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Q1 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to Salesforce's Fiscal 2022 First Quarter Results Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] .

I would like to hand the conference over to your speaker, Mr. Evan Goldstein, Senior Vice President, Investor Relations. Sir, you may begin.

Evan Goldstein

Senior Vice President-Investor Relations, salesforce.com, inc.

Thank you, Chantel. Hello, everyone, and thanks for joining us for our fiscal 2022 first quarter conference call. I'm Evan Goldstein, Senior Vice President of Investor Relations. Our press release, SEC filings and a replay of today's call can be found on our IR website at www.salesforce.com/investor. With me on the call today is Marc Benioff, Chair and CEO; Amy Weaver, President and CFO; Bret Taylor, President and COO; and Gavin Patterson, President and Chief Revenue Officer.

As a reminder, our commentary today will primarily be in non-GAAP terms. Reconciliation 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 that are subject to risks, uncertainties and assumptions. In particular, our expectations around the impact of the COVID-19 pandemic on our business, acquisitions, results of operations and financial condition and that of our customers and partners are uncertain and subject to change.

If 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 is included in our SEC filings including our most recent report on Form 10-K. With that, let me hand the call to Marc.

Marc Russell Benioff

Founder, Chairman & Chief Executive Officer, salesforce.com, inc.

Well, thank you so much, Evan. And thank you, everyone, for being on the call today. It's just going to be a great call. I'll tell you this is the best quarter Salesforce has ever had.

It was just a phenomenal Q1. And everyone is so excited to do this call with you and to talk about it. And also just to talk about so many other things that are important to Salesforce because everyone knows business is the greatest platform for change. We do believe that you can do well and do good at the same time. And before we go into these incredible results, we just want to let everybody know that our hearts and prayers are with all of our Ohana in India. They're on our mind every day and that we're so sorry for everything that they are going through.

So I am now here with Amy and Bret and Gavin and Evan as well and I'll just tell you that we're all vaccinated. We're grateful that we can be together. We're grateful that we are in a moment where we've been able to do that. We just finished a two-day offsite with our top managers from around the world. This is our third offsite we've done. We've done about eight total management offsites.

And through the miracle of testing and now through the miracle of vaccinations and the ability to get back into business and be in person, we're just grateful for that. We definitely were missing each other and it's been great to be able to run our business in person and to open our offices. Amy and I were in our offices on Monday in San Francisco together on our Ohana Floor. And it just was an emotional moment to know that we're back and that our Ohana are back in the offices and that we're opening back up.

This is just a critical time. So it's an amazing quarter. And it's juxtaposed against the pandemic is not over everywhere, but it's starting to be over somewhere and certainly in San Francisco where we have 850,000 people. But we only had a couple of dozen infections per day last week. So it's a great moment. So we're grateful. We're grateful for this incredible performance by our team. We're grateful for the phenomenal quarter. It far exceeded our expectations. And I've just never seen a quarter like this. Gavin will go into the details. Bret will go into the details. It was just incredible. It was beyond our expectation. It's not just the best first quarter we've ever had. I think it's the best quarter we've ever had.

We delivered \$5.96 billion in revenue. It was up 23% year-over-year. Just the customer velocity, the pipelines, the growth of the company, the ability for the teams to interact and have a huge impact; it was just awesome. We delivered \$3.2 billion in operating cash flow. And as a percentage of our revenue, it's just amazing what Salesforce could do today. Salesforce as a company, I said doing well and doing good. Here is the doing well part. \$3.2 billion in cash flow on \$5.96 billion in revenue and that's up 74% year-over-year reflecting the strong performance we've had since the impact of the pandemic began last year.

Operating margin again and a huge callout here to Amy. And I'm going to talk more about Amy's amazing performance with the company and how she's rebuilt this incredible operating margin model and operating model and how she's really kind of almost redesigning the company from the bottom up. It's awesome what she's been doing. And you can see it here. Operating margin in the quarter was a healthy 20.2%. You look at the last four quarters now starting Q2 of last year, Q3, Q4 and now Q1; our margin, our revenue, our cash flow, it's awesome. And to see these changes that Amy has brought to the company has just inspired me.

Now, for the fiscal 2022. I'm thrilled we are raising our revenue, our guide by \$250 million to \$26 billion. This is one of the largest raises we've really ever had. It represents 22% projected growth year-over-year. And we're not just raising revenue. And again, thanks to Amy, we're raising our operating margin to 18%. So that is incredible. And in a few years, we're going to be doing \$50 billion and by fiscal year 2026. So that is an incredible thing.

We're really seeing some momentum and some cadence that's very powerful for the company. And the quarter once again demonstrates the strength and durability of our business, the quality of our leadership team and you're going to hear that today on the call, the relevance of our products, the incredible demand for digital transformation. But ultimately, it's been about customer success. And when I can talk about some of these customers and their amazing success with our products, companies that we know like Honeywell and 3M and Sonos. And then the Sonos story is just awesome where they've had this 84% growth when they went to consumer using our products. We're so grateful to them.

But also you're going to see it in the core products like – I'm going to hit some of the key things like how eight out of the top 10 deals included Tableau. What a successful story that acquisition has been. And MuleSoft and ExactTarget and how it's all worked out so well for us. This quarter is really just demonstrating that strength and durability of our business.

And I'll tell you we're the leader in the CRM market. We all know that. We all know we're number one CRM. Everyone just saw that IDC again ranked Salesforce number one by market share in CRM. Everyone knows the strategic nature of CRM. And this is the eighth year in a row that we're number one in CRM, which is awesome. And last week, Salesforce also received one of the very highest ratings from Gartner as a vendor. We tracked that information. It's our customers talking to Gartner. We tracked it and saw this incredibly what we call strong overall vendor rating. That meant a lot to us.

And I'll tell you about something else that means a lot to us. And this is kind of a moment. And I think we can say this. We have to kind of get our head around this. We're about to pass SAP as the largest enterprise applications company in the world. And all the analysts have their models. I know you all track SAP and Salesforce. We don't really talk so much about SAP since they mostly exited the CRM market so many years ago. But I'll tell you that it's awesome to see not just being number one in CRM. But we're going to be the number one enterprise software applications company in the world, passing SAP. This is a moment. We can see it's imminent.

And this pending acquisition of Slack also. We've never been better positioned for the future. This is an all-digital, it's an all work from anywhere world. It's made our companies, Salesforce and Slack, more important to customers than ever. So bringing them together is so exciting. And once this merger is approved, we're going to be able to build Slack and all of our products will all become Slack-first. It's going to make our customers more productive.

We're going to work with software companies on building incredible new capabilities like we've seen these amazing examples of what Slack can do. I'll tell you we're really excited about creating this number one enterprise applications company. And I can't wait for all of us to be back together and with you. And hopefully, we'll be together in person at our Investor Day coming up.

So of course, the real highlight of every quarter is the success of our customers. Customer success is one of our highest values. Trust, customer success, innovation, the ease of use of our products, the quality. And we just had amazing traction during the quarter across all parts of our business. We hit an all-time high in seven-figure plus

transactions and I hope that Gavin will talk about that. It was really this kind of first really quarter in our company history, more than 120% growth year-over-year in these huge transactions.

It really shows the whole world is going digital and customers are connecting with their customers in a new way and everyone needs CRM to do it. And they need analytics and they need integration. And we are the leaders in that area. And we're able to partner with them to deliver this incredible capability.

On average, these seven-figure transactions, they included four or more of our clouds. That's awesome. It really goes to show the durability of the business built by so many amazing products. Sales Cloud, Service Cloud, Marketing Cloud, Community Cloud, Commerce Cloud, Integration Cloud and the Analytics Cloud with Tableau. It's awesome. And our successful integrations of ExactTarget and Tableau and MuleSoft continue to drive just incredible results for our customers and gives us so much confidence in this pending Slack acquisition.

We're seeing more and more inclusion of Tableau and MuleSoft in our large deals as customers accelerate their digital transformations. I'm sure it will shock everyone that Tableau was part of eight of our top 10 deals. That really is evidence – and the integration we've had with Customer 360 – of its success. And MuleSoft was included in five of these top 10 deals. It was awesome.

Honeywell is a great example. And I love Darius Adamczyk, an incredible CEO. Great example of a company investing in Salesforce across their business. Now they've been manufacturing innovative products for more than 100 years, creating connected customer experience, breaking down silos for their 100,000 employees globally. But with Sales Cloud, Honeywell is enabling its global sales team to manage thousands of customers and sellers from anywhere.

And anyone who was with Bret and I in Washington, D.C., or got to watch it online; we went there to be with our customers and employees in person and we did this incredible world tour. And we had the Honeywell executives there talking about this incredible transportation of their global sales team and it was really cool. And Tableau dashboards in Honeywell are providing their sales teams with these key insights to improve their productivity.

And with myTrailhead, which is our re-skilling platform, that's Honeywell re-skilling their sales team right in their flow of work, increasing their performance. And Service Cloud together with Field Service and Experience Cloud is enabling Honeywell to seamlessly dispatch technicians for onsite product maintenance, proactive asset management and connected service partner experiences and customer experience for scheduling appointments and instantly troubleshoot new problems.

In fact, it was really that Field Service capability that helped us to amplify our relationship with Honeywell. And that's when Darius and I started to really collaborate and say, wow, we could bring this to the aviation business in Honeywell and transform how they're doing their amazing jobs.

I'll tell you for a long time we've had a trusted relationship with Dell Technologies and their incredible founder and tremendous friend of Salesforce, Michael Dell. Last year, Dell partnered with Salesforce Professional Services, implemented the world's largest deployment of Sales Cloud to support its sales reps, go-to-market channel partners.

I'll tell you I just finished Michael Dell's new book. It's called Play Nice But Win. And it inspired me. And it really was exciting that Salesforce and Dell have this partnership that helped them win. It was powerful. And with Service Cloud, Dell is also giving its service agents a 360-degree view of every customer. That was so awesome

to see. And they're using Marketing Cloud for B2B customer journeys. They're transforming their seller experience. It's incredible.

And another amazing CEO that we work with, Mike Roman, at 3M. And for those of you who watched Bret and I in Singapore, Bret and I flew to Singapore for the kickoff of the quarter. And we were there in Singapore and we were live with our customers and with our Ohana and employees and everybody and government leaders. And well, we had the opportunity to talk to Mike Roman, the CEO of 3M, the iconic innovator, the center of efforts to combat COVID-19. And we were so happy to partner with them.

And today, 3M is using Customer 360 across 83 countries. And when Mike realized there were counterfeit masks that weren't providing the protection of a 3M mask, they partnered with us to make sure we could immediately deliver a fraud reporting center with Service Cloud. And we did it. It was an awesome story. And we had to do instantly, immediately.

There has been so many stories like that especially in our governments. You see even what happened or what just is going on right now in Australia in Melbourne. They're again relying on Salesforce's contact tracing system to resolve this breakout. They're all locked down. I hope that they'll be able to identify everyone quickly and open back up quickly. And I know they've got the infrastructure to do it with [ph] salesforce.com (00:15:44). It's an incredible story that's going on down there.

3M, getting back to them; well, they're also piloting Tableau to create a single dashboard for their entire business. Tableau continues to be a strategic part of so many of our customers' business. And we're working with the pioneering online mortgage lender, Rocket Mortgage, to make complex transactions like buying a home or a car and evaluating a personal loan. It's amazing what's going on with Rocket Mortgage.

I'll tell you I've really enjoyed working with that company. And they're inspiring because they themselves are just such tremendous innovators. And if you know their CEO, Jay Farner; well, you'll understand how they're using our Financial Services Cloud and Marketing Cloud to deliver a source of truth for all their customers' data and drive personalized engagement at scale. [ph] Jim (00:16:37) is incredible. And during the quarter, they also selected MuleSoft to integrate across all their various systems.

Of course, I mentioned Sonos before. It was an incredible story. They went digital direct to their consumer. Well, grew their business 84% year-over-year. And with Marketing Cloud, Sonos connected with their customers through e-mail, through mobile, through social channels. They built a Customer 360. They started pioneering a single source of truth. And it continues to scale its business. They have even invested very deeply in e-commerce with Salesforce as well as Tableau. Great story.

And I'll tell you those stories and the story I just mentioned like what's happening in Melbourne, well, that's all about our public sector business or the country of Japan with our Vaccine Cloud. There are so many places here in the United States like Lake County. It's been an unbelievable year. It's been an unbelievable quarter. It really has been a lot about doing well and doing good. It's been about really showing how Salesforce is the business and that business could be the greatest platform for change.

Now I'm telling you something that's really exciting and something new and I couldn't be more excited to tell you this. And we're going to take another huge step forward here. Now, I've been telling you that we've been doing a number of offsites, bringing our executives together. We've opened our offices now. We have our employees back and we're about to take another huge leap forward. We're taking a huge leap forward because Dreamforce is

coming back in person in 2021 to San Francisco as well as simultaneously in New York, Paris, London. It's going to be a global Dreamforce. And we're going to have thousands of people at every venue.

We're going to work closely with local officials and we're going to do an amazing show. I hope all of you will be there, September 21 to 23. It's going to be the first global Dreamforce. And we're going to host groups of trailblazers in COVID-19 safe places along with tens of millions online. It's going to be a hybrid event, physical and digital. Now, we're going to follow these public health guidelines for every city and I expect all of you to follow them as well. And in the US, we're going to require our attendees to be fully vaccinated to attend. That's going to be a critical part. And it's how our core epidemiologists and medical teams at Salesforce have decided that we can do this amazing reopening, Dreamforce.

We've worked with our long-time partner and customer, Marriott. We've worked with leaders in our local medical communities and university – including Dr. Larry Brilliant who's been a great friend of our company, a tremendous epidemiologist – to follow these best practices and to create this amazing new Dreamforce. So Dreamforce 2021 is going to be the most inclusive, the most accessible Dreamforce ever. It's going to bring the magic of Dreamforce to anyone, everywhere, anywhere. It's going to be great to be back together and be with all of you. It's going to be a family reunion, an incredible family reunion.

And I'm also thrilled that earlier this month we opened Salesforce Tower. As I mentioned, Amy and I were together in San Francisco. [indiscernible] (00:19:55) opened it in London. It's great to be back to work. And we want to be the pioneers in back to work. We know that people are going to still be working at home, but they're going to be in the office too. And we're going to be doing these offsites and events and get-togethers and collaborations. And we're even going to have this incredible new training facility, a cultural immersion facility, a place where we can bring large groups of our employees or even customers and their families together with Salesforce Ranch. And we couldn't be more excited about that.

And we see those four things together, in the office, at home, events like offsites and Dreamforce and even this incredible new training facility; it's really inspired by General Electric. I went to Crotonville when I worked so closely with GE in their digital transportation. I was wondering, wow, would we ever have something like this? I never saw the need. Why would Salesforce need a Crotonville? But today we do. Because so many of our employees are at home, how are we going to immerse them in our values? How are we going to educate them on our products? How are we going to show them what Salesforce is really all about? And that's why this incredible facility will be so important to us. And we're looking forward to talking about that.

Over the last 22 years, we've built an amazing culture, an amazing company, soon to be the number one enterprise applications company in the world, already is the number one CRM in the world. And I'll tell you when we started this business, we had three dreams. To create a new technology model. We called that the cloud. A new business model, subscription. We all understand that now. And a third model, a third model based on 111; 1% of our equity, 1% of our time, our products. And that's become the business that is the greatest platform for change. We couldn't be more excited.

And I'll tell you 6 million employee volunteer hours; well, that's evidence that this is working. \$450 million in grants so far. 51,000 nonprofits running on our service for free. It's more evidence. I'm happy to give this testimony that our culture has enabled us to create an amazing company but also to attract and retain amazing talent. And I'm enormously proud that Fortune just ranked us as one of the best places to work in the world again. I think this year we're number two. But it's the 13th year that we've been on this list. It's really evidence that we can all do more in business. We can do well and we can do good.

And before I turn this over to Amy, I want to make sure you know about two amazing reimagined events that are also coming up this month. We're going to have Connections on June 2, our digital marketing event of the year; and on June 23, TrailheaDX. I hope you're going to be with us for both of those. I hope you'll be with us for Dreamforce. We're so grateful for your incredible partnership during this year and we're delighted to deliver the best quarter we've ever delivered.

And now, a key part of that, Amy. Amy, go ahead.

Amy E. Weaver

President & Chief Financial Officer, salesforce.com, inc.

Thank you, Marc. And good afternoon, everyone. Performance in Q1 was impressive across all financial metrics. We saw record levels of Q1 new business performance and strength across all products, regions and customer silos. Importantly, we were able to achieve growth while also delivering profitability.

So let me take you through some of the results for Q1 fiscal 2022. I'll begin with top line commentary. Total revenue for the first quarter was \$5.96 billion, up 23% year-over-year or 20% in constant currency. The strong new business pipeline that we discussed last quarter enabled us to deliver these results. While we had a favorable comparison for Q1, our two-year new business CAGR also illustrates the continued strength in the business.

A few areas to highlight. As Marc mentioned, we saw a record number of Q1 seven-figure deals. Not only were these deals big, they were multi-cloud transformations with, on average, more than four clouds included in each. Our vertical strategy continues to align our products to strategic industries. In particular, we saw strength in the public sector, which continues to accelerate as governments around the world turn to Salesforce solutions.

Service Cloud demonstrated another quarter of incredible growth at scale with Q1 revenue of \$1.5 billion, growing 20% year-over-year. And Tableau continues to perform well. We are pleased with the progress of the integration. For example, in Q1, Tableau was in eight of our top 10 deals for the company and in more than 60% of our seven-figure-plus deals.

Revenue attrition in Q1 was between 9% and 9.5%. We continue to be pleased with the progress made on attrition. Our remaining performance obligation representing all future revenue under contract ended Q1 at approximately \$35 billion, up 19% year-over-year. Current remaining performance obligation or CRPO, which represents all future revenue under contract that is expected to be recognized as revenue in the next 12 months, was approximately \$17.8 billion, up 23% year-over-year or 20% in constant currency.

Turning to operating margin. Q1 non-GAAP operating margin was 20.2%, largely driven by revenue outperformance and incremental expense efficiencies. Q1 GAAP EPS was \$0.50 and non-GAAP EPS was \$1.21. The outperformance in the quarter was primarily due to higher revenue and expense efficiencies as well as realized and unrealized gains on our strategic investment portfolio. These mark-to-market adjustments benefited GAAP EPS by approximately \$0.23 and non-GAAP EPS by approximately \$0.24.

Turning to cash flow. Operating cash flow in the first quarter was \$3.2 billion, up 74% year-over-year. As a reminder, last year's cash flow seasonality was impacted by our decision to provide temporary financial flexibility to some of our customers during the pandemic. And we continue to expect cash flow seasonality to skew higher in Q1 and Q4. CapEx for the quarter was \$171 million, leading to free cash flow of \$3.1 billion, up 99% year-over-year.

Before moving on to guidance, I wanted to update you on the status of the Slack transaction. We remain on track to close in Q2. Now, as we've refined our Q2 and full-year guidance, we have also refined our expectation on the Slack closing date which we now expect to be near the very end of the quarter. And so I want to emphasize that all guidance assumptions involve – changes involving Slack are completely timing-driven.

So turning to guidance. We expect Q2 revenue of \$6.22 billion to \$6.23 billion or approximately 21% growth year-over-year. This guidance assumes no contribution from Slack. For Q2, we expect to deliver CRPO growth of approximately 20%. This guidance assumes approximately 3 points of growth from Slack. As a reminder, Q2 fiscal 2021 benefited from strong renewal performance. We expect Q2 GAAP loss per share of negative \$0.10 to negative \$0.09 and non-GAAP earnings per share of \$0.91 to \$0.92. Our assumptions include a \$0.09 impact from Slack primarily driven by OIE and transaction and integration costs.

Now moving to fiscal 2022 updates. As a result of our Q1 performance, we are raising our fiscal 2022 revenue guidance by \$250 million to \$25.9 billion to \$26 billion or approximately 22% growth year-over-year. Now, this guidance incorporates an expected revenue contribution of \$500 million from Slack due to the changes I mentioned in our close timing assumptions. Our guidance continues to include \$190 million from Acumen. Net of the revised Slack contribution, this represents a \$350 million raise on our core business. Our decision to raise fiscal 2022 revenue is reflective of our Q1 performance and our confidence in our ability to execute for the rest of the year.

We are also raising our fiscal 2022 non-GAAP operating margin to 18%, an expansion of 30 basis points year-over-year. This continues to include an expected 160 basis points headwind from Slack and Acumen, continued investment in our core business and the moderate increase of travel in the second half of this year. We are raising fiscal 2022 GAAP diluted EPS to \$0.22 to \$0.24 and non-GAAP diluted EPS to \$3.79 to \$3.81. We expect recent M&A will be an approximately \$0.53 headwind to non-GAAP diluted EPS. Please recall that our OIE and EPS guidance assume no contribution from mark-to-market accounting as required by [ph] ASU 2016-01 (00:29:53).

We are also raising fiscal 2022 operating cash flow guidance by 2 points, now expecting 12% to 13% growth year-over-year. The increase from our previous guide is primarily driven by revenue performance and by the refined timing expectations on M&A. The diluted cash flow impact of Slack and Acumen now represents a headwind to our year-over-year growth of approximately 8 points. We continue to expect CapEx to be approximately 3% of revenue in fiscal 2022, resulting in a free cash flow growth rate of approximately 12% to 13% for the fiscal year. Excluding the anticipated impact of M&A as previously noted, this rate would be 22% to 23%.

To close, our impressive start to fiscal 2022 positions us well for the rest of the year and keeps us on track to achieve our goal of \$50 billion by fiscal 2026. It really was a terrific quarter. And I'm grateful to our employees for their focus on both growth and efficiency during the quarter. Finally, it has been a pleasure to meet many of our shareholders over the past few months and I want to thank all of you for your continued support of Salesforce.

And with that, Chantel, let's open up the call for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from Kash Rangan with Goldman Sachs. Your line is open.

Kash Rangan

Analyst, Goldman Sachs & Co. LLC

Q

Hi. Thank you very much. Congratulations to the team. My first question is for Amy. Amy, and nice work on the margins. And clearly, Marc talked about how you're reimagining the company from a fundamental level. Can you just talk about what are the things that you're working on that would give you the right balance between growth, which is great, and the margin expansion? And if I could sneak in one for Marc. As you look at the future of work, what is the position for salesforce.com as you look at that future? And how is Salesforce positioned to take advantage of what you believe to be the future of work and whatever that is, the way we work in the future? Thank you.

Amy E. Weaver

President & Chief Financial Officer, salesforce.com, inc.

A

So hi, Kash. Thanks for the question. So when I look at the balance between growth and profitability, I want to be clear that growth remains our number one priority. Investing into growth, especially in this demand environment, is simply the best thing we can do for the company. That said, I am a big believer that a focus on discipline makes for a stronger and more durable company. So over the long term, I believe we need to be able to deliver both.

Marc Russell Benioff

Founder, Chairman & Chief Executive Officer, salesforce.com, inc.

A

Well, Kash, I really appreciate your question. And we have a tremendous vision for the future of work at Salesforce. The future of our own business, like I mentioned, at-home workers or in-office workers, the ability to meet and have offsites and events and programs and large cultural facilities like we talked about. But we believe there is a fundamental technology platform that is needed to bring all this together.

And we also believe that we also have to include all stakeholders, not just our company but our customers and our partners and even consumers. And I think that Bret has created an incredible vision for the future of work and an incredible platform. And when you think about as well what Slack is going to do in terms of transforming our company, when each one of our clouds becomes Slack-first; well, that I think is a huge accelerator in all of this. So Bret, would you just kind of tell us what is the future of work?

Bret Steven Taylor

President & Chief Operating Officer, salesforce.com, inc.

A

It's a great question. And more importantly, it's a question on the mind of every CEO and every single one of our customers. When you look at the trends of this past year like that wonderful Honeywell story that Marc mentioned in his script, they shifted 7,000 salespeople from in-person to virtual customer meetings. Customer meetings aren't going back to conference rooms only. They're going to stay on Zoom as companies like ours just realize that we can execute as well as ever before in this digital environment.

The contact centers that moved from being buildings to being in the cloud thanks to the power of Service Cloud, they're not going back to buildings anymore. When you think about the move from doctors' offices to telemedicine

– you look across our portfolio, the move to digital commerce and digital marketing and incredible Cyber Week numbers we talked about last quarter. We really think that the digital Customer 360, the platform we've been building, is an absolutely crucial part of the future of work for every single one of our customers, in particular, because things aren't going to snap back to the way they were.

It's also, as Marc mentioned, I think one of the reasons we're so excited about the prospect of closing this Slack transaction. When you think about what does it mean to succeed in the all-digital work anywhere world, it's Customer 360 which enables you to digitize your entire customer experience and get back to growth in this incredible economy. And it's the digital HQ from Slack which enables you to connect all of your employees, all of your partners and all of your customers together in this incredible new engagement platform. And we think the two together represent an incredible opportunity that I think is truly the operating system for growth for every company embracing this new way of working and getting back to growth in this new normal.

Operator: Our next question comes from Brent Bracelin with Piper Sandler. Your line is open.

Brent A. Bracelin

Analyst, Piper Sandler & Co.

Q

Thank you for taking my question. I guess, first, great to hear this new concept of a regional in-person Dreamforce. Looking forward to an in-person reunion here. I guess for maybe Marc or Bret here. Salesforce has by far the broadest portfolio of different cloud applications today. I was hoping you could parse out what customers are asking for, what cloud application could see the highest uptick in interest as you look at the pipeline. You mentioned Tableau being a meaningful part of the large deal pipeline. But would love to just better understand what cloud applications specifically are [ph] revving (00:36:26) the most here in this kind of post-vaccine era that we're entering?

Bret Steven Taylor

President & Chief Operating Officer, salesforce.com, inc.

A

Yeah, thank you for the question. I think one of the things – if you see the numbers, the strength is really across the portfolio. When we talk about the fact that of the seven-figure deals, they on average included more than four of our clouds; we're not selling individual products. We're selling a Customer 360 solution to really transform the entire customer experience.

That said, last quarter, I talked a lot about the amazing growth in marketing and e-commerce due to Cyber Week. It's really heartening to see just all aspects of the economy and our portfolio growing. One of the most fun for me this quarter in Sales Cloud, we're seeing over 5 million opportunities created every day. That is almost a 20% increase over the last quarter. This is every B2B selling team in the world investing in growth again, recognizing the demand environment we see in the economy and every single part of our customer base.

Another great example of this is – and I don't even know if you know this, Marc. But in April, Einstein started doing over 100 billion predictions per day. And it's a great example of these platform investments that we did multiple years ago that our customers, as the whole economy goes digital, are really benefiting from. When you think about what does that mean? It means that every e-mail you get is more personalized. It means that every e-commerce you paid is suited to your interests and your needs, driving growth and success for our customers who really represent, I think, the importance of these foundational technology investments.

And another great example of this. Marc talked about Customer 360 analytics and Tableau integration with MuleSoft. You're really seeing the importance of, I'll call it, that technology foundation as it relates to these

Customer 360 multi-cloud deployments. MuleSoft is now doing 4.86 billion integration transactions every day. That is up 28% quarter-over-quarter. And it's sort of the boring but important part of the Customer 360, integrating all of those legacy systems so our customers can move faster in the face of an economy that's I think shifting more rapidly as ever before and really I think shows the importance of our acquisitions as it relates to our overall value proposition of Customer 360.

Operator: Our next question comes from Keith Weiss with Morgan Stanley. Your line is open.

Keith Eric Weiss

Analyst, Morgan Stanley & Co. LLC

Q

Excellent. Thank you, guys, for taking the question. And a great start to the year. It looks like there's a ton of momentum at Salesforce right now. Maybe one question for Marc and one for Amy. For Marc, there has been some investor debate on sort of to what degree digital transportations are really accelerating. When a lot of other companies had a more mixed or difficult Q1, you guys seemed to have really hit it out of the park with this Q1. Can you tell us kind of your view on sort of how your customers are changing their investment profiles? And when is that going to hit? Is that something that is really a 2021 event? Or because of the big strategic nature of these deals, it could take some time to flesh out?

I guess I'm asking how is the pipeline looking for these big strategic deals. And then the question for Amy. We were impressed when you sort of stuck it with 17.5% operating margins with the initial FY 2022 guide. Now you're raising it another 50 basis points. Can you talk to us about – does that come from sort of expenses being pushed out? Or is there actual kind of more efficiencies that you're finding in the business that enable you to raise the operating margin guide here? Thank you.

Marc Russell Benioff

Founder, Chairman & Chief Executive Officer, salesforce.com, inc.

A

Well, I'm so excited that you're excited about Amy's new model. So I, by the way, am also – I think Kash said it well. She has reimagined the business. She has rebalanced our ratios. She's figured out how to take these kind of changes that have occurred in the pandemic, which is less travel and less real estate and less events, and kind of re-built the company from the bottom up.

And I think that's where we're really starting to see Amy's genius kind of take place, which is that when I look at the revenue, \$5.96 billion, up 23%, 20% in constant currency. The cash flow, \$3.23 billion. But then when I really get down into this operating margin at 20.2% but also the ability to raise for the year; it really gets down to this new model that she has really pioneered and has installed in the company. And it's given us a fresh look at how we run our business and what we're going to do in the future, how we think about the right balance between revenue and cash flow and margin.

And the pandemic gave all of us the ability to reset our lives but also our businesses. And when we look at resetting our businesses, we also have to reset our financial models. And I think that this is the result of now four amazing quarters of this financial model emerging. And I think we're going to see that continue to pay out for the rest of the year and future years as well that we will benefit from this. And I don't think it's something that's getting pulled forward or pushed back or this or that. It's all zero base from the bottom. So that's what's exciting and it's a commitment that we have to a new model and a new approach and also this idea that it's a new way to work.

Now, in regards to the customer focus. I think, well, we just have never seen customer demand like this. And there's certain applications that we have been asked not to profile on the call, for example, in regards to some

things that the US government has done in terms of making sure that stimulus gets to the right place at the right time. And we were asked to do things in a matter of weeks. It's not just limited to our government. It's other governments. It's other businesses.

I've never seen – and I said this in the last couple of calls – so many what I would call emergency deployments. Usually, it's, hey, we'd like to have this in 6 months, 12 months, at the most 18 months. That's one of the reasons they come to Salesforce, very fast time to value. This is critical. But for us, they want instant time to value. I'm like, wait, well, we have to build this [indiscernible] (00:42:59) we got to go. All right, well, we'll go. We'll build it. We'll deliver this. We'll make this happen for you.

And I've been so fortunate to have Gavin really by my side during all of this. Everybody knows Gavin's tremendous lineage. And Gavin and I worked together and have been friends for more than a decade. But of course, as the CEO of BT, I always admired his business process and his business practice and his ability to bring discipline. But now watching him run our customer organization and what he's done now over the last year, that's just been a shock to me.

But, Gavin, I think you should just kind of come in here because it's not just Amy who's reimagined the financial model. You reimagined the entire customer model and how we're going to market and the balance of sales and service. And you've reimagined the level of management that we have and where we're putting that management, the level of capacity, the relevance, the participation, the enablement, these things that you've laid in. So would you just give us what's happening on the customer side? And how do you see the market today?

Gavin E. Patterson

President & Chief Revenue Officer, salesforce.com, inc.

A

Well, thanks, Marc. As you say, it's been an absolutely stellar quarter, an incredible quarter. And three words come to mind for me, relevance, investment and execution. Relevance is I think really, really clear. What we offer at the moment is what organizations around the world, be those companies or governments, it's what they're looking for to manage their business. And we see that in the new business pipeline. It's extraordinarily strong.

Yes, we have a favorable compare. But if you look at the two-year performance; it's really, really strong. And that's the key number to look at. We're not persuaded by just the year-on-year. It needs to be the two-year performance with an easy compare. So I think taking advantage of the economy and the strength of investment going into the economy in many places around the world, we're perfectly placed to take advantage of that.

I think the second thing is about investment. So in the mid part of last year when we were restructuring the business, we also put new investment back into the business particularly with capacity. And we're seeing the benefits of that now as we come into the year really strong, ready to take advantage of the strong economies we're seeing around the world. So being able to invest when others weren't, I think, is a significant factor.

And then the final thing is around execution. We had a really strong, I think, quarter because of the execution and the grit that we've got on the sales and service organization. We had a digital launch this year and that meant we got all the quotas deployed very, very quickly. We got more selling days into the quarter. We've got a flatter organization now. So there's really clear accountability throughout the business. And we're seeing that turn into great results. Great results both in terms of the run rate business but also particularly strong results in the big deals. And Marc talked about some of those numbers. So the business is really humming. The pipeline is super strong. It's across all clouds. It's across all geographies. There's a real strong focus on the industries as well and the business is really, really pumping.

Marc Russell Benioff

Founder, Chairman & Chief Executive Officer, salesforce.com, inc.

A

All right. I really want to ask a follow-up question, Gavin, because you mentioned this, but I think it's important to illuminate this, which is Q1 was very much frictionless. We decided we're going to do digital kickoffs. We're going to get all of the quotas and the territory assignments out as quickly as possible. You've really led this amazing program to do this and to make sure we had this fast start to the first quarter and to the fiscal year. You brought a level of discipline into the sales org I've never seen before. So I never really understood how the British did it. So can you just fill in the detail there in terms of the velocity of the distribution organization is just incredible?

Gavin E. Patterson

President & Chief Revenue Officer, salesforce.com, inc.

A

Well, I think this is one of the silver clouds that's come out of the pandemic is that we couldn't meet face to face. So we had to do everything digitally. But that meant we got out of the blocks really, really fast. It meant that we're able to compress the launch of the year into about a week. It gave us more selling days to make sure that everybody was clear what they had to achieve, their goals were deployed earlier in the year. And that meant we're able to focus on our customers and that's the most important thing we do. And when the demand is there, which is the case at the moment that there is undoubtedly demand for our products, the key is making sure that you're close to your customers and you're there helping them solve their problems. It's been about execution.

Marc Russell Benioff

Founder, Chairman & Chief Executive Officer, salesforce.com, inc.

A

It's inspiring, Gavin. And I'll tell you we've had a lot of great distribution leaders in our company and a lot of great people by my side over the last two decades who have been running this distribution organization. But you've just done an incredible job. And I just want to congratulate you on not only a great year last year but now this amazing first quarter and the execution you've done. Amy, do you want to just come in here and help fill in the details? Because this velocity that Gavin has given us; well, now you're really paying it out with this new model, aren't you?

Amy E. Weaver

President & Chief Financial Officer, salesforce.com, inc.

A

[indiscernible] (00:48:42). And Keith, thanks for the question. And yes, very, very pleased to raise from 17.7% up to 18%, so a 30 basis point improvement for the year. This is not a push-out. What it really is is the combination of a few things. First, it's a great quarter that Gavin just described. And having such terrific revenue just really gives us some additional room to operate this year. It's also a focus on what we've learned about how we're working. And we learned a lot over the past year. Gavin pointed out having a virtual TKO and kickoff led to different efficiencies and it also led to savings. And then, finally, it is a renewed focus on efficiencies and discipline around the company.

Operator: Our next question comes from Brent Thill with Jefferies. Your line is open.

Brent Thill

Analyst, Jefferies LLC

Q

Maybe a question for Gavin. The Americas saw an acceleration, but Europe and APAC saw a slight deceleration. And I know that's reported revenue, but I'm just curious if you could talk to what you're seeing outside the US and the recovering – obviously, the lag would make sense there. But what you're seeing in pipeline beyond the US.

Gavin E. Patterson

President & Chief Revenue Officer, salesforce.com, inc.

A

Look, the recovery from the pandemic is not at the same stage in every market. I think that's fair to say. But our business is strong. The new business has been strong across the board. There might be 1 point or 2 point difference region by region. But there are no what I would call weaknesses across our global organization. So we do see strength across the board. And we see a strong pipeline, importantly, across the board. So I wouldn't read into anything, 1 point's difference here or there. I'm very confident that there's growth in the US but also outside the US and around the world.

Marc Russell Benioff

Founder, Chairman & Chief Executive Officer, salesforce.com, inc.

A

And I'll give you a point of evidence on that, which is that Gavin and I brought out our top distribution leaders together in person last week with Bret. And we can't bring them all in person. So some of them are just not allowed in the United States. We just can't get them here. But for the ones that can come in, like Gavin, for example, or others – we've been able to bring in some of our European executives. Wow, it was really a position of confidence. It was feeling like there is a tremendous market that has built over the last year that I think people realized that they must be digital, but they must be digital with their customers. It's not just digital transformation. It's digital customer transformation. That's where the power is, I believe, in the market especially right now. And I love that Sonos story because it's a point of evidence on that. Would you agree?

Gavin E. Patterson

President & Chief Revenue Officer, salesforce.com, inc.

A

Yes, absolutely. The Sonos story is the perfect case study in many ways. And I think it demonstrates the ability for us to help customers transform quickly. This was a pivot that Sonos needed to make right at the height of the pandemic. And we were able to help them transform their business and manage through the pandemic and come out a stronger business closer to their customers and be extremely well placed to continue to grow in the next few quarters.

Operator: Our next question comes from Alex Zukin with Wolfe Research. You line is open. Alex, your line is open.

Alex Zukin

Analyst, Wolfe Research

Q

Hey, sorry. I was on mute, guys. Thanks for taking the question and congrats on a great quarter. Maybe, Amy, first for you. You reimagined the operating model and rebuilt it from the ground up as Marc said. Where have you found the lowest hanging fruit from an operational efficiency perspective that you're looking to leverage going forward? And for Marc, you've been through recoveries before. You've been through downturns before. How strong is the demand right now versus the past recoveries you've seen? And your best guess, looking on a global basis, how long it lasts.

Amy E. Weaver

President & Chief Financial Officer, salesforce.com, inc.

A

So thanks for the question. I think the lowest hanging fruit is clearly our difference in how we are working right now. It's this all-digital work from anywhere. Probably the easiest part on that is the difference in T&E. That clearly has gone way down. We are assuming, for purposes of guidance, some modest return of travel in the second half

of this year. But it will be nowhere near where we were pre-pandemic. We've simply learned how to work effectively and how to serve our customers effectively without being on a plane every day.

Marc Russell Benioff

Founder, Chairman & Chief Executive Officer, salesforce.com, inc.

A

Well, I'll tell you that you're right. This was the best quarter we've ever had. And I can tell you from bringing these distribution leaders in, I've never seen a pipeline like this or the ability in every market to execute with such robustness. And I think that CEOs – I'll tell you from my own – obviously, we invested last year. We didn't hold back. We knew we had to go for it and that we had to go all out. And it's counterintuitive. The world is ending and you have to say, well, you got to go all out and realize that the world is not going to be ending in a year from now. And it's hard when you're in it because people start to panic. It's a normal human reaction. We even had executive sales forces who came in and said, oh, we've got to cut, we got to do this, we have to do that. We reshaped. There's no question. We did some slight reshaping. But we didn't do any massive layoffs or anything like that of any consequence that I would say, oh, we really tried to cut dramatically in some area or whatever. It was like, no, we need to reshape to grow. We need to invest to grow. We need to do the things that we need to do as a company. And that's a year ago.

So a year ago, it was a decision based on experience. That is we have seen it, whether it was the recession in 2001 or the financial disasters of 2008. Those are just moments. They're moments in time. But in the history of the company or if you look at the history of the equity from 2004 when we went public, you got to keep going. And that moment is the time to go because in many cases, your competitors are pulling back because they're afraid. And when your competitors are afraid, that's when you need to invest and that's where you really need to grow. And I'll tell you I think that that's what Gavin did. That Gavin came in and he reshaped. He took out some cost. He advanced certain areas. He rebalanced his org and was able to provide greater market coverage. And expanding his capacity capability and I think at levels I haven't seen in a long time. So do you want to just fill in the details?

Gavin E. Patterson

President & Chief Revenue Officer, salesforce.com, inc.

A

Well, in many ways, I think you've made the point very well there, Marc. It was at probably the most difficult point in the last 12 months where everybody else was making cuts, we reshaped the business and created more capacity knowing that the demand would come back. And it takes a few months for new capacity to come online and become productive. But what that decision allowed us to do was enter the year with really strong market coverage, up significantly year-on-year. And I think it's helped us get off to a really strong start and take advantage of the demand that is undoubtedly there for the Customer 360.

Marc Russell Benioff

Founder, Chairman & Chief Executive Officer, salesforce.com, inc.

A

Well, I'll tell you, I think, to add to that, look at what Bret has done this year. Bret really led and executed this amazing reshaping plan. He rebuilt kind of the company and overall really looking at where are we balancing our resource and also architecting our Slack acquisition. Bret was at the tip of the spear on both of those, making sure that we're prepared for the future with the business plan and the reshaping plan that we needed and the technology plan and the technology vision.

Then Amy came in and she said, no, we're going to rebuild the fundamental financial plan as well. And we're going to couple that financial plan from the bottom up and build a new revenue plan and a new cash flow and margin plan. And you see that now. And then we had Gavin come in and say this is how we're going to rebuild the distribution organization. And I think these three tiers all coming together really are what you see today.

And when you look at these numbers, when you look at a company that's going to do now over \$26 billion in revenue this year; look, there has only been a couple of enterprise software companies in history that have done that. You know that. And this is a big moment for us, \$26 billion. But you know because you have your models and you have your spreadsheets and you have your formulas and you see our growth rates; you can start to project out and see where we're going not only this year or next year but as we're projecting out to our \$50 billion number, which obviously [Technical Difficulty] (00:58:04-00:58:13). Next question.

Operator: Ladies and gentlemen, we have reached the end of the allotted time for questions and answers. I will turn the call back over to Evan Goldstein for closing remarks.

Evan Goldstein

Senior Vice President-Investor Relations, salesforce.com, inc.

Thank you for joining us on the call today. If you have any follow-up questions, please e-mail us at investor@salesforce.com. Look forward to speaking with you next quarter Thank you.

Marc Russell Benioff

Founder, Chairman & Chief Executive Officer, salesforce.com, inc.

And see you at Dreamforce, everyone. Bye-bye.

Operator: This concludes today's conference call. Thank you for participating. You may now disconnect.

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