Salesforce (Q4 FY23 Earnings)

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Corporate Speakers:

- Michael Spencer; Salesforce; EVP, IR
- Marc Benioff; Salesforce; Co-founder, Chairman & CEO
- Brian Millham; Salesforce; President & COO
- Amy Weaver; Salesforce; President & CFO

Participants:

- Keith Weiss; Morgan Stanley; Analyst
- Kirk Materne; Evercore ISI; Analyst
- Brad Sills; BofA Securities; Director, Analyst
- Raimo Lenschow; Barclays Bank; MD & Analyst
- Kasthuri Rangan; Goldman Sachs; Analyst
- Brent Thill; Jefferies; Analyst
- Karl Keirstead; UBS Investment; Analyst
- Sarah Hindlian-Bowler; Analyst

PRESENTATION

Operator^ Welcome to Salesforce Fiscal 2023 Fourth Quarter and Full Year Results Conference Call. (Operator Instructions)

I would like to hand over the conference to your speaker, Mike Spencer, Executive Vice President of Investor Relations.

Sir, you may begin.

Michael Spencer^ Good afternoon,. Thanks for joining us today on our fiscal 2023 fourth quarter results conference call. Our press release, SEC filings and a replay of today's call can be found on our website.

With me on the call today is Marc Benioff, Chair and CEO; Amy Weaver, President and Chief Finance Officer; and Brian Millham, President and Chief Operating Officer.

As a reminder, our commentary today will include non-GAAP measures. Reconciliations 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 and are subject to risks, uncertainties and assumptions, which could change.

Should any of these risks 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 Forms 10-K, 10-Q and any other SEC filings.

Except as required by law, we do not undertake any responsibility to update these forward-looking statements.

And with that, let me hand the call to Marc.

Marc Benioff^ Thanks, Mike. Hi. Thanks to all of you for joining the call. As you can see from our results, we had another strong quarter. Improving profitability is our highest priority, and that really showed up this quarter. Our goal is to make Salesforce the largest and most profitable software company in the world, and that is what we are doing.

Six months ago, in September at our Dreamforce Investor Day, we shared with you our comprehensive transformation plan, the new day for profitable growth. But things have changed. As we entered our fourth quarter, we recognized that we needed to radically accelerate the transformation plan time frame. We need to repress the hyperspace button and bring the 2-year goals forward quickly and exceed them.

Now we immediately put into place an accelerated transformation plan in 4 areas: short-term and long-term restructuring of the company; improving profitability and productivity; prioritizing our core innovations; and a deeper and even stronger relationship with our shareholders, you. In fact, that's where we started. The very first thing we did when I became sole CEO 3 months ago was Amy and I promoted Mike Spencer, our Head of IR, to our leadership team. So we're all in much more communication with all of you.

We're now moving aggressively across all 4 fronts of our transformation. First, we're reigniting our performance culture and doubling down on our accountable management of our sales organization, as you're about to hear from Brian. As you know, beginning in January, we also initiated a headcount reduction, and we're significantly consolidating our real estate footprint.

Second, we're more closely scrutinizing every dollar of investment and resource and very focused on driving operational excellence and automation across the business. Third, our amazing engineering team is focused on integrating our acquisitions and prioritizing our core innovations that are driving customer success. And finally, as we said in motion, longer-term structural improvements, we're working with Bain on a comprehensive operating and go-to-market review. To ensure a high degree of accountability, our Board is forming a new business transformation committee, which I have joined, and we have fully expanded our M&A committee as well to reflect our new focus.

We also dramatically stepped up our communication feedback loop with our investment community, and I hope you all are feeling that.

For the past several months, all visits Salesforce, including me, all of our Board members, including our Lead Independent Director, [Robin Washington], and our senior management team have spent a lot of time listening to and working with all of our investors.

As I said, we've hit that hyperspace button since we last talked to you a quarter ago, and I'm thrilled with the progress we've made. Changes that used to take months happened in weeks. Changes that used to take weeks are happening in days. And changes that used to take days are happening in hours.

Powered by this transformation, we delivered another strong quarter. Our team really delivered on both the top and bottom line, exceeding our expectations.

As I said, improving our profitability is our highest priority. And in Q4, we accelerated operating margin to a new record high. Non-GAAP operating margin for fiscal '23 was 22.5%, significantly above our forecast, an improvement of almost 4 points year-over-year. Revenue was $8.38 billion, up 14% year-over-year or 17% in constant currency, which is above what we forecast to deliver for the quarter. And for the full year, we delivered $31.4 billion in revenue, up 18% year-over-year or 22% in constant currency. It's one of the best performances of any enterprise software company our size, and it's amazing that Salesforce is now over $30 billion in revenue.

We closed fiscal year '23 with operating cash flow reaching $7.1 billion, up 19% year-over-year, the highest cash flow in our company's history and one of the highest cash flows of any enterprise software company our size ever.

I also want to call out the great progress we have made with MuleSoft and Tableau. As you know, we've been focused over the past few quarters on reigniting MuleSoft sales growth, and this quarter was evidence that those efforts are paying off beautifully. MuleSoft was included in 7 of our top 10 deals in the quarter, and Tableau was included in every one of our top 10 deals. These acquired products are integral to our Customer 360 and enabling our customers to use our data product line to achieve a new level of excellence in managing their customer relationships and its critical data. In short, our transformation has been radically accelerated.

As you can see, our performance is significantly up already. Our productivity is also up. Our profitability is up, and we are not done. Now we're putting into place the next phase of our transformation to profitable growth. We just rolled out our new business plan, which we call the V2MOM in partnership with our employees worldwide. Everyone in the company is now aligned around our highest priorities and our aspirations.

I'm excited to announce that looking forward to fiscal year '24, we expect a non-GAAP operating margin of approximately 27%, an additional acceleration of 4.5 points year-over-year. And for fiscal year '24 revenue, we're guiding to $34.7 billion at the high end of the range, over 10% projected year-over-year growth. But that's not all. We're also looking at our overall share count. And as we focus on reducing dilution, we've returned $4 billion of the original $10 billion authorization in our share repurchase plan that we announced in August. And our Board has now approved a substantial increase in that share repurchase plan from $10 billion to $20 billion. This will allow us to fully offset dilution from stock-based compensation.

We're also thrilled to welcome 3 new members to our Board: Mason Morfit, the CEO and Chief Investment Officer of ValueAct Capital; Arnold Donald, the former President and Chief Executive Officer of Carnival Corporation; and Sachin Mehra, the Chief Financial Officer of Mastercard, 3 amazing executives who have already made their mark on business, and I'm looking forward to them making their mark on Salesforce.

We're incredibly happy that these phenomenal executives are joining us to help guide our next level of profitable growth. That makes 5 new Board members we have brought on in just the past 16 months, another (inaudible) of our accelerated transformation.

I also want to say how grateful we are to our 2 outgoing Board members, Sandy Robertson and Alan Hassenfeld, both of whom many of you know and who, for the last 2 decades, have given Salesforce and our industry incredible leadership, guidance and service. Thank you so much, Alan and Sandy.

We know that we have the right team, the right strategy and the right products to compete and complete this transformation. And we're continuing to build our future. (inaudible) never been more inspired by our engineering teams, and it's no wonder that we're ranked #1 CRM by IDC for the ninth year in a row.

We're delivering tremendous customer success and continue to gain market share in CRM. Our customer revenue attrition is at its lowest level in our 24-year history. This is a critical metric of all of our customers' success. And we know every digital [explanation] begins and ends with the customer. We have an incredible vision for the future of CRM, a fully integrated suite built on our new Genie data cloud and our next-generation platform powered by real-time hyperscale data, AI and automation.

Our new data cloud is the most exciting innovation that we've developed since the (inaudible) Salesforce clouds and our metadata platform, which we viewed as our first horizon and our second horizon for our technology.

Clear, our third horizon is our data cloud. In this new AI world that we are all now entering, nothing is more important for our customers than our new data cloud, which is rapidly becoming the intelligent heart of their customer engagement.

Data cloud becomes our most important cloud, augmenting every Salesforce cloud and making every part of our Customer 360 more automated, more intelligent and more real time. We just launched Tableau plus data cloud natively integrating Tableau with data cloud. So every customer can easily visualize, automate, explore and act on their data in real time.

And during the quarter, I was inspired by partnering with Jim Farley, the CEO of Ford on Ford's deployment of data cloud. Jim and Ford, while they're leveraging data cloud to unify their customer data and deliver personalized real-time customer engagement and dealer focus.

Starting with their amazing new Mach-E electric Mustang, an amazing car. Ford proactively updates customers about vehicle delivery through both e-mail and SMS with our Marketing Cloud. I love getting my text actually. It was amazing. Ford delivers dealers now with leads and intelligent insights to drive faster sales with our sales cloud. And their technicians, well, they're receiving the next best action and technical insights through our Service Cloud. All of this, all of it, it's driven by our data cloud, delivering intelligent, real-time and automated customer engagement from within the Salesforce platform.

I've also been very inspired by our work with Boston Scientific and their amazing CEO, Michael Mahoney. Our teams were able to use our data cloud to create a unified view of their customers. In just 5 months, they were able to bring data from the front office and back office and all of their systems together. Boston Scientific's ability to create customer segments using our Marketing Cloud went from 3 to 6 months to nearly real time, and they could deliver next best action insights to their sales teams in the flow of work in Sales Cloud and used our Marketing Cloud to deliver personalized product recommendations on their website in real time. And Boston Scientific as a regulated company, well, with data cloud, they're able to easily specify data retention policies for compliance.

Now as a longtime customer, I'll tell you, Boston Scientific and Michael, well, they've humbled me personally and really humbled all of us at Salesforce with their incredible innovations, their amazing leadership and especially their use of our data cloud.

This is only the beginning of what's possible. As we build more (inaudible) intelligence and real-time integration deeper into our data cloud and apps, and we're rebalancing our resources to be data cloud first inside our company. And next week, at our Trailhead DX conference in San Francisco on March 7 and 8, you'll see how we're bringing even more innovation to our platform with our new Einstein GPT technology, the world's first generative AI for CRM, a tremendous complement to our data cloud and core Einstein AI platform. Einstein GPT will be integrated into all of our clouds as well as Tableau, MuleSoft and Slack. And it is another way we're opening the door to use AI for our future and for all of our customers.

As we have begun working with the rapidly expanding AI ecosystem in our industry, I've been really impressed with how companies like Anthropic, a leading provider of generative AI, are using Slack as their user interface for degenerative AI assistance. The relevance of Slack as an incredible enterprise productivity platform, user interface and critical data set for these new AI systems, while it's inspiring all kinds of new use cases, I couldn't be more excited about the future.

To wrap it up, our transformation is happening now. We're making Salesforce one of the most profitable software companies in the world with one of the highest cash flows and one of the very largest as well. You can see from our numbers by this quarter why I'm so motivated, so inspired and so confident that we can do even more faster than anyone realized.

Now I'm happy to hand this over to Brian, our Chief Operating Officer; and with Amy, our -- my closest partner in accelerating the transformation. Many of you know Brian and have worked closely with him. And as many global executive roles at Salesforce, Brian has now been with us for more than 23 years, and his employee number lucky 6 -- lucky 13, actually, it's lucky #13, Brian, that's you. No one has had more customer success than you at Salesforce, and I couldn't be more thrilled to have you as our COO. I'm really (inaudible) for your leadership and the success that you're having with your team, and wow, what a great quarter you delivered. Brian, thank you for everything.

In closing, I want to thank all of our ohana, our employees, our customers, our partners and all of our shareholders for another strong quarter. And now, Brian, over to you.

Brian Millham^ Thank you, Marc. As Marc said, the accelerated transformation to profitable growth we have underway is already having a positive impact as reflected in our strong results in the fourth quarter. I'm pleased with how we're improving our execution and delivering customer success in the ongoing measured buying environment.

As part of our short-term and long-term restructuring, we've been rearchitecting how we go to market in a more efficient, productive and profitable way. We reduced the size of the sales and success organization (inaudible) and are planning further improvements through the work we're doing with Bain.

We're also laser-focused on performance, productivity and accountability of all of our teams. We are better in aligning incentives with margins, removing layers and increasing spans of control to unleash even higher performance. We're inspecting every part of our business to find opportunities to drive efficiencies and reduce cost of sales, marketing and G&A.

We've learned that we needed to reboot our entire (inaudible) process to ensure faster onboarding with reps able to better understand our entire product portfolio and speak the language of our customers in weeks, not months.

During the pandemic, we saw productivity drop among our account executives who are working exclusively from home. I believe when our people are together, they're better learners, collaborators and networkers. It also reinforces our performance culture. That's why our sales success and service (inaudible) are in front of our customers a minimum of 4 days a week. Getting together in person is accelerating enablement and driving our performance and productivity. I'm confident these changes will drive the outcomes that we are all looking for.

Now before I hand it off to Amy, I'll briefly share some customer highlights from the quarter. We had great customer wins across all products, industries, segments and geographies. We deepened our relationships with Walmart, State Farm, IBM, Siemens, the state of New York, Volkswagen Group, Hitachi and many more leading companies. I'm very proud of our teams that we recorded record low attrition once again this quarter, which is a testament to how our Customer 360 platform is providing the cost savings efficiency and productivity gains our customers need today.

As customers are looking to consolidate platforms and reduce complexity, we're seeing many multi-cloud expansions, a key growth strategy for us. Our top 10 wins in the quarter included 5 or more of our cloud. And our top 5 customer wins included 7 or more of our clouds. This is an example of our Customer 360 strategy working.

We also continue to see strong momentum from our vertical solutions, which deepened our customer relationships across industries and geographies while accelerating time to value. In the quarter, 8 of our 13 industry clouds grew above 50% ARR, just unbelievable results there. Verticals are a key driver of our growth strategy, and it's why we've amplified them aggressively in this year's V2MOM.

Tableau and MuleSoft and Slack continue to be highly relevant for our customers. And as Marc noted in his comments, they're part of our largest and most strategic deals in the quarter. And we're very proud of the progress we're seeing under the new leadership to more deeply integrate these acquired companies into our core sales and service motions.

Marc also mentioned data cloud. It's going to be an incredible driver of organic growth going forward as these new capabilities are built on the platform and seamlessly integrate into some of our largest clouds, Sales Cloud, Service Cloud, Marketing Cloud and Commerce Cloud. We'll see many more companies use data cloud like Formula One, American Family Insurance, PGA Tour Superstore who are using this amazing technology to deliver intelligent, automated and real-time customer engagement. It is a huge opportunity.

In closing, I'm immensely grateful to our customers, our employees and partners and our shareholders for their continued support. We are unwavering in our commitment to deliver customer success and in our transformation to profitable growth.

Now over to Amy.

Amy Weaver^ Thank you, Brian. It is great to be here today to talk about our financial results and the transformation underway. As we laid out at Investor Day in September, it is a new day for Salesforce.

As Marc called out, we are focusing on 4 key areas: short- and long-term expense restructuring; employee productivity; product innovation; and of particular importance to me, continuing to build on our relationships with our shareholders.

Near our long-term restructuring is absolutely a necessary step to reach our goals. Over the past very intense 90 days since our last earnings call, Marc, Brian and I have spent countless hours together and with our leadership team to ensure our cost restructuring actions accelerate our profitable growth goals. We have already taken a difficult action on decreasing our workforce, and we are consolidating our real estate footprint.

I want to emphasize that these are just the first steps. As we drive longer-term structural improvements, I look forward to working closely across the company on a comprehensive operating and go-to-market (inaudible).

Since I took on the role of the CFO more than 2 years ago, I've truly enjoyed spending time with and hearing feedback from our shareholders. Just this past quarter, I was able to meet with shareholders extensively, both virtually and in person, in San Francisco, in New York and across Europe. Your feedback has been immensely valuable in helping us shape our transformation. And based on that feedback, I am more confident than ever in our profitable growth framework, disciplined capital allocation strategy and opportunity to drive shareholder value.

Now turning to our results for Q4 fiscal year '23, beginning with top line commentary. For the fourth quarter, revenue was $8.38 billion, up 14% year-over-year or 17% in constant currency, with the beat primarily driven by a reignite MuleSoft and Tableau and slight improvement on foreign exchange rates.

For the full fiscal year, revenue was $31.4 billion, up 18% or 22% in constant currency. The total foreign exchange headwind for the year was approximately [$860] million.

Geographically, we saw strong new business growth in the United Kingdom, France and Switzerland, while the United States sales environment remained measured. In Q4, the Americas revenue grew 15%; EMEA grew 13% or 20% in constant currency; and APAC grew 18% or 30% in constant currency.

From an industry perspective, we saw strong growth in public sector and travel transportation and hospitality, while the financial services and high-tech sectors showed weakness.

And from a product perspective, as mentioned, MuleSoft and Tableau outperformed our expectations, while we continue to see customer spending pressure in both Commerce and Marketing.

For revenue attrition, we remain at record lows, ending the quarter below 7.5%, reflecting the value that our services are providing our customers and their customer success.

Non-GAAP operating margin finished stronger than expected in Q4 at 29.2% and 22.5% for the full fiscal year. The higher-than-expected performance does include some onetime benefits I want to call out. First, there is a restructuring benefit of approximately 1.5 points for Q4. Additionally, in Q4, there were approximately 4.5 points of temporal benefits from license-based revenue performance, annual compensation rationalized for business performance, as well as other onetime efficiencies and savings. Even when normalizing for these benefits, this still represents our highest ever quarterly and annual non-GAAP margin performance.

Q4 operating cash flow was $2.8 billion, up 41% year-over-year. Q4 free cash flow was $2.6 billion, up 42% year-over-year. For fiscal year '23, operating cash flow was $7.1 billion, up 19% year-over-year. As a reminder, this includes a 4-point headwind from cash taxes associated with tax law changes that require the capitalization of certain R&D costs.

Free cash flow finished at $6.3 billion, up 19% year-over-year, driven by strong collections during the final quarter of the year.

Turning to remaining performance obligation, or RPO, which represents all future revenue under contract. This ended Q4 at $48.6 billion, up 11% year-over-year. Current remaining performance obligation, or CRPO, ended at $24.6 billion, up 12% year-over-year and 13% in constant currency. The outperformance was driven by strong go-to-market execution, particularly on early renewals and MuleSoft and some recovery in foreign exchange rates.

Finally, we continue to deliver on our commitment to returning cash to shareholders. We returned $2.3 billion during the quarter for a total of $4 billion since announcing our first ever share repurchase program in August. This represents more than [60%] of free cash flow for fiscal year '23.

Before moving to our guidance, I want to briefly discuss the current macro environment. In Q4, we continued to see the measured environment we've called out over the past 2 quarters. This resulted again in elongated sales cycles, additional deal approval layers and deal compression. Our guidance assumes these trends persist with no material improvement or deterioration.

Now to our guidance. Let's start with fiscal year '24. As we've discussed over the last year, Salesforce is deeply committed to structural margin expansion, and we are accelerating on our new day for profitable growth framework. At Dreamforce, we guided to 25% plus margins by FY '26, and we emphasized our ambition to grow margins beyond that content.

Now for fiscal year '24, we are pleased to share that we expect non-GAAP operating margin of 27%, representing a 4.5 point improvement year-over-year and exceeding our goal by 2 years. And we are just getting started.

One item of note, our guidance includes slightly under one half point of benefit due to a depreciation change to the useful life of certain equipment by 1 year effective February 1. For our infrastructure-related equipment, this changed the useful life from approximately 4 to 5 years. And for IT employee equipment, this changed from approximately 3 to 4 years.

And as a general reminder, because our regional revenue and expenses are typically in the same currencies, there tends to be a natural FX hedge in our operating margin.

On revenue, we are expecting $34.5 billion to $34.7 billion, representing over 10% growth year-over-year and the same in constant currency. On attrition, starting in FY '24, we are including MuleSoft and Tableau in the metric. As a result, attrition is expected to be slightly above 7.5%.

Next, we are planning for stock-based compensation as a percent of revenue to begin trending lower this year to below 9% in fiscal year '24. This is primarily a result of the decreasing impact from prior M&A as well as adjustments being made to our equity program.

We expect fiscal year '24 GAAP EPS of $2.59 to $2.61, including estimated charges for the January restructuring of $0.85. Non-GAAP EPS is expected to be $7.12 to $7.14. We expect our fiscal year '24 operating cash flow growth to be approximately 15% to 16%. Important to note, this includes an estimated 14-point headwind related to the restructuring. As a reminder, we will see an increase in our cash taxes in fiscal '24 as we draw down our remaining net operating losses.

CapEx for the fiscal year is expected to be slightly below 2.5% of revenue. This results in free cash flow growth of approximately 16% to 17% for the fiscal year, inclusive of the restructuring charge mentioned above.

Now to guidance for Q1. On revenue, we expect $8.16 billion to $8.18 billion, growth of approximately 10% or 12% in constant currency. This reflects a [$150] million FX headwinds. For Q1, we expect GAAP EPS of $0.24 to $0.25 and non-GAAP EPS of $1.60 to $1.61. CRPO growth for Q1 is expected to be approximately 11% year-over-year and the same in constant currency. Our guidance continues to incorporate the persistent measured customer buying behavior.

On long-term targets, I'd like to provide a few updates. First, with the acceleration on our profitability framework in FY '24, I am very pleased to announce that we now expect to achieve non-GAAP operating margin of at least 30% in Q1 of fiscal year '25. And I want to emphasize that 30% represents a milestone, but not the destination. We are not putting a ceiling on our margin aspirations.

We are thrilled that we are exceeding our FY '26 profitability goals years in advance. Note that we are not reiterating our fiscal year '26 revenue target of $50 billion at this time due to the uncertain macro and currency environments that we have discussed. We anticipate having further updates to our long-term plans at our next Investor Day.

Next, as we continue to focus on shareholder return and disciplined capital allocation, I'd like to share a few additional updates. I'm pleased that the Board has approved an increase to our share repurchase authorization from $10 billion to $20 billion. As a result, we now expect to fully offset our stock-based compensation dilution through our share repurchases in fiscal year '24.

On M&A, we are confident in our current portfolio and are focused on continued integration of current assets. Reflective of this, you have already heard from Marc that the Board has decided to disband our M&A committee.

In closing, I would like to share a deep gratitude for our shareholders, our customers and especially our employees. Our relentless focus on execution and our proactive management in the current environment allowed us to close out a strong quarter and sets us up for a transformational fiscal year '24.

It is a new day at Salesforce. And as we look ahead, I'm excited for the opportunity in front of us as we continue to drive profitable growth and shareholder value.

Now Mike, should we open the call up for questions?

Michael Spencer^ (Inaudible), Amy. Operator, let's go to questions, please.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Your first question comes from the line of Keith Weiss with Morgan Stanley.

Keith Weiss^ Congratulations on a really strong (inaudible) into the fiscal year. It might actually be a question for Brian because I wouldn't be digging on the growth side of the equation. Both in terms of, like, how you guys exceeded expectations so well in Q4, but -- so on a go-forward basis, it sounds like there's a lot of changes taking place within the Salesforce, a lot of restructuring in terms of how you guys are going to market. How do you garner confidence that, that's not going to impact your ability to grow on a go-forward basis and you're not going to see, like, additional headwinds to growth as you go through this restructuring or you don't, like, cut too sharply?

And then maybe to bring Amy into the equation. When you guided for FY '24, did you assume any negative impact from this restructuring? Did you take down any of your expectations in terms of productivity to account for any execution challenges or sort of execution risk around these sales restructurings?

Brian Millham^ Well, Keith, first of all, thanks for the question. Really appreciate it. And I agree we had very strong performance in our Q4. Very happy with the quick pivot we made enabling our salespeople to talk differently about the values our customers get. Time to value is very critical to our customers, automation, digital transformation, efficiencies and cost reductions in their organizations. And we did a beautiful job in the fourth quarter to drive that message to our customers to see better-than-expected performance.

On your question about next year and some of the changes we're seeing in our organization, we feel very good about the work that we're doing. We -- as we mentioned in the commentary, the organic innovation that's coming out of our product organization is phenomenal. We have an incredible portfolio to go sell in the Customer 360, new product that we can go sell in data cloud. And as you know, the CRM market continues to grow very fast in double digit, and we think we should be taking market share in that market environment.

I also would like to say, I think we have an opportunity to drive higher productivity amongst our salespeople. I think we have an opportunity to bundle products together and to show up differently in front of our customers, to consolidate organizations that have been stand-alone sales organizations in the past. Bundling products together, driving higher ASP per salesperson is really what we want to go to next year. And we don't think that the impact of some of the changes that we're making, the architecture of the organization is going to have an impact on our growth next year. Amy, over to you.

Amy Weaver^ Great. Thanks, Brian. So a couple of things. First, just going back to your question on growth and the beat for Q4. I did want to point out that, that was primarily from MuleSoft and Tableau. That license revenue came in very strong in Q4. And as you know, the way that we account for license revenue gives it more of a boost in quarter than our subscription. Also, we do see a slight improvement on foreign exchange beyond what we were expecting. So all of that led to a very strong Q4 on the revenue side.

In terms of the FY '24 guide, we feel very good about the guide coming in, a little above 10% for this year. We've taken into account all of the factors that we're talking about, including macro. On macro, what we're assuming is really no near-term change when it comes to the selling environment. So not expecting an upside, nor we're expecting a material deterioration. And I think Brian really already hit on the restructuring.

Operator^ Your next question comes from the line of Kirk Materne with Evercore.

Kirk Materne^ Congrats on the quarter, and thank you for the very comprehensive outlook going into next year. Marc, the question is for you. I think this is obviously a new chapter for Salesforce. You're back as sole CEO. I think I get a lot of questions from folks asking how you're going to be prioritizing your time now, how you're going to be spending your time given these new sort of parameters of execution you're setting out for the company. So I was wondering if you could just comment on that a little bit.

Marc Benioff^ Thanks so much for that question. I really appreciate it. I really appreciate everyone's support during the quarter. I don't think we could have had this quarter without everyone who's on the call. We really are very grateful to the support we had, especially from the analysts and the shareholders, because, really, through their guidance and enlightenment, we were able to execute a different plan.

I think when we look back, and I think we have to look backwards to go look forward. Obviously, the 2021 calendar year is like something that none of us have ever experienced in the technology business. It was incredible. You can see that throughout the whole industry.

Then as we entered 2022, it was not 2021, and I think we all understand that. Currencies, measured buying environment, macro conditions, inflation, the stock market. So when we plan 2022 out of 2021, I'm talking calendar years now, that's where I think we had a little incongruence, and then we had to adjust and shift and pivot, and that's really what happened right around Dreamforce. We really started to see it. We had that great Investor Day with you all. We put out there our profitability framework.

We put together our fiscal year 2016 targets. And 90 days ago when everything happened, you know what happened. We don't have to go through it again. It doesn't matter. It's behind us. But you all said, hey, you guys can hit the hyperspace button, just like I said, and we did. We hit the hyperspace button, and we said, we can hit these targets now. We don't have to wait 2 years, and that's where I'm putting my time, my energy, my effort. I'm very proud of the team for delivering this Q4 operating margin of 29.2% because that really has become like our North Star.

As Amy just said, as we look to next year, even in Q1 and so forth, we're saying that this 30% plus world, this is we should be living in that. We have onboarded the entire management team worldwide to that fact. It's a core part of our V2MOM. It's one of the name of our methods that we are guiding 30% plus. And that's our direction.

And at the same time, we had a great quarter. Just like you just heard, Q4 revenue at [$8.3] billion that exceed our expectations for many reasons, some currency, but really a lot was execution and execution in the corner from 2 great product lines with our Tableau and MuleSoft team, extremely impressive execution.

And I'll also just call out what an unbelievable performance for the year at 31.4. This is just a huge incredible software company that is got great margins and great cash flow and a great position in the market. So that's where my head is at.

There's basically 2 motions here. One is, just like we just heard, Brian has to continue to deliver the ACVs. That's why we're keeping a lot of stability in our sales organization right now, maintaining the productivity, deliver the year in ACV. This is really critical for us. That's motion number one.

Motion number two is also, at the same time, profitability. Profitability is our -- truly our #1 strategy, and that's my #1 strategy. That's what I've been focused on with the management team. That is the #1 thing we talked about at the start of every meeting we have in this company. And that is why we were able to deliver that in 90 days.

You all know that we've never had an efficiency focus in the company before because we've had 24 incredible years of where we've had to just grow, grow, grow. There have been moments where we've had to pull back. '01, '02, bad recession, we had to pull back. '08, '09, we had to pull back and reassess.

We're kind of looking at this moment as, hey, we can reassess. This is a incredible moment. We can deliver great results. You saw we're delivering more than 10% growth -- revenue growth, but we want to deliver this more than 27% margin growth for the year and -- not growth, but margin target. And we're going -- obviously, the growth rate is actually much higher.

I mean I think that, that is amazing that we've delivered more than 4 points last year, not basis points, 4 points, and 4.5 points this year, and that's my main focus.

I've gotten a lot of great coaching. I'll just -- huge call out to my mentor, [Larry Ellison], who has spent a lot of time with me, giving me the Oracle playbook. And I'm very grateful to him. He was the first person who texted me after the earnings came out today. And as -- I'll tell you, it's good to have friends in the world when things happen, and he's been a great friend, and we're executing that playbook to increase our margins. They obviously have best-of-class margins. So it's great to have someone on your side like that and great to have all of you on our side as well because without all you, we would not be able to deliver this quarter. So thank you so much for everything.

Operator^ Your next question comes from the line of Brad Sills with BofA Securities.

Brad Sills^ Congratulations on a nice finish to the year and margin and outlook. I wanted to ask how important the concept of CDP and vertical solutions are. As you pivot towards this ongoing sales productivity and asking reps to sell more of the solution of all the great components in the Salesforce stack, how important are those solutions and really pulling in more of those components over time?

Marc Benioff^ Well, I just think that's such a great question, Brad. And thank you so much, and also thanks to you for the quarter, your support. I would like to say that, of course, we have a lot of great products, Sales Cloud, Service Cloud, our platform, Marketing Cloud, Commerce Cloud or verticals that you know. But there's been an evolution of our CDP. I think it kind of started in Marketing, and it's become so much more. We're entering this new world of AI.

And we've always been influenced by the world of AI and IoT and seeing our customers try to add in all of their intelligent devices onto our platform so they can have better relationships with their customers who are connected to them in these incredible new ways. And you may remember, we're going to have Thunder, the IoT cloud. That was kind of a version 1 idea of the CDP, and it didn't exactly work out. The main reason why is customers really wanted an integrated deeply inside Salesforce with our metadata platform. And they wanted it to be a data lake inside Salesforce, and we had built it outside. So we realized, let's build it back inside the platform, which is what we've done.

And this data cloud, you can see it now deployed in customers, and I'll give you a couple of great examples. One is Ford, amazing what they have done with the data cloud. Of course, they're using Sales Cloud and Service Cloud and Marketing Cloud, but it's all integrated with the data cloud, and they deployed their first product this quarter, which is the Mach-E. So if you have a Mach-E -- I have one, they're amazing -- and you're getting text messages from Ford or e-mail messages, you're getting them from our data cloud, and that is incredible to see that.

Boston Scientific, another amazing story that I mentioned, this idea that they were able to use data cloud to unify their front office and back office systems together in this really incredible integrated way.

Formula One, I just reviewed last night, how they -- only 1% of Formula One fans -- F1 fans that they're the only -- they come to the races. The other 99% they have to connect with electronically, but they need an intelligent AI-based system. And with data cloud, you can bring your own AI model. We ingest it. And then our system automatically is connecting with your customer. And as they're interfacing in all of our different clouds, the AI-based data cloud is doing this incredible heavy lifting.

So it's going to be an amazing organic driver for us. I mean it's probably our fastest-growing cloud in the quarter. And I can't be more excited to show more of what we're doing there. You've seen some of it at Dreamforce. You saw some of it where -- we've now deeply integrated Tableau into it. So Tableau has a server now finally, but Tableau also is an incredible window onto all of the Salesforce data through the data cloud, really neat work. And our engineering team, a huge call out to them for this great success.

Brian Millham^ And Brad, just another comment quickly on the industry play. A big part of our success in the quarter and a big bet for us in the coming years as we invest heavily in our industry cloud. I think you heard in the commentary, 8 of 13 of our industry clouds grew above 50% in ARR in the quarter. Really a great payoff in the investment we've made in the technology there and really having our sales team show up and speaking the customer -- the language of our customers to drive the growth of this business, couple that with the strategies around driving international growth, international expansion of all of our products, along with multi-cloud selling, a great opportunity for us going forward. So the industry is a big part of our strategy.

Operator^ Your next question comes from the line of Raimo Lenschow with Barclays.

Raimo Lenschow^ Congrats on the tough decisions this quarter and the great quarter. So I think you all be praised for that and the hard work you've done. A question for me, more for Brian. Obviously, there were comments out from you guys around sales, sales productivity as we kind of went through the January. If you think about the actions you're taking now, where do you see that sales productivity that you're seeing at the moment? And where do you think (inaudible) affecting Salesforce and the setup that you have here?

Brian Millham^ Raimo, I'm not exactly sure -- you're cutting out a little bit there. So I'll try to deduce what your question was around productivity. Productivity is a big component of our growth strategy going forward. How do we get our account executives to sell more each and every month, each and every quarter to our customers? We've got some great strategy around that. Enablement is a big component of that. You heard in my commentary earlier that we're very focused on ensuring that we're enabling our entire sales teams around our entire product portfolio and bringing people back to the office to drive that productivity, that learning that is so important for us as we think about the growth going forward.

I also mentioned an opportunity we have to bring our products together around a buyer, how do we put some bundles together to drive higher ASPs for all of our sellers and solve more problems for our customers with a single selling motion versus today, maybe several selling motions to go win those deals. And so productivity, a big driver of our growth strategy going forward, an effort, frankly, that we've always kept productivity flat and hired more AEs to drive our growth. We're going to inverse that equation going forward and think about productivity as our driver going forward. So really appreciate the question and hope I got it because your line was breaking up.

Operator^ Your next question comes from the line of Kash Rangan with Goldman Sachs.

Kasthuri Rangan^ What an amazing end of fiscal year. Congratulations to the team. Much, much better than expected. Brighter days ahead. Question for Marc. And maybe, Brian, you can chime in here. So Marc, we went through the 2008, 2009 recession, 2010 rebound, back then, the company was a smaller company, but you still were able to get profitability up. We went through a bit of a downturn, and we came out of it. So are there pyramids to be drawn in this cycle?

Because there's certainly uncertainty about recession, whatnot, that's damping spending. If we take that as a fact, the growth rate that you guided to, should that be the aspirational long-term growth rate of the company? Or do you think if and when the recession clears that there should be a rebound in spending? And we understand that all the go-to-market rationalization that you and Brian and Amy you're all working on should allow you to gain share. So help us think about the recovery curve of Salesforce in the next economic cycle.

Marc Benioff^ To understand what we're going through, I really did go back and looked at all the numbers in '01, '02 and '08, '09. And what you said, Kash, is quite enlightened in that. Of course, we saw in '08, '09 ACV fall off dramatically. And of course, we hit the break on spending, and we accelerated margin, I think, 6 points during that time. I don't know the exact numbers, but it was a moment where you see sales and marketing companies, marketing spend -- when these things happen, CEOs, they stop hiring salespeople. They stop spending on marketing, right? Everybody knows the methodology of what, how CEOs behave in a recession. As soon as the stock market implodes CEOs, they hit the brakes.

So I think that, that's what we saw in '08, '09. I think we really started to see that in the middle of '22, maybe August, September, October, November. Certainly, as we've exited Dreamforce, we were like, I think that we can execute our playbook. We have a recession playbook. We know how to transform the company. Well, you just saw it in the last 90 days where the things we're doing are launching on our -- really launched a profitable growth strategy.

This is a key part of what we're doing, really making sure that every executive in this company knows that profitability is our highest priority and making sure that we keep in the very forefront of our mind that Salesforce is not just one of the largest and fastest growing. You can see that I think that we gained -- we probably added or created more ACV than all the other SaaS companies combine. Like our ACV numbers are massive, but also the most profitable software company in the world, the most -- the highest cash flow. That's what's on our mind.

And to do that, we are really focusing on making sure we have the expertise in the company. And I'll tell you, Dreamforce, you are all sitting in the audience. You know Mason Morfit was there, sitting next to his founder, [Jeff Ubben]. And we had been working with Mason, and he started bringing us these incredible ideas on distribution, on pricing, on efficiency. It was these incredible strategic decks. I have never seen the level of quality of work from anyone outside the company before. I was just so inspired with what Mason came up with that, and I'm like, you know what, we should put him on the board and he has added just incredible value.

I mean probably a lot from the Microsoft experience, obviously, being on the Microsoft Board was awesome for him. And the expertise that we're getting as a Board member is incredible. I think he starts today, but he has really been working with us now and has been really cool. And a huge call out to Jeff, too, because Jeff has been (inaudible) for many years and great thoughts.

I'll tell you -- and all of these guys, I'll tell you -- there's a lot of them. We all know that. I've learned from everybody. I really appreciate all of their feedback. It's been fantastic. And we're also adding 2 more great Board members today, I mentioned already. But (inaudible) I know, Sachin, the CFO of Mastercard, incredible financial expertise, Donald, who I've known for so many years, is probably one of the greatest Fortune 100 CEOs of our time, incredible executive. Looking forward to everyone getting to know him. And again, a huge thank you to Sandy and Alan, all of you -- I know many of you work for Sandy in your careers. And it's hard to see Sandy leave the Board because we love him (inaudible) so it's probably the right (technical difficulty)[$20] billion.

I think it's the right time. We've already did $4 billion, and that's obviously critical for us, and we've in created this new business transformation committee. So the Board can really keep their eye on these KPIs that we're talking about. But yes, performance, productivity, the fundamental profitability of the company, the prioritization of our products, leading with growth like with our new data cloud, with our verticals, that was very enlightened, that question, and our services organization as well, we have a lot of growth things.

So when you look at the buying environment gets back online in some huge way and it doesn't become measured, I think we are very well positioned for the future. And we have these great customer relationships, and I don't think there's any other evidence of that, that we just hit a record low on customer attrition.

Operator^ Your next question comes from the line of Brent Thill with Jefferies.

Brent Thill^ Amy, given Marc's #1 profit -- goal of profitability, can you outline where this big jump is coming from? Can you give us just a sense of the big areas that you feel that you can really cut?

And I guess, back to Marc, it seems like you can keep growing at a pretty good rate even with higher margins. So this doesn't really feel like it's really sacrificing growth when you're guiding to still a double-digit number.

Amy Weaver^ Brent, thanks for the question. So we've got great plans for this year. As you know, we guided to 27% for fiscal year '24, and we plan to hit 30% early in the following year. Very excited about what we're doing. This is a journey that we've been on for quite some time. Just in the last 2 years, we have increased our operating margin almost 500 basis points, and this was while fully absorbing Slack.

We announced at Investor Day, we were going to keep going and set out a goal of 25% or more by FY '26. We really hit the gas pedal on that over the last 90 days, accelerating to the 27 and the 30 that I mentioned to you. And again, as I said, even at 30, I don't view as a ceiling. That's really just getting us started on this front.

Now in terms of how this is going on, there has been a lot we've been doing leading up to this with discipline across the company, looking for savings. We took 2 major steps in January. One was the real estate. We announced that we are going to be shrinking our global real estate considerably over the upcoming years. The other was the headcount. And on the job eliminations, I just do want to pause for a moment on that. On the call (inaudible) it's easy to talk about that very clinically as the headcount just represents dollars and not real human beings. I -- we all fully realize that there's employees whose lives and careers and families were deeply impacted by these decisions. And I just want to assure our employees that we never lose sight of that.

But these actions weren't our first steps, and there are going to be plenty more actions that we take to increase our operating margin going forward. We have a number of initiatives underway. Brian talked about quite a few in the sales and marketing area. Sales and G&A are really 2 of our greatest opportunities, although we have started a comprehensive operating and go-to-market review that is going across all of our business. This has led --

Bain is coming in to do this and to work with us and to go through with this. I think that we've got a great initiatives underway.

The other thing I would say, finally, in terms of my confidence, it really comes back to the passion and the skills of our employees. When we focus on sales, we became the fastest-growing enterprise software company ever. When we focus on product, we created an unmatched Customer 360. And now we are asking all of these incredibly talented and passionate employees to bring that same focus to productivity and efficiency. And with all of them behind us, I have no doubt that we're going to be world class for profitability.

Operator^ Your next question comes from the line of Karl Keirstead with UBS.

Karl Keirstead^ Amy, just continuing on the margin conversation, you hinted in your comments about a desire to close the gap between GAAP and non-GAAP earnings. I'm just wondering if you could talk a little bit about what key levers you're using to do that. You hinted that adjustments to the equity program. It might be interesting to hear a little bit more. And over what time frame do you think that bridge might close?

Amy Weaver^ Great. Thanks for the question, Karl. There is certainly an increasing focus on GAAP margins, and in particular, on adding back stock-based compensation into our non-GAAP operating margin. I spent quite a bit of time in Europe meeting with investors in January. And in Europe, that is the first thing that everyone does. So very much top of mind.

Our stock-based compensation for last year was just over 10%. We plan to drive that below 9% this year. And we're getting -- there are 2 of key levers there. One is that we're actually burning through a lot of the stuff that came with some of the M&A we've done in recent years. So that is rolling through our system in the way that's going to help drive the numbers down. The others are changes at our Compensation Committee has been making very thoughtfully to how we grant equity and the form of equity that we grant. So we'll have more coming up on that as we get into proxy season, but I see this going well over the next few years.

Operator^ Your last question comes from the line of Sarah Hindlian-Bowler with Macquarie Capital.

Sarah Hindlian-Bowler^ Congratulations to the entire team on an Oscar-worthy quarter. Karl really did a great job of asking the stock-based compensation question I was going to ask. So I'd like to pivot a little bit back towards maybe getting your understanding of the macro environment that helped you build your outward guidance. Brian, maybe this is a question for you in terms of getting a sense for sort of where you saw points of stickiness or points of disruption or otherwise within your various vertical categories.

Brian Millham^ Yes. Thank you, Sarah. Appreciate the question. And yes, we are in a measured buying environment. There's no doubt about it. And the impact of that are things like elongated sales cycles and multiple layers of approvals that we're facing and maybe even some shrinking deal sizes. One of the nice things we've done, though, is to make sure we're training our people to navigate those headwinds that we've got in the market to go execute better. We saw that happen in Q4, and we'll see that happen in fiscal year '24.

On the industry side, and maybe even the segment side, in our SMB market, economic headwinds tend to hit that a little bit harder. And so we saw some headwinds in our SMB market. Some of the self-serve strategies and motions that we have for Slack were impacted by the economic headwinds.

And then from an industry perspective, we actually saw a lot of strength in industries around public sector, manufacturing, engineering -- excuse me, energy and travel hospitality was a strength for us in the quarter. Some areas that we continue to see headwinds in technology is probably not a surprise to anybody, and also financial services were a bit of a headwind for us in the quarter but have a lot of belief that we can turn that around in FY '24. So Sarah, thank you so much for the question. Appreciate it.

Marc Benioff^ Okay. Thanks, Sarah, and thanks, everyone, for joining us today. We appreciate everyone taking the time and look forward to seeing everyone over the coming several weeks. Thanks.

Brian Millham^ Thanks, all.

Marc Benioff^ Aloha.

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