	\$ (140)
Plus:		
Amortization of purchased intangibles (1)	288	271
Stock-based expense (2)	564	504
Non-GAAP income from operations	<u>\$ 1,206</u>	<u>\$ 635</u>
<u>Non-GAAP operating margin as a percentage of revenues</u>		
Total revenues	\$ 5,963	\$ 4,865
GAAP operating margin (3)	5.9 %	(2.9)%
Non-GAAP operating margin (3)	20.2 %	13.1 %
<u>Non-GAAP net income</u>		
GAAP net income	\$ 469	\$ 99
Plus:		
Amortization of purchased intangibles (1)	288	271
Stock-based expense (2)	564	504
Income tax effects and adjustments	(180)	(233)
Non-GAAP net income	<u><u>\$ 1,141</u></u>	<u><u>\$ 641</u></u>

	Three Months Ended April 30,	
	2021	2020
<u>Non-GAAP diluted net income per share</u>		
GAAP diluted net income per share	\$ 0.50	\$ 0.11
Plus:		
Amortization of purchased intangibles	0.31	0.30
Stock-based expense	0.60	0.55
Income tax effects and adjustments	(0.20)	(0.26)
Non-GAAP diluted net income per share	<u>\$ 1.21</u>	<u>\$ 0.70</u>
Shares used in computing Non-GAAP diluted net income per share	940	913

- (1) Amortization of purchased intangibles was as follows:

	Three Months Ended April 30,	
	2021	2020
Cost of revenues	\$ 168	\$ 159
Marketing and sales	120	112
	<u>\$ 288</u>	<u>\$ 271</u>

- (2) Stock-based expense was as follows:

	Three Months Ended April 30,	
	2021	2020
Cost of revenues	\$ 82	\$ 52
Research and development	173	166
Marketing and sales	238	223
General and administrative	71	63
	<u>\$ 564</u>	<u>\$ 504</u>

- (3) GAAP operating margin is the proportion of GAAP income from operations as a percentage of GAAP revenue. Non-GAAP operating margin is the proportion of non-GAAP income from operations as a percentage of GAAP revenue. Non-GAAP income from operations excludes the impact of the amortization of purchased intangibles and stock-based expense.

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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,	
	2021	2020
GAAP Basic Net Income Per Share		
Net income	\$ 469	\$ 99
Basic net income per share	\$ 0.51	\$ 0.11
Shares used in computing basic net income per share	921	896
Non-GAAP Basic Net Income Per Share		
Non-GAAP net income	\$ 1,141	\$ 641
Non-GAAP basic net income per share	\$ 1.24	\$ 0.72
Shares used in computing Non-GAAP basic net income per share	921	896
GAAP Diluted Net Income Per Share		
Net income	\$ 469	\$ 99
Diluted net income per share	\$ 0.50	\$ 0.11
Shares used in computing diluted net income per share	940	913
Non-GAAP Diluted Net Income Per Share		
Non-GAAP net income	\$ 1,141	\$ 641
Non-GAAP diluted net income per share	\$ 1.21	\$ 0.70
Shares used in computing Non-GAAP diluted net income per share	940	913

Non-GAAP Financial Measures: This press release includes information about non-GAAP operating margin, non-GAAP diluted earnings per share, non-GAAP tax rates, free cash flow, 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 operating margin and Non-GAAP diluted earnings per share exclude, to the extent applicable, the impact of the following items: stock-based compensation, amortization of acquisition-related intangibles and 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 operating margin and non-GAAP earnings per share, as applicable, for the periods presented in the Q1 FY22 financial statements and for its non-GAAP estimates for Q2 and FY22:

- **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, which is not typically affected by operations during any particular period. Although the Company excludes the amortization of purchased intangibles from these non-GAAP measures, management believes that it is important for investors to understand that such intangible assets were recorded as part of purchase accounting and contribute to revenue generation.
- **Gains on Strategic Investments, net:** The company records 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 considers 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 2021, the company used a projected non-GAAP tax rate of 22.0%. For fiscal 2022, the company uses a projected non-GAAP tax rate of 21.5%, 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.

The company defines the non-GAAP measure free cash flow as GAAP net cash provided by operating activities, less capital expenditures. For this purpose, capital expenditures includes the cash consideration related to the purchase of 450 Mission in March 2020, but does not include our strategic investments.