



**Salesforce, Inc.**

**First Quarter FY23 Earnings Conference Call**

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## CORPORATE PARTICIPANTS

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**Gavin Patterson**, *President and Chief Revenue Officer*

**Amy Weaver**, *President and Chief Financial Officer*

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**Keith Weiss**, *Morgan Stanley*

**Kirk Materne**, *Evercore ISI*

**Mark Murphy**, *JP Morgan*

**Brad Zelnick**, *Deutsche Bank*

**Brent Bracelin**, *Piper Sandler*

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**Kash Rangan**, *Goldman Sachs*

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## PRESENTATION

**Evan Goldstein**

Thank you Emma. Hello everyone and thanks for joining us for our Fiscal 2023 First Quarter Results 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](http://www.salesforce.com/investor).

With me on the call today is Marc Benioff, Chair and Co-CEO; Bret Taylor, Vice Chair and Co-CEO; Amy Weaver, Chief Financial Officer; and Gavin Patterson, 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 and press release.

Some of our comments today may contain forward-looking statements that are subject to risk, uncertainties and assumptions, which are subject to change. Should any of these risks materialize, or should our assumptions prove to be incorrect, actually 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.

Before I hand the call over to Marc, I'm excited to welcome Mike Spencer to Salesforce. As many of you know, I will be taking on a new role here at Salesforce supporting Strategic Planning and our Product organization, and Mike has joined Salesforce to lead Investor Relations. Mike is familiar to many of you as he previously led Investor Relations at Microsoft. Thank you, Marc, Bret, Amy, Gavin for allowing meaningful rotations that enable career development. It is one of the many benefits of working at Salesforce.

And thank you to the investment community for welcoming me over two years ago. Leading IR has been one of the most rewarding experiences in my career.

With that, let me hand the call over to Marc.

**Marc Benioff**

Hey, thanks so much Evan, and congratulations on your promotion. It's so well deserved. You've done a phenomenal job in the last two years and we're also thrilled for you. Thank you for agreeing to take on this incredible new role at Salesforce and leading these teams, and we could not be more excited for you, and we cannot be more excited to welcome Mike Spencer to Salesforce. I know that many of the folks on this call have worked with Mike before. Should be a familiar voice, and a friend. Looking forward to working closely with Mike. Mike is going to be based out of our Atlanta headquarters and really excited about that because our new Chief Information Officer is there as well as a number of other incredible new executives from Salesforce including our new Chief Accounting Officer and our Chief Commercial Officer. Really a cool thing to see Atlanta in our kind of post-pandemic reality become such a center of gravity for Salesforce. In fact, we just had our Q1 Operations Review there and it was exciting to welcome Mike to the team.

With that, let me just tell you it's been a whirlwind for our management team, as you're about to hear on this call. We have been on the road. I personally was just in Sydney, Australia. I was in Tokyo. We were in Atlanta. We were in New York, and last week we were in Davos, Switzerland. All that was in I think the last four or five weeks. We've really been all over the world. It's been pretty awesome. We've met with hundreds and hundreds of customers and I can tell you that our business—you can see this in the Q1 numbers, can't you? It's incredibly healthy. You can also see we had a great quarter.

We're carefully watching the economic data. I know all of you are doing that as well. So far, we're just not seeing any material impact on the broader economic world that all of you are in. Our demand environment, the demand is very strong. If you look over the last 23 years, Salesforce has proven to be incredibly resilient based on this incredible business model we have. And incredible technology model that we have. We've been through all kinds of dot com crashes and recessions and financial crises and global pandemics and all of you have watched us go through every possible storm, but we continue to weather these storms through the power and strength of our model.

In 2001, I think it really impacted us; we almost lost our business because we were on monthly contracts, we didn't have the right cash flow structure. Investors just wouldn't give us any money, and so we made a lot of changes then. It's really strengthened our business and made us more durable over time. There's now no better measure of our durability of the business model, the momentum of the business, the strength of the technology model than our remaining performance obligation, the future revenue that we have in our contract.

In Q1 we had \$42 billion in RPO, up 20% year-over-year. Pretty amazing. In every crisis we've experienced over nearly a quarter of a century, I'll just tell you I think that Salesforce—and I'm sure you all agree—always emerges stronger than ever. We became more strategic and more relevant to our customers because we focus on their success and that continues today. That's why we've been able to grow our revenue for 72 consecutive quarters, through every cycle, a focus on customer success, and it's why Salesforce remains the number one in CRM now for the ninth year in a row; growing in share in all CRM segments yet again according to the IDC Software Tracker.

When it comes to our financial results, we had, as you can see, a very strong quarter. You can also know that the dollar—well, I think the dollar might have even had a stronger quarter than we did, which is kind of amazing, and I certainly saw that in my travels over the last month. Although these kind of fluctuations in foreign currency markets had an unexpected impact in the quarter, we still delivered \$7.4 billion in revenue, up 24% year-over-year.

Foreign exchange movements have resulted in a revenue headwind of about \$109 million year-over-year, something we could not have anticipated. Operating cash flow, though, in the quarter, well, here it is: \$3.7 billion, up 14% year-over-year, reflecting very strong performance across the core business. Operating margin in the quarter, that was 17.6%.

Turning to our revenue guidance, well, as I mentioned, 10% in foreign exchange volatility that increased the year-over-year headwinds by an additional \$300 million for a total of \$600 million for the year since we first gave you guidance at our Investor Day. To give you an example, I was in Japan for the first time since the pandemic a couple of weeks ago, maybe it was two weeks ago, and I couldn't believe the decline in the value of the yen. It was a very good time to be a tourist in Japan, but I called our team and I said, "You know, this is great to be a tourist in Japan, but it's going to have implications as we roll this revenue up from the Japanese market to our U.S. dollars." In fact, our Japan revenue in the fourth quarter faced a 12% headwind year-over-year just—the yen had a historic fall; something I've just never seen.

As a result of these headwinds, we're lowering our Fiscal '23 revenue guidance by \$300 million to \$31.7 billion to \$31.8 billion or about 20% growth year-over-year.

For operating margin, we're raising our Fiscal '23 non-GAAP guidance by 40 basis points to 20.4%, an expansion of 170 basis points year-over-year.

As all of you know, we're quite committed to consistent margin and cash flow growth as part of this long-term plan and model that we have to drive both top- and bottom line performance. As I said, this demand environment for our Customer 360 platform, as you're about to hear from Bret and from Gavin and from Amy and from others, well, it remains incredibly healthy.

Our customer relationships are amazingly strong, as evidenced by these hundreds of customers that we've met with just in the last couple of weeks, and I'll tell you, as you hear some of these incredible stories from the quarter, companies like State Farm and Formula One and Goodyear and even the Department of Commerce, well, I'll tell you, these customers, they're very excited to be able to get not only incredible productivity from our product but also growth as well.

Let me say that this is a time when every company, every industry, every government is investing in digital transformation. No company is better positioned than we are to help companies transform for the digital future. That was something we fully experienced in Davos last week, and I could not be more grateful to our 77,000 Ohana, millions of trailblazers who are making a difference for our customers and the world.

Now, over to Bret.

**Bret Taylor**

Thanks Marc.

As Marc said, we had a great quarter and we see strong demand across our clouds, our industries and our regions despite the unprecedented foreign exchange headwinds. Our results really demonstrate the power of our strategy.

Our products are more relevant than ever before as companies invest in our Customer 360 platform to connect with their customers and to drive cost savings in this new digital economy. Our technology is deeply differentiated with our Hyperforce infrastructure and Einstein artificial intelligence enabling our customers to reach global scale with levels of trust that are unmatched in the industry. Einstein is now doing 164 billion predictions per day, which is just incredible.

Our ecosystem is unparalleled. We have over 15 million trailblazers creating what IDC estimates will be \$1.6 trillion in economic impact for our customers and for our partners. And our business model, as Marc said, is durable. It's diversified across industries, regions, lines of business, ensuring we're resilient in the face of any economic cycle.

And finally, our leadership team continues to focus on disciplined execution, which is driving both top line performance and sustained operating margin cash flow expansion.

As Marc said, we've all been on the road and we've been reconnecting with our customers, our trailblazers and our partners. The common theme from the customers I've met with, from Singapore to New York to the 30 CEOs I met one-on-one with at Davos last week is that digital transformation trends that dramatically accelerated during the pandemic, they continue full steam ahead despite all the volatility in the global economy.

One great example is ADT, the leader in home alarm systems. ADT used our Service Cloud to execute over 200,000 virtual service visits in its first quarter. As a result, the company avoided sending out technicians in trucks in 80% of its service cases. They lowered their cost and they lowered their carbon footprint, all while achieving higher customer satisfaction. This is the promise of technology, to drive productivity, and our Customer 360 platform is relevant whether you're trying to scale growth, increase productivity and profitability, or meet your sustainability goals. All three are increasingly relevant to our customers across the globe.

We had strong year-over-year growth across every region in the quarter: 21% in the Americas, 33% in EMEA and 24% in APAC. We saw strong momentum across every cloud in our Customer 360 platform as well.

Sales Cloud continues to accelerate, surpassing \$1.6 billion in the quarter, growing 18% year-over-year with great wins like DoorDash and Stellantis. Stellantis, which was formed last year from the merger between Fiat Chrysler and the French PSA Group, decided to standardize the entire company on Salesforce. They replaced more than 2,500 apps with Customer 360. With Sales Cloud, they now have a

single source of truth for all their customer engagement to drive growth while delivering best-in-class personalized service.

Our Service Cloud grew at 17% year-over-year to \$1.76 billion in revenue in the quarter. State Farm, a long time Salesforce customer, was a great Service Cloud success story this quarter. They're now combining our Field Service platform with Sales Cloud, Service Cloud, Financial Services Cloud to enhance their entire end-to-end customer support experience, especially during catastrophic events. We also continue to see strong momentum with our Marketing Cloud with customers like Bose and Colgate Palmolive. Our Marketing Cloud has become even more relevant to CMOs as they navigate the significant changes in mobile operating systems and new privacy regulations around the globe. This is the new cookie-less world, and it's made growing and measuring consumer engagement harder than ever before, and it's driving investment in our Customer Data Platform, which has become one of the fastest-growing products we've ever released. Bose is using our CDP to unify their customer information from hundreds of different sources to drive hyperpersonalized marketing, multichannel campaign management and real-time engagement, all with compliance and trust built in natively. We also saw Commerce Cloud wins at YETI, L'Occitane and Goodyear, continuing the digital commerce trend that accelerated so rapidly in the pandemic. Together, Marketing and Commerce do 22% year-over-year in the quarter.

Our data clouds, including MuleSoft and Tableau, grew 15% year-over-year in the quarter. Data is the fuel for every digital interaction, and MuleSoft and Tableau continue to be foundational for every multi-cloud Customer 360 deal. Tableau wins in the quarter included ADT, Bose and Lookers Motor Group, a top auto retailer in the UK. MuleSoft was also part of some of our largest deals in the quarter, including NTT, and continues to deepen our relationships with existing customers like Rocket Mortgage.

As you know, we've been working through some issues on MuleSoft's go-to-market motion over the past couple of quarters. Amy will get into specifics, but I'm encouraged by the progress we're making, and we have a strong pipeline for the back half of the year.

I'm also excited to say that Slack continues to exceed our revenue expectations, with wins of the self-driving car company, Cruise and the UK Ministry of Justice. This was the fourth consecutive quarter we see more than 40% growth in customers spending more than \$100,000 with Slack annually. We also continue to see strong momentum across our 12 industry verticals, including financial services, health care, consumer goods and manufacturing. Our industry-specific clouds were part of 7 of our top 10 deals this quarter.

I'm so grateful for our 15 million trailblazers, all of our partners and our 77,000 employees for helping provide our customers with the innovation, agility and resilience they need to navigate these uncertain times. Our customer success drives our financial success, and this unrivaled community is why our customers choose Salesforce as their trusted digital advisor.

Now, over to Gavin to talk about some of the customer success stories from the quarter.

#### **Gavin Patterson**

Thanks Bret, and thank you everyone for being on the call today. I want to start by talking about the strong demand environment we're in. As Bret and Marc said, even in this volatile environment, companies are continuing to invest in their digital transformations, and we're seeing that in our strong pipeline and momentum in the business. I've been on the road this quarter across the U.S., Europe, Asia and most recently in Davos, and in all my conversations, there is a real sense of urgency with our customers. In this new or digital work-from-anywhere world, our customers need to create incredible customer experiences across every interaction to stay competitive. At the same time, they need to realize productivity gains,

efficiencies and resilience from their technology investments. That's why they're turning to Salesforce as their trusted digital advisors and to the Customer 360 as their digital platform.

We're seeing this play out in the growth of transformational deals, customers making longer-term multi-cloud investments in Salesforce. These Customer 360 transformation deals with five or more clouds grew 21% year-over-year in the quarter. We again saw strong growth in every region. In the Americas, we grew relationships with Brightspeed, Blue Shield of California, SHA Hotels, Workday, Covered California, and Ferguson, a \$23 billion distributor of plumbing and heating products.

Looking at Ferguson in a little more detail, Ferguson has been able to grow its sales during the heart of the supply chain challenges using Customer 360 to give them a single view of their supplier, associate and customer relationships. In the quarter, Ferguson significantly expanded its relationship with our Professional Services organization.

In EMEA, we had significant wins with Lookers Motor Group, Esprit and one of the largest telecom and media companies in France. They're standardizing on Salesforce to not only speed their time to market and reduce IT costs but also to deliver an amazing digital-first, front-end experience for their 45 million subscribers. As I mentioned, we had a great win in the UK with Lookers Motor Group. With the Customer 360, Lookers has a single unified platform, driving efficiency within their dealerships and contact centers and improving the overall car buying experience for their customers.

Turning to APAC, we continue to deepen our relationships with amazing brands like Kotak Mahindra Bank, LG and NTT, which is also a great Tableau and MuleSoft win. In LatAm, we had a significant win with Serasa Experian; they chose Salesforce Marketing Cloud to improve engagement with our current and prospective customers and to increase marketing efficiency.

Formula 1 is watched by 1.5 billion viewers. and today they're using Salesforce Marketing Cloud, Service Cloud and Sales Cloud to attract new fans, increase fan engagement and convert that fan engagement into brand value and revenue. Salesforce will help Formula 1 leverage customer insights across every channel, both physical and non-physical and create an end-to-end fan experience strategy powered by an integrated platform, and our professional services team will help to manage their technology and implementation.

In the quarter, the National Telecommunications and Information Administration within the U.S. Department of Commerce selected Salesforce to support the administration of the \$48 billion from broadband grants to state territories, tribal entities and other eligible applicants to create more low-cost broadband service options and to address digital quality and inclusion needs across U.S. communities.

To wrap it up, DoorDash has grown tremendously since the pandemic. They fulfilled more than 400 million orders in the last quarter alone and as a mobile-first business growing at an incredible rate, DoorDash turned to Salesforce to improve the customer experience and to respond to issues in real time for its hundreds of thousands of merchants, customers and dashers. They also selected Sales Cloud and MuleSoft to enable them to bring in new merchants on faster and more efficiently.

These are just a few examples from our strong quarter, and we're grateful for customers' continued partnership and trust.

Amy, over to you to discuss the financial details of the quarter.

**Amy Weaver**



Great. Thank you Gavin, and good afternoon everyone. As Marc and Bret said, we had strong financial results this quarter, and our pipeline remains robust. We are well positioned to serve our customers in this uncertain macroenvironment.

Let's go through some of our results for Q1 of Fiscal '23, beginning with top line commentary. Total revenue for the first quarter was \$7.41 billion. This is up 24% year-over-year or 26% in constant currency.

A few key highlights from the quarter. The momentum in Sales Cloud continued in Q1, with revenue accelerating to 18% growth year-over-year, 20% in constant currency. Slack again outperformed our revenue expectations with \$348 million in Q1 compared to our guide of \$330 million. The number of customers spending more than \$100,000 annually grew 45% year-over-year. Our industry's products remain in high demand and are providing out-of-the-box solutions to customers with specific needs. We saw an industry's product included in 7 out of our top 10 deals this quarter. And from a geographic perspective, EMEA performance was strong with particular strength in both the UK and France.

Now to provide an update on MuleSoft, total revenue increased 9% year-over-year against a strong prior year comparison, driven by lower-than-expected new business as we work through the go-to-market organizational changes we discussed on the last call. As a reminder, on average, 50% of MuleSoft's total contract value is recognized in period, resulting in more quarterly volatility than our core products. As Bret mentioned, MuleSoft's pipeline remains strong, and we still anticipate seeing the benefits from these changes in the back half of Fiscal '23.

Total company revenue attrition remains at record lows and in Q1, again, between 7% to 7.5%. As Marc mentioned, our remaining performance obligation, representing all future revenue under contract ended Q1 at approximately \$42 billion, up 20% year-over-year. Current remaining performance obligation, or CRPO, was approximately \$21.5 billion, up 21% year-over-year and 24% in constant currency. Slack represented approximately 5 points of that growth, in line with our guidance. This strong RPO performance at our scale reflects the relevance of our product portfolio and strategic relationships with our customers.

Turning to operating margin for the quarter, for Q1, non-GAAP operating margin was 17.6%. Q1 GAAP EPS was \$0.03 and non-GAAP EPS was \$0.98. Mark-to-market accounting as the company's strategic investments benefited both GAAP and non-GAAP EPS by approximately \$0.01.

Moving to cash flow, for Q1 operating cash flow was \$3.7 billion, up 14% year-over-year. Capex was \$179 million, resulting in free cash flow of \$3.5 billion, up 14% year-over-year.

Now before turning to our guidance, I'd like to call attention to the impact that foreign exchange is having on our financials. As a reminder, our primary currency exposures are to the euro, the Great British pound, the Japanese yen and, to a lesser extent, to the Australian dollar. Since we last provided our outlook for Fiscal Year '23, the dollar has continued to strengthen against all of these currencies. As such, we are providing increased transparency this quarter into the impact of FX on our guidance.

Now let's get to that guidance. For the full year, the change in currencies represents an incremental \$300 million year-over-year headwind on top of the \$300 million we provided last quarter, bringing the total year-over-year FX headwind to \$600 million. As such, we are now guiding to Fiscal '23 revenue of \$31.7 billion to \$31.8 billion or approximately 20% growth year-over-year. Our guidance continues to assume a \$1.5 billion contribution from Slack.

We expect Q2 revenue of \$7.69 billion to \$7.7 billion or approximately 21% growth year-over-year. Our Q2 revenue guidance includes a \$200 million year-over-year headwind from FX and a \$360 million contribution from Slack. For Q2, we expect to deliver CRPO growth of approximately 15% year-over-year.



This includes a 3-point headwind from FX. As a reminder, Q2 represents Slack's fifth quarter of contribution to CRPO and therefore, the year-on-year growth rate is now normalized.

We expect GAAP loss per share of negative \$0.03 to negative \$0.02 and non-GAAP EPS of \$1.01 to \$1.02. For the full year, we expect GAAP EPS of \$0.38 to \$0.40 and non-GAAP EPS of \$4.74 to \$4.76. Please recall that our OIE and EPS guidance both assume no further mark-to-market adjustments of our strategic investment portfolio.

Turning to operating margin, I am very pleased to announce that we are raising our Fiscal '23 non-GAAP operating margin guidance by 40 basis points to 20.4%. This includes 100 basis points to 125 basis points of headwind from M&A. This guidance increase represents an expansion of 170 basis points year-over-year and 270 basis points over two years, all driven by a continued focus on disciplined decision-making across the organization, and as a company we are committed to continuing to improve profitability over the long term.

With respect to FX, because our regional revenue and expenses are generally in the same currencies, there tends to be a natural hedge in our operating margin. As such, although we've seen FX headwinds to revenue, we don't currently anticipate a material impact to our operating margin for the full fiscal year.

Moving to cash flow, we remain well on our way to drive another year of record cash flow generation, and we are reiterating our Fiscal '23 operating cash flow guidance of approximately 21% to 22% growth year-over-year. In addition, our guidance continues to assume a 3-point headwind from cash taxes associated with tax law changes requiring the capitalization of certain R&D costs. We continue to expect Capex of approximately 2% of revenue in Fiscal '23, resulting in free cash flow growth of approximately 25% to 27% for the fiscal year.

To close, while there is uncertainty in the macro environment, our customers are continuing to come to Salesforce to transform their businesses. The demand we are seeing from our customers is a testament to the strength of these strategic relationships and the relevance of our product portfolio. This gives us confidence in the durability of our business model, and we're excited to help our customers navigate in this changing economy.

Now before we wrap up, I do want to thank specifically Evan for his incredible leadership with the IR team over the last two years, his partnership and friendship and wish them all the best in his new role. And let me say officially welcome to Mike Spencer, who I'm delighted to have joining us.

With that, Emma, let's open the line for questions.

**Operator**

Thank you.

Your first question today comes from the line of Mark Murphy with JPMorgan.

**Mark Murphy**

Yes. Thank you. Marc (inaudible).

**Amy Weaver**

Hi Mark. This is Amy. We're having a lot of trouble hearing you.

**Mark Murphy**

Apologies. (Inaudible).

**Bret Taylor**

Operator, we may need to move on to the next question.

**Amy Weaver**

Yes. Let's move on and see if we can come back to Mark.

**Operator**

Certainly. Your next question comes from the line of Keith Weiss with Morgan Stanley. Your line is now open.

**Keith Weiss**

Thanks guys for taking the question and really nice quarter in Q1. Two questions. One on Sales Cloud. This is probably the part of the portfolio that investors have been most worried about maturation and sort of the high market share that Salesforce has. You guys have been able to see accelerating growth. Can you dig in a little bit on kind of what's driving it? Is it the vertical solutions or something in particular that has really reinvigorated that line item?

And then one for Amy on the operating margins. I don't think anyone was expecting operating margins going up after this quarter. Can you talk to us a little bit about those initiatives that are enabling better operating margins? There's some speculation in the press about maybe slower headcount growth or some culling of expenses. Is there something programmatic that's enabling you guys to drive that better operating margin on a go-forward basis? Thank you.

**Bret Taylor**

We're really excited about Sales Cloud growth. Not only did it grow 18% year-over-year in the quarter, but in constant currency grew 20%, which I think is symbolic threshold for as you said, the product that Marc and Parker built 23 years ago that is still as relevant today as it ever has been.

I think first and foremost it speaks to our innovation strategy and the organic innovation coming from our engineering teams at the company. Just an example, late last year we introduced Revenue Intelligence, which is a deep integration between Tableau and our Sales Cloud that enables sales teams to enable every rep to be more efficient, to collect cash faster, to boost growth and really bringing together this entire Customer 360 portfolio to give our customers not only a chance to reimagine their Sales Cloud implementations, but make Sales Cloud relevant to an even broader range of customers.

So we're really excited about our innovation strategy. When you look at some of the wins that we've talked about in this quarter like ADT or DoorDash, you think about this next generation of selling in this era of flexible work, there's always an opportunity for our customers to reimagine their approach to sales and Sales Cloud continues to be the most innovative platform for opportunity management and lead management.

We are excited about our market-leading position. And also, I just want to say congratulations to the engineering teams, who are continuing to teach an old dog new tricks and continue to innovate on what is, I think, really the world's leading CRM platform.

Amy, talk about operating margin.

**Amy Weaver**

Sure. I'd love to. Hi, Keith, thanks for the question. As you noted, I really am very, very pleased about the raise on our operating margin up to 20.4% for this fiscal year. This is not the result of any single change. It's really driven by disciplined decision-making and trying to really unlock incremental efficiencies across the entire business. We've asked each leader to step up to really look across their business and to strategically prioritize their investments and this is really to make sure that we're getting the highest return for every dollar that we invest.

You asked about hiring, again, as a result, we're going to continue to hire, we are hiring. But we're doing it in a much more measured pace, and we're focusing the majority of our new hires on roles that will support customer success and the execution of our top priorities.

This focus on margin, this is really over the long term, and we are all committed that this is going to make us a stronger company. But I do want to reiterate, this is not just a Finance-led initiative. This focus on discipline is being applied across our entire organization. This is supported by Marc, by Bret, by Gavin and truly by our entire leadership team.

**Operator**

Your next question comes from the line of Kirk Materne with Evercore. Your line is now open.

**Kirk Materne**

Hi. Thanks very much and congrats on the quarter.

I don't know who wants to take this, Marc or Bret, but you mentioned Salesforce being able to sort of perform through economic cycles. I was wondering if there's any change to the go-to-market playbook in a tougher economic environment, if at all, in terms of which products might be better to lead with when you start getting in these periods?

Then second question would be for Amy. Amy, you basically kept your fiscal year guidance—revenue guidance unchanged when adjusting for FX. I think everybody is wondering if that guidance probably now reflects a little bit more conservatism given the more uneven macro backdrop. Could you just comment on that a little bit, maybe versus where we were 90 days ago?

**Marc Benioff**

Well, I think you're right that in an environment like this that our selling strategy will change, our narrative will change. Bret, I think, said it really well; we're going to focus more on how we can deliver productivity for the customer and lower their costs. At a robust time, we talk about the top line advancement. Of course, it's different for every customer, you know that.

To the last point that we just heard from the previous question, which was a good question, why has Sales Cloud remained so strong, and you can see more than 18% growth, and Service Cloud more than 17% growth. It's incredible to see the growth of these core products. Today, I was in a retailer that I like. I

have a personal relationship with Brunello Cucinelli. I'm going to have dinner with him this week and I was just kind of preparing for that and walked in the store and I realized that the retail agent in the store is using Sales Cloud and the platform and asking them, "Hey, how do you like it? What do you think about the solution?" They have it all set in Italian and it's like ricerca in Salesforce, search in Salesforce. I'm like, "Wow, the product," I don't think we ever could have imagined all the different uses that it has today 24 years ago when we invented it.

I think that, that kind of flexibility is really what continues to drive its growth. We've talked about that retail use case at AT&T as well has been so important for them. Again, we never really thought that that point-of-sale environment would be so dramatic for that incredible product. But when you're working with customers in an environment like this, it really gets down to really understanding what they're trying to do; every customer has a slightly different solution.

Gavin, do you want to come in here and give an example of some of you recently put together?

**Gavin Patterson**

Well, I think in this type of environment, the key word is relevance. Listening to your customers, understanding what the challenge—the specific challenges they are facing and making sure that you tailor the approach to that. In many cases, Sales Cloud is the right lead, particularly with new business and new customers. Other customers it's right to lead with Service Cloud and use that as a way of taking cost out of the business, and we've used both.

Then we have customers who, as I said in my comments earlier, who are taking the Customer 360. Our multi-cloud take up this quarter is very strong, up 21% with customers taking five or more clouds. So I think it's about listening to the customer, it's about being relevant, understanding that actually we're going through a period now where productivity and transformation is more important than the last few quarters, and making sure that we tailor our messages accordingly.

**Marc Benioff**

I would add also kind of the relationships matter. I talked about Formula One and Gavin was in Monaco over the weekend and Stefano Domenicali, who is the CEO of Formula One, was our customer at Lamborghini. And of course, we work closely with him and the whole Volkswagen management team. When they're looking at this current environment, when Formula One is looking at the environment, everybody is going to have a slightly different take, so it's nice to have those high-quality relationships at times like this.

**Amy Weaver**

Great. Kirk, hi. I'll take the second part of your question here on the guide.

Look, we feel good about what we're seeing. You've heard that from Marc, from Gavin, from Bret, you've heard about our pipeline. But we're mindful of the uncertain macro environment, and that includes continuing FX volatility. I believe that our guidance is appropriately conservative under the circumstances.

**Operator**

Your next question comes from the line of Mark Murphy with JP Morgan. Your line is now open.

**Mark Murphy**

Yes, thank you. Bret, our survey work has shown potential for Slack to be adopted by one-quarter of all employees in the next several years. It looks like a huge number above Google Workspaces and it looks like it could be rivaling Zoom. What do you see as the best use of this \$4 billion R&D budget you have to try to accelerate the Slack innovations and achieve that level of ubiquity? I'm wondering if you would see any opportunity to potentially do more with native video conferencing?

**Bret Taylor**

That's a great question. As I think about our innovation, it's really that all of our clouds work together in a complementary way. Sales and Service complement each other. Sales, Service, Digital Marketing and Ecommerce complement each other because it really represents the entire front office. When I think about our acquisitions like MuleSoft, Tableau and Slack, they really amplify our value proposition for Customer 360.

Tableau helps all of our customers see and understand their data, which is more relevant than ever before as every interaction becomes digital. MuleSoft enables our customers to integrate all of their legacy and back office systems to Salesforce and really create a strategic platform that accelerates their digital transformation. And Slack, as Gavin and Marc and I heard in Davos last week, is relevant in every single conversation because every single one of our customers is deciding how do they succeed in this new era of flexible work? Because every single—particularly office worker—isn't coming back to the office five days a week. But it's really not an either/or question because Slack makes the entire Customer 360 more relevant.

In fact, one of the things I'm most excited about from this past quarter is we shift a lot of the integrations between Customer 360 and Slack, whether it's team selling and account management in our Sales Cloud or case swarming in our Service Cloud—it's actually one of the solutions that DoorDash uses with their Service Cloud deployment. Really using our Slack to amplify their investment in our Service Cloud and to succeed in this new era where their workforce is working from anywhere.

Really excited to not only invest in Slack as a standalone platform, which is just incredible, but I'm just excited with how much more relevant our Customer 360 value proposition is now that Slack is in the building. I think it's going to be one of the best acquisitions we ever did, and it really makes every customer conversation more relevant in this new era of flexible work.

**Operator**

Your next question comes from the line of Brad Zelnick with Deutsche Bank. Your line is now open.

**Brad Zelnick**

Great. Thanks very much for taking my question and congrats on the strong start to the year.

Amy, the business generates a ton of free cash flow. You have almost \$14 billion of cash on the balance sheet, and your stock is trading at a really attractive multiple. What would need to happen for you and the Board to consider buying back your stock?

**Amy Weaver**

Brad, hi. Thanks for the question. As you know, historically we've not done buybacks, but I will tell you that, as a company, we are always looking at our capital allocation strategy. Our Board consistently looks at this on a quarterly basis, and it's really to assess the best use of cash.

Right now, our overall focus is on strengthening our balance sheet to really capitalize on all of the opportunities in front of us.

**Operator**

Your next question comes from the line of Brent Bracelin with Piper Sandler. Your line is now open.

**Brent Bracelin**

Thank you for taking the question. Good afternoon.

I guess one of the themes we're starting to hear more from customers is this idea of vendor consolidation, particularly given the tightening business cycle. Have you seen any shift in the pipeline relative to the mix of multi-cloud deals? Any sort of color around the customer appetite to consolidate the number of vendors would be super helpful. Thanks.

**Gavin Patterson**

I'll take that one. What you've seen is a very strong quarter across the board. Sales, Service, Marketing Cloud all posted great numbers. Every region posted great numbers: 21% up in the U.S., 33% in EMEA, 24% in APAC. We had a strong quarter. We've got good momentum.

As I look forward, the pipeline looks really strong for the rest of the year. We are cognizant of the environment we're operating in, but at the moment we don't see that impacting our numbers. But we're vigilant at all times.

If there is a consolidation of vendors with our customers, I think we're extremely well placed. We are the only ones with the Customer 360. There's nobody else in the market that's able to offer the full suite of clouds. If that is the case, and customers choose to continue to move more of their business to it, we'll welcome it with both arms. I think you saw some great examples of it in the quarter. The Formula 1 example we've been talking about is a great example of that, taking multiple clouds from us across Sales, Service and Marketing.

I love the ADP example as well. Maria Black there is doing an incredible job at driving the business and creating much more intimate customer relationships. That's all around the Customer 360 and a consolidation of business from other vendors towards Salesforce is part of that story.

Whether it's a single cloud sale, whether it's the Customer 360, we're very well placed I think to take full advantage of that.

**Marc Benioff**

Yes. I would add, I think, that one of the highlights in the quarter was Goodyear. Rich Kramer, someone who we've built a really great relationship with over a number of years, they deployed a number of our different products; now they're deploying our Commerce Cloud, and it's a great example by having a full suite of products and also by augmenting those products with our acquisition strategy over the last few years, we really have just a tremendous opportunity with every single customer to extend and expand, to land and go. This is just a moment where I think that there will be some consolidation with vendors and they will rely on the vendors that they have the most trusted relationships with.

**Operator**



Your next question comes from the line of Brent Thill with Jefferies. Your line is now open.

**Brent Thill**

Marc, many are asking on the M&A strategy, given the pullback in valuations, do you change your philosophy and be more aggressive here? Or are you sticking with the playbook in digesting Slack and so many of the other past acquisitions?

**Marc Benioff**

It's a great question. I know we're all watching the markets very closely and that we can see a rightsizing on a number of valuations I think that we were all quite suspect of for quite a long time. But for us, we've kind of laid our acquisition strategy down and we're done for a while. You can see that with many of these amazing companies that we acquired with MuleSoft, with Tableau, with Slack, or even what I just mentioned with Commerce Cloud with Demandware, and the reality is there's no finish line when it comes to these acquisitions. They are lot of work; they're hard to integrate. When you think you're done, you're not done; they can surprise you. You have to take your time with them. We've realized that right from the beginning with our first ExactTarget acquisition to today.

I would say that for right now we're not really looking at doing any major acquisitions. It's just not a part of our playbook right now. We're really focused on integrating the ones that we have. We have a lot of work to do still and that's our primary focus.

Amy, do you want to add to that?

**Amy Weaver**

No. I think you've got it, Marc. Right now, large-scale M&A is just not part of our current plans. Obviously, we're opportunistic as all strategic tech companies are, and I never say never, but that is just not something that's on our current radar screen.

**Operator**

Your next question comes from the line of Kash Rangan with Goldman Sachs. Your line is now open.

**Kash Rangan**

Hi. Thank you so much. Congratulations on a terrific quarter.

Marc and others who have been through multiple cycles on the call here, I'm wondering why are you so confident with this economic cycle? What is so different about this cycle? Certainly, you talk to CEOs, you meet with them on a daily basis. What is top of their mind, and why do you feel differently about Salesforce's positioning in this economic cycle?

Then one for Amy. I just wanted to understand what gives you confidence? I think you've said something, faster cash flow growth and margin growth in the press release, which is very assuring. Just a little bit more detail on how you plan to get there would be great. Thank you so much.

**Marc Benioff**

Well, Kash, I think I'm going to let each one of our executives speak on this because I'll tell you that we have been having a lot of customer interaction right now and it's an incredible amount. I'll tell you when I

was down in Sydney, Australia, about three weeks ago or four weeks ago, and I was just very impressed with the level of economic activity with all of these customers. Their focus on growth, their focus on market share, their focus on expansion, their focus on digital transformation. Then I went off to Japan and I was in Tokyo and, well, it was the same thing. I was with one of our very large customers, Sampo, one of the largest, if not the largest insurance company in Japan, with their CEO, Sakurada-san. Very impressed with how they're investing and excited about expanding and going into new areas and looking at a number of our new products. They've been with us for quite a long time. All of the customers that I met with were growing. It was just an exciting moment.

Then we went off to New York, same thing, same story; everyone is very motivated. These are customers without a lot of debt on their balance sheet. They have flexibility, they're nimble. They know what their product strategies are. They're ready to go.

Then when we went down to Atlanta and we reviewed our entire operation, we heard this consistently from our management team. And when we went to Davos last week, again, across industry, across geography, while everyone is looking at rising inflation or supply chain issues or interest rate changes or stock market gyrations or foreign exchange shifts, at the end of the day, we all have our—we all, I think, are in a very different place than we've really ever been before and I think a lot of it has to do with the pandemic. I think the pandemic gave everybody the ability to kind of do a reset and think about, "Okay. Now, where am I going over the next decade?"

So in the last two years I think every company rebuilt their strategy. Look at us. We acquired Slack, our largest acquisition ever. We retooled. We built our CDP. We augmented our Professional Services strategy. We changed our management team. We transformed who's running the company and how it's being run.

We're an example of, "Okay, we're ready for the next decade," and I think that that example is probably true for all the customers that we're meeting with.

Bret, do you want to come in and talk about some of your experiences in Davos?

### **Bret Taylor**

You put it well. I had the privilege of having about 30 one-on-one CEO conversations in Davos, CEOs from different regions around the world, different industries. I was really pleasantly surprised to just hear how much customers are leaning into their digital investments. Some like the consumer goods companies have been really impacted by both the supply chain and inflation and are really focused on how to invest in digital technologies to take down some of their costs, to absorb some of that and avoid price increases. Then some other businesses, I talked to the CEO of a beauty company that has seen increased demand as we all leave the house for the first time in the past couple of years and was really focused on growth.

The theme in all of them was whether you're investing in digital technology to connect with your customers or investing in digital technology to drive productivity, we continue to be one of the most strategic vendors and the trusted digital advisor for all of these CEOs across every industry.

I read the same headlines as everyone else, and I'm cognizant of the volatility in the economy. As Gavin said, we're just focused on being relevant, being the most trusted digital advisor to each of our customers. As Marc said, we believe that if we form those trusted relationships, especially in times where our customers need that resilience and need that from us, we will come out of these gaining market share and gaining trust with our customers.

### **Marc Benioff**

Well, (cross-talking).

**Amy Weaver**

Hi—sorry Marc, I cut you off.

**Marc Benioff**

I think Bret said it really well, connecting with our customers, connecting with employees through Slack, connecting with our data with Tableau, connecting with our partners. These are major themes that we're hearing.

Amy, what did you hear in your discussions?

**Amy Weaver**

Davos was fascinating. There's no better opportunity to connect with hundreds of customers across there. One of the things I really heard was a focus on efficiency. Companies are looking for partnerships and looking for companies like Salesforce that can help them both grow and become more efficient as they do it. It was an incredible week and a great opportunity.

**Bret Taylor**

Gavin, do you want to (inaudible)?

**Gavin Patterson**

What I heard from customers last week and more generally, I think we're just more important to our customers than we were in previous cycles. We've got a more strategic relationship, a relationship that is more of a trusted advisor. I think that's because we have a full suite of clouds and a full Customer 360 solution that can solve multiple problems for them. If their issue is growth, we've got a solution that will allow them to drive growth. If it's about productivity and cost transformation and efficiency, we've got the right combination for that as well.

It's about relevance, and we heard this time and time again, that increasingly the digital transformation agenda, the narrative around it is not running out of steam in spite of concerns about the environment. It's becoming more—I think even more important, and we're better placed than any other company to help our customers through that.

**Marc Benioff**

One of the customers I met with in Davos, State Farm, I think about the huge journey that we've made with them. Michael Tipsord, the CEO, and of course Keith Block, our good friend is on their Board now, all excited because they're expanding with our Field Service product and that product didn't even exist when we first signed our agreement with them. Customer 360 continues to expand for them. They're able to take their single source of truth and bring it to new use cases, and I think that that's something that I'm really excited about as we expand with all of these customers.

Thank you very much for this great question.

**Amy Weaver**

Kash, to follow up on your question on cash flow, for cash flow our philosophy is that our OCF and FCF should increase faster than revenue as we're increasing our operating margin, which we are.

In terms of confidence levels both on the cash and the operating margin, much of this comes back to the focus on disciplined growth. This is not a passing fad. I'm a huge believer that constraints make for a stronger and more innovative company and this is the focus across every part of the company. So where my confidence comes from is really seeing all of our leaders at Salesforce stepping up to this challenge and meeting it..

**Operator**

Your last question today comes from the line of Phil Winslow with Credit Suisse. Your line is now open.

**Phil Winslow**

Hi. Thanks for taking my question.

You've touched on Sales, Marketing and Commerce Clouds. I wanted to focus in on Service because you've been pretty vocal about just the transformational changes that are going in on customer service. What are customers telling you right now in terms of where they are in their journeys there in terms of transformation? Also, we've obviously seen some big contracts signed from contact center vendors kind of along this theme, too. I wonder if you could just talk us through what you're seeing from customers and what your kind of conviction level is in Service Cloud going forward.

**Bret Taylor**

Thank you. That's a great question. Service continues to be the anchor tenant of our Customer 360 for our largest customers, particularly our longstanding customers like State Farm. What I'm hearing from our customers I think is really reflected in our product strategy, which is really the completeness of our Service portfolio. Customers like State Farm, the reason they expanded in Q1 is because they expanded with Field Service. We do field service, we do ticketing, we do contact centers, we do digital service, self-service and chat bots. When you think about your customer interactions and you particularly think about this volatile economic environment, that portfolio not only helps you increase customer satisfaction, but do so in a way that reduces costs.

I love that ADT example I gave in the script because it was an example when ADT managed to do 200,000 virtual service visits and avoid sending out trucks 80% of the time, their customers were happier and they reduced costs. The reason we can do that is because we have the most complete service portfolio in the market. We're really excited about that.

I'm excited—again, it goes back to our strategy of organic innovation, and as Gavin said, the completeness of our product portfolio. Particularly as our customers look to consolidate vendors, the fact that we can really be the entire front office for our customers is incredibly differentiated, and our Customer 360 portfolio continues to be one of the main reasons why our customers choose our product offerings.

**Operator**

This concludes our Q&A for today. Mr. Evan Goldstein, I turn the call back over to you.

**Evan Goldstein**

Thank you for joining us on the call today.

**Marc Benioff**

Evan, I want to congratulate you on two great years in IR, and we couldn't be more excited for you. So let's end this the way we started it with some big props and congratulations for you.

**Evan Goldstein**

Thanks Marc and the rest of the leadership team. Really appreciate it.

If you have any questions for us, feel free to reach out at [investor@salesforce.com](mailto:investor@salesforce.com). We look forward to talking next quarter.

**Marc Benioff**

(Inaudible).

**Operator**

This concludes today's conference call. Thank you for attending. You may now disconnect.