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EDITED TRANSCRIPT

CRM - Q1 2017 Salesforce.com Inc Earnings Call

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OVERVIEW:

CRM reported 1Q17 revenues of nearly \$2b. Expects FY17 revenues to be \$8.16-8.20b and non-GAAP diluted EPS to be \$1.00-1.02. Co. expects 2Q17 revenues to be \$2.005-2.015b and non-GAAP diluted EPS to be \$0.24-0.25.



CORPORATE PARTICIPANTS

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Marc Benioff *salesforce.com, inc. - Chairman & CEO*

Keith Block *salesforce.com, inc. - Vice Chairman, President & COO*

Mark Hawkins *salesforce.com, inc. - CFO*

CONFERENCE CALL PARTICIPANTS

Brent Thill *UBS - Analyst*

Bhavan Suri *William Blair & Company - Analyst*

Kash Rangan *BofA Merrill Lynch - Analyst*

Heather Bellini *Goldman Sachs - Analyst*

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PRESENTATION

Operator

Good day. My name is Victoria and I will be your conference operator. At this time, I would like to welcome everyone to the Salesforce first-quarter earnings conference call.

(Operator Instructions)

Thank you. I would now like to turn the call over to John Cummings, Vice President of Investor Relations. Sir, you may begin.

John Cummings - *salesforce.com, inc. - VP of IR*

Thanks so much, Victoria. Good afternoon, everyone, and thanks for joining us for our first call of first-quarter FY17 results conference call.

Our first-quarter results press release, SEC filings, and a replay of today's call can be found in our IR website at www.salesforce.com/investor. And with me today on the call is Marc Benioff, Chairman and CEO; Keith Block, Vice Chairman, President, and COO; and Mark Hawkins, CFO.

As a reminder, our commentary today will primarily be in non-GAAP terms. Reconciliations between our GAAP and non-GAAP results and guidance can be found in our earnings press release. Also, some of our comments today may contain forward-looking statements which are subject to risks, uncertainties, and assumptions. Should any of these materialize or should our assumptions prove to be incorrect, actual Company results could differ materially from these forward-looking statements. A description of these risks, uncertainties, and assumptions and other factors that could affect our financial results are included in our SEC filings, including our most recent report on Form 10-Q and 10-K.



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

Marc Benioff - *salesforce.com, inc. - Chairman & CEO*

Well, thanks, John, and really excited to be here, really excited for the first quarter, and we've got some great people here for the call. We've got Keith Block here, our new Chief Operating Officer, really excited to have Keith here. We have Mark Hawkins here, our Chief Financial Officer, and look, you've all seen the press release.

We just had an awesome Q1. It's the best Q1 we've ever seen. There's some incredible numbers that you're going to see, including the cash flow number. Revenue for the first quarter, as you saw, grew nearly to \$2 billion. That was up 28% in constant currency. That was just above our expectations.

Deferred revenue also grew to more than \$4 billion, up 32% in constant currency. That was also above our expectations, to see deferred revenue grow with a 3 in front of it at this size and scale. Dollar value of booked business on and off the balance sheet at \$11.6 billion, up 28% from a year ago.

We improved our non-GAAP operating margin, which Mark is going to talk about, and it drove a billion in operating cash flow, as I mentioned. But that's 43% from a year ago. It's pretty great.

I'm also thrilled to announce we're raising full-year revenue guidance and \$80 million, raising guidance. We feel really excited about that, to \$8.2 billion; it's the high end of our range, and our current outlook puts us on a clear path. Look, we all can see now that we're going to realize very shortly our \$10 billion dream.

We're well positioned for another great year. This is amazing. I think that one of the reasons that we are doing so well is because Oracle and SAP are doing so poorly in the cloud. They just have not been able to make that transformation that we've made, that other companies have made, and we just continue to take market share from them and gain customers at a record level.

And you can see that their growth numbers are nothing like we're putting up here as we deliver our first quarter. And it's happening because Salesforce is really the only Company totally focused on companies helping to connect with their customers in a whole new way.

We're in the midst of a massive generational shift, a new generation of customers and consumers is clearly emerging. We've been calling them here at Salesforce C-generation customers, customer generation, consumer generation. These are people who want it now, they want it fast, they want it easy. And they're mobile, they're social, they're always on. And our customers are working to connect with the C-generation in new ways. Very exciting.

This is really part of a huge shift that's happening in computing. We've gone from the first generation of computing, which was very much about systems of record, to the second generation, which was systems of engagement. We've talked about that on these calls many times over the last 10 years. And we are clearly moving into this incredible world that's a system of intelligence that's all yielding these incredible systems of customers, or C-generation customers that our customers are connecting to. And that's what we're so excited about.

I know you all want to hear more about those shifts that are going on. I'm going to encourage you to come to our world tour event in London tomorrow where we'll have 15,000 people in person, bigger than most companies user conferences. For us, it's just another visit to a great city in the world. And then next week, we're going to be in New York for World Tour New York, which is already sold out. We'll be excited to see you there.

And in San Francisco on June 7th and 8th, we're going to be hosting TrailheadDX, which is our brand-new developer conference. It also I believe is already sold out, but it's going to be an amazing event. We're going to have plenty of opportunities to watch it online. Hard to find venues around the world to host these large events.

TrailheaDX you're going to see the next generation of software -- Salesforce's software development capabilities, including our new Lightning systems, component based development as well as the ability to build one-on-one journeys with customers and a huge focus, a huge focus at TrailheaDX on how to rapidly and easily build mobile applications. Really excited to visit with all the Salesforce customers and developers who are coming to TrailheaDX.

Okay. Well, finally, let me tell you, we've got Dreamforce coming October 4th through 7th. I've seen the details. I know the bands that are playing. I know what's going on. I'm not going to give you too much of that yet. I can just tell you it's going to be the biggest and most exciting Dreamforce ever, and it's going to be also just a great year.

And Keith, you're a huge part of making it such a great year. I think we're getting ready to celebrate your third anniversary at Salesforce, is that right?

Keith Block - *salesforce.com, inc. - Vice Chairman, President & COO*

That's right, it's coming up, absolutely.

Marc Benioff - *salesforce.com, inc. - Chairman & CEO*

When is that going to be so I can have the cupcakes ready?

Keith Block - *salesforce.com, inc. - Vice Chairman, President & COO*

That will be June 2nd, Marc.

Marc Benioff - *salesforce.com, inc. - Chairman & CEO*

June 2nd, alright. Well, we're going to get those cupcakes ready. But Keith, before we do, let me just congratulate you on a great quarter, congratulate you on your promotion, your excellent leadership in the Company, and why don't you tell us what happened with customers this quarter.

Keith Block - *salesforce.com, inc. - Vice Chairman, President & COO*

Alright, thanks, Marc, and thanks everyone for joining us on this call. I think as you heard from Marc, we had an extremely fast start to the year. That is terrific onto itself, but it is on the heels of a fantastic Q4.

We saw great execution across the board. We fine-tuned our go-to-market approach. We've aligned our operations to bring our resources closer to our customers, because at the end of the day, it is all about driving success for those customers. All these investments that we've made over the last three years, the innovation in our industries, building out our partner ecosystem, expanding internationally, all of this is really paying off in our results.

So we began FY17 with a record number of large transactions, more than any other first quarter in our history as a Company. The value of these large transactions across our clouds continues to increase. We've built on our tremendous momentum from Q4, and in fact, we closed yet again another nine-figure transaction in the first quarter, so we're very, very proud of that.

All this is proof positive the scale and depth of relationships that we are building and continue to build with our customers worldwide, everywhere, all shapes and sizes, geographies, industries. An example in Q1, we signed a significant and strategic agreement with Amazon. We are now their Company-wide customer platform, and this is a huge expansion of our relationship with them and we plan to use more Amazon services in the future.



Uber, one of the world's great innovative companies, another expansion in the quarter. They're an incredible innovator with off-the-chart growth. They selected Salesforce to be their global customer success platform so they can build one-to-one journeys at scale for millions of Uber riders worldwide. This is one of the most innovative companies, as I said, and they are driving their innovation by leveraging our customer success platform.

Samsung, another great brand, decided to standardize their B2B business on Salesforce in Q1 so they can engage with their customers anytime from anyplace and run their businesses right from their Galaxy phones. Another great brand is New York Life. They have selected Salesforce to power their digital transformation. And they are planning to mobilize their field agents with Salesforce and enhance the service they deliver to their customers.

In Europe, one of the world's leaders and pioneers in robotics decided to go wall-to-wall with Salesforce to advance the digital transformation of their business. Now Marc alluded to this, but this is a strategic partnership where we completely replaced SAP with every cloud in our portfolio to drive their customer success with our product suite. So not only are we their customer success platform, but Salesforce will be their IoT platform, connecting all their robotic devices to open up new services and apps and create new experiences for their customers.

There are many, many more examples, and in every one of these, these companies are turning to Salesforce as their trusted advisors to redefine their customer strategies and take their businesses into the future. And we are delivering this level of customer success at scale and across the entire portfolio.

I want to thank our customers for their continued trust, their commitment, and always, their inspiration. And our partner ecosystem, which is second to none, for their ongoing investment in customer success. And last but not least, I want to thank everybody at Salesforce for again, another outstanding performance in the quarter.

So I'd like to hand this over to Mark to talk a little bit more about our financial execution in the quarter. Mark?

Mark Hawkins - *salesforce.com, inc. - CFO*

Great, thanks, Keith.

As you've heard, we had a great start to the fiscal year with very strong results across the board. Our total revenue was up 28% in constant currency, when you exclude a year-over-year FX headwind of \$20 million. Sequentially, we saw a \$4 million FX headwind.

Sales Cloud accelerated in the quarter with a 15% year-over-year growth. Service Cloud grew 32%, Marketing Cloud grew 29%, App Cloud and other grew 45%. In the region, EMEA grew 33% and APAC continued to accelerate at 29% growth, both on a constant currency basis year over year. Seller attrition for the first quarter remained below 9%.

While we continue to deliver this outstanding top-line performance, we also continued to improve our bottom line as well. In the quarter we delivered 283 basis points of year-over-year non-GAAP operating margin improvement, our eighth consecutive quarter of expansion. This helped drive record operating cash flow this quarter, as we delivered more than \$1 billion of operating cash flow, up 43% over last year.

I'm very pleased with these outstanding results. Our first \$1 billion cash flow quarter, very exciting. These outstanding results reflect the continued compounding of our invoicing in Q4, and to a lesser extent, the early adoption of ASU201609, which benefited operating cash flow by approximately \$25 million in Q1.

Deferred revenue ended the quarter at more than \$4 billion. This was up 32% in constant currency when excluding our year-over-year FX headwind of \$10 million. Sequentially, deferred revenue you had an FX tailwind of \$51 million.

We also continued to drive an increase in annual billings in the quarter, with 79% of all subscription and support-related invoices issued with annual terms. This benefited year-over-year deferred revenue growth by approximately 1 percentage point.



Moving on to guidance. With our strong start in Q1, we are raising our FY17 revenue guidance to \$8.16 billion to \$8.2 billion. We are also raising our FY17 non-GAAP diluted EPS guidance to \$1 to \$1.02. We now expect year-over-year operating cash flow growth of 25% to 26%. For Q2, we are expecting revenues of \$2.005 billion to \$2.015 billion, non-GAAP diluted EPS of \$0.24 to \$0.25, and a year-over-year deferred revenue growth of 26% to 28%.

To close, we had an outstanding quarter and we're off to a great start for FY17. I'd like to thank the entire Salesforce team for these great results.

With that, I'd like to open up the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Your first question comes from the line of Brent Thill with UBS.

Brent Thill - UBS - Analyst

Good afternoon. Marc, your largest revenue cloud, the Sales Cloud, accelerated to the best growth in over five quarters. Can you just highlight what's driving that out-performance? And you did have a small price increase. There's been questions among investors. Is that price hike having any impact in the short term?

Marc Benioff - salesforce.com, inc. - Chairman & CEO

Well, I think that we have really been focused on how do we accelerate the Sales Cloud. It's a huge number, the revenue number is incredible, and the growth rates is also incredible.

And the areas where the Sales Cloud has really accelerated are, number one, we've done a huge amount of innovation with the Sales Cloud starting with Lightning. You probably know we've completely rebuilt our core platform of Salesforce, which we now call Lightning and we have rebuilt how the Sales Cloud is manifested to our customers, especially in regards to mobile technologies. You can see that if you go on the app store and download our Salesforce 1 app, which is now millions of users; millions are using that to access Salesforce.

Two, we've also created some amazing new capabilities for the Sales Cloud, probably the most popular is our Pardot capability, which is a part of the Sales Cloud, very exciting accelerator for us as well as SteelBrick. And these things and others really have led us to what I would say almost reboot the Sales Cloud, recreate the Sales Cloud, re-energize it. And this accelerated revenue growth for it is something that we're very, very excited about.

Brent Thill - UBS - Analyst

Thank you.

Operator

Your next question comes from the line of Bhavan Suri with William Blair.



Bhavan Suri - *William Blair & Company - Analyst*

Hey, guys, thanks for taking my question. Just two quick ones from me. First, when we look at the Force platform, again, it posted really, really healthy growth, the fastest growth, again, over five quarters. And if I was to look at that growth, just some color on the mix of how much is coming from existing ISEs and customers expanding on the platform or net new customers that are choosing Force.com for speed, for whatever, versus any other platform, just some sense on how that's playing out?

And then you touched a little bit on the IoT cloud. Just a little more color on adoption. Obviously that's a huge market, but just how you're thinking would out the growth trajectory for that business. Thank you.

Marc Benioff - *salesforce.com, inc. - Chairman & CEO*

Well, I think that when you look at our platform and you want to understand its growth, you just have to look at the recent Gartner Magic Quadrant for mobile application and deployment. We are ranked as the leader. And so many other course analysis by these independent analyst agencies, they have marked our platform as the leader.

And I'll tell you why that is because there is a whole segment of the developer population that we are speaking to who want to rapidly build and deploy applications. Especially, and I said this in the previous answer, in the mobile environment. And only Salesforce has let you rapidly build and expand and create these applications using Lightning and deploy them on all these different devices.

And for those of you who have tried it or seen the traffic around it on social networks like Twitter and others know, we have hit a huge home run in regards to Lightning. We have our customers' imagination.

For those of you who attended the February 2nd event with the -- at the St. Regis, you heard Accenture, who is deploying this technology, not just for its customers but internally to tens of thousands of users, almost 100,000 users, and how they have accelerated their application development capability internally by turning to Lightning. And so that is what is driving the power.

We've rebooted our core platform and you're seeing that reflected in our Sales Cloud, in our service cloud, in our platform, in our community, in our core applications that are running currently on that Lightning platform. That's been a huge growth driver, and I believe that because Lightning is so unique and so special in the industry, that it lets our customers build these applications quickly at a very low cost and deploy them across so many different platforms that we're going to see continued growth in these core clouds.

Operator

Your next question comes from the line of Kash Rangan with Bank of America-Merrill Lynch.

Kash Rangan - *BofA Merrill Lynch - Analyst*

Hey, guys. Congratulations on the quarter. One question for Benioff and one for Hawkins One for you, Mark Benioff. The platform business, again, it feels like even the Sales Cloud at this size, at when it was, it was roughly the size of the platform business, did not grow at fast. So are we finally at the point where we're getting that inflection? This is poised to be firmly a business potentially larger, could it be the largest cloud? And if so, how does it help your vertical strategy?

One for you, Mr. Hawkins. You signed three deals in the nine-figure range. When will you start to bill and when will it start to actually show up in deferred revenues? Because I suspect given how large these deals are you're not yet invoicing these customers. Thank you very much.



Marc Benioff - *salesforce.com, inc. - Chairman & CEO*

Well, in regards to the Sales Cloud, number one, you know already this is one of the largest software products by revenue in the industry, period. Not just CRM, not just Salesforce automation where it's number one, but in the industry. And to see this acceleration, this is something that we have been working on. And I said and I believe that this is true for innovation, reasons of innovation, and it's also reasons of specialization.

As you know, Keith Block has been working on his vertical strategy. And Keith, do you want to speak to that and also some of the exciting things that have happened with the vertical strategy in the Sales Cloud? And how you've been able to address some of these new markets, which is part of this acceleration. Keith?

Keith Block - *salesforce.com, inc. - Vice Chairman, President & COO*

Yes, so a couple things. First of all, the acceleration in Sales Cloud, this is one, as Marc said, this is one of the most successful products in the history of technology. And one of the great things about this Company is it continues to innovate. This has been a refocus point for us to continue to innovate and accelerate innovation around Sales Cloud and you see that in the results. And we've leveraged that great innovation and that base to drive vertical specialization.

As you know, we announced and made for GA available the Financial Services cloud and the Health Cloud in Q1, and we had several customers sign up in the quarter. So we're starting to get a lot of momentum. So we've been talking about it for a while, part of our industry strategy has been around messaging and then releasing these first vertical products focused on financial services industry and the healthcare industry and life sciences industry.

Again, you do that with amazing technology with Force. You do that with amazing technology leveraging the underlying clouds, and you add industry specialization to it. And that's why we're getting to see these results and this reacceleration.

Mark Hawkins - *salesforce.com, inc. - CFO*

Let me jump in also, Kash, with the second question around three nine-figure deals, which obviously, we're very pleased with for all the reasons that Keith and Marc talked about. You're absolutely right in the sense that these big deals are multi-year deals. What happens is the first year gets billed, and that will show up in our deferred revenue and then ratably recognized over time. But the multi-year aspect of that does not show up in our unbilled DR, it shows up in our unbilled DR.

What's amazing about that is when you put our billed and unbilled book of business together, you have \$11.6 billion now growing at 27% year on year. So you're picking up some of that really, really good business that's going to show up. It hasn't been billed yet, but it will over time. Great question, Kash.

Operator

Your next question comes from the line of Heather Bellini with Goldman Sachs.

Heather Bellini - *Goldman Sachs - Analyst*

Hi. Great. I had a question for Marc Benioff and then a question for Keith. Marc, you've had this \$10 billion goal for quite some time. It now looks like you'll trip over it very soon and obviously a great accomplishment. As you look ahead and rally the Company into the future, can you share with us what's the next big rallying point or what's the next big goal you have for the Company?

Then the follow-up for Keith would be how do you size the potential for these nine-figure deals as you look into your customer base? Thank you.



Marc Benioff - *salesforce.com, inc. - Chairman & CEO*

Well, you're right, Heather, and I know that you have created and keep a comprehensive financial model on Salesforce and have for a number of years, as well as many of the financial analysts on the call. And I'm sure that all of you can figure out exactly or approximately based on our deferred revenue numbers and adjusting your models around when you think we're going to have \$10 billion.

That is an exciting moment. It's an exciting moment because for the software industry, and specifically, in enterprise applications, there's really only been two other companies that have really hit that kind of number.

So I would say that we are already looking forward to blasting right through that and getting to the next level, and I'm excited that Salesforce doesn't show any signs of slowing down as we get to these levels. We're moving rapidly into a world that, and we've talked about, of course, many transformations in our industry, which is a world of the cloud. Of course, that drove Salesforce's growth for many years, a world of social, that drove Salesforce's growth for many years. And also mobility, and that's also currently driving Salesforce's growth.

When I look, the next major trend for Salesforce in our industry that will drive tremendous growth, it's got to be artificial intelligence. And as we look out into the future and we start to look at extreme improvements and advances in artificial intelligence, whether it's machine learning, whether it's deep learning, whether it's machine intelligence itself, I think that those capabilities appearing inside our applications, that is going to be a major growth capability going forward.

And the one other area that I think will advance that is that we can bring this type of new technology very much to everyone, and that's going to be the power of Salesforce. That's certainly what we're doing with mobility today. That's what we will do in AI as we shift Salesforce to be in an AI first Company.

You can see the beginning of this in one of our most exciting new products of the quarter and also a part of the Sales Cloud growth for sure, because it's in there, is not just Salesforce IQ, which you can get on the app store, but also our new product, Salesforce Inbox. And Salesforce Inbox is very exciting because it uses artificial intelligence and machine intelligence to work with our users, to work with their email, to work with their calendars, and to work with their CRM data to give them prescriptive ideas on exactly how to be more efficient in the sales, service, and marketing process of their companies.

And when you look at technologies like Salesforce IQ and like Salesforce Inbox, well, and I'm sure you know those came out of an incredible acquisition we did approximately two years ago, RelateIQ, which was just a world-class team that we were able to pick up that's based in Palo Alto. Then you can see that this is another major growth factor, because it will appear in sales. It will appear in service. It will appear in marketing.

You saw it actually last week if you attended our connections conference, you saw our new predictive journeys capability and this predictive capability that appeared in our Marketing Cloud that was driven out of our new Salesforce IQ services. You also see it, of course, in communities. You see it in our platform. You're going to see it in mobility. You're going to see it if our analytics, of course, at the core.

This is a very powerful next generation technology. So Heather, when I look forward, what I see is an AI first world, and for every customer, going to be able to get a whole another generation of productivity out of artificial intelligence, machine learning, and deep learning.

Keith Block - *salesforce.com, inc. - Vice Chairman, President & COO*

So Heather --

Marc Benioff - *salesforce.com, inc. - Chairman & CEO*

you want to add to that?

Keith Block - *salesforce.com, inc. - Vice Chairman, President & COO*

Yes, so Heather, just to your second question, look, large deals are certainly an indication of how deep these relationships are becoming with these customers. But they're not the only indication. Certainly in Q4, we had two of the largest nine-figure deals that we've had in the history of the Company. And in Q1 we signed up, again, another very strategic long-term relationship.

But our business is based on a balanced portfolio across all market segments, whether it's the SMB or mid-market or the enterprise space. And there is a lot of room there. So there is an expectation from our customers to play a more significant role across the board and certainly in the enterprise. In fact, Mark and I met with a couple of CEOs yesterday who were talking to us about how they bring their companies into this age of the customer and drive digital transformation. And that's becoming a regular dialogue.

But this is both a mind-share and a market-share game, and we strive for balance in our execution and a balance in our portfolio of business and customers. Again, from top to bottom, SMB all the way up to enterprise. So we've got great momentum. We expect that to continue. And I think we've got a terrific play book with an incredible portfolio of products that satisfy our customers' needs.

Operator

Your next question comes from the line of Sarah Hindlian with Macquarie.

Sarah Hindlian - *Macquarie Research Equities - Analyst*

Hi. Thank you, guys, so much for taking my question and congratulations on a really extraordinary quarter. I had a couple for you. I'm wondering where will you be expanding your usage of AWS beyond Heroku and the components of IoT that are built on that. And I was wondering what's really driving that decision.

And then secondly, how do you think about the size of the Sales Cloud market given the number of clunky custom-built in-house solutions that still exist out there? Where are we in terms of hitting that runway for you guys? And then I'll try to sneak in a third here. But if you could talk a little about wave analytics and what we're seeing there, that would be fantastic as well.

Marc Benioff - *salesforce.com, inc. - Chairman & CEO*

Thanks for that question. Number one, I would say we love Amazon. We've got a great relationship with Amazon. They're a huge user of Salesforce, and that certainly has been a huge part of this quarter as well. We did a very significant and very large transaction with Amazon, and Jeff Bezos and I have a great meeting of the minds of the future of the cloud.

I think that it's been a great relationship and partnership for us. We want to continue to grow that and expand that strategically. We are definitely exploring ways that we can use AWS more aggressively with Salesforce.

Of course, you know that we run one of the largest application development capabilities in the world on AWS, which is Heroku. We also are building our new IoT cloud on AWS. We also introduced new capabilities for our Marketing Cloud last week on AWS, and we have a lot of research and development capabilities in AWS.

When you look at Amazon today, there is no public cloud that is more sophisticated, more well used by enterprises, and one that has more robust capabilities than Amazon. They have done a spectacular job in defining this infrastructure-as-a-service market. They, of course, dominated. I think you know they're doing, themselves, more than \$10 billion a year in it. We're very happy to be so tightly aligned with Amazon and AWS.



In regards to future capabilities that you're going to see with other parts of Salesforce, well, as we head towards our developer conference and as you head towards Dreamforce, I think you'll continue to see more announcements between Salesforce and Amazon, and you'll see our partnership and strategic alliance with them continue to grow and develop. And Jeff and I have a lot of very exciting ideas on what the next steps are. Okay, Alexa, would you take the next question?

Mark Hawkins - *salesforce.com, inc. - CFO*

Let me -- maybe I could jump in here. One of the things you touched on was the -- have a little fun here -- the wave, you had asked a little about that, Sarah. We are seeing nice growth with the Wave. Again, we are very pleased with the way that's progressing. By the way, the big deals that Keith just called out in terms of AWS is using Wave. Live Nation is using Wave. We can give big customer after big customer using Wave. By the way, I use Wave, as we run a Fortune 500 Company and absolutely love it.

So I love the growth rate. I love the large deal penetration with this. I love the momentum. Keep in mind, it's version one. The thing I'd call out, and maybe Mark or Keith want to talk about that, but Bob Stutz, we're just super happy to have Bob here. He's thinking beyond version one, and that's just really exciting to me. That's the Wave comment from my standpoint.

The last point was around -- you had asked around the Sales Cloud market size. I don't know if there's any additional thoughts there.

Keith Block - *salesforce.com, inc. - Vice Chairman, President & COO*

I'll just say it again. This is one of the most successful products in the history of technology. And a lot of companies, as you all know, when they come out with a great first product, if you will, they leave it behind and they don't continue to innovate. But this is a Company that is deep in innovation. It's part of its DNA. We have reinvigorated this product set, and we are very pleased with the results and our customers are loving it.

Operator

Your next question comes from the line of Steve Ashley with Robert W. Baird & Company.

Steve Ashley - *Robert W. Baird & Company, Inc. - Analyst*

Great. I would just like to drill down on the Sales Cloud question again. Saw the accelerated growth, 14.9%. But if we were to peel -- parse that out, look at it from enterprise, maybe medium, small businesses, look at it at layers, if we peel back that enterprise layer where I'm sure large deals are really helping, are you seeing improved growth at some of the lower layers in the mid-market and smaller business market for the sales cloud? Thanks.

Marc Benioff - *salesforce.com, inc. - Chairman & CEO*

Yes, we are. And I'll tell you why that is. I've touched on it a number of times, but I will circle back one more time because I think it is important. I think it's important because I think for a lot of companies to get to this level of a product they put it on maintenance. They abandon it. They look another way. They hope to bring in the next horizon.

They look to Jeff Moore's commentary on what is the next wave or whatever, and they move to that next product. For us, we're not. We have that, of course, we have multiple successful multi-billion dollar products in the Company, everybody knows that. But we have not given up on Sales Cloud because there is so much more that we can do.

And you saw that this quarter in that we have rebuilt its core with Lightning so that it works better on mobility. We have Salesforce 1, which now has millions of users on it, and I use it every day. It's never been faster, easier. The level of acuity with Salesforce 1 is phenomenal.

We have SteelBrick, which our customers love this kind of CPQ capability, to be able to do [court], quotes, and orders and all this incredible new stuff that SteelBrick does for us that's built natively in our Lightning platform. We have Salesforce IQ, which is an artificial intelligence front-end machine, learning front end to Sales Cloud which is incredible.

We have Sales Cloud -- we have Salesforce Inbox, which is an e-mail front end to Sales Cloud that's incredible. And we have many, many other things coming, many that you'll see at TrailheaDX, many more you're going to see at Dreamforce. We have not abandoned Sales Cloud. We have doubled. We have tripled down on Sales Cloud, and because of that, we have accelerated our growth rate.

And it's exciting, and our visions for Sales Cloud have not yet been fully realized. We know that there is not just a cloud -- there's not just this incredible cloud vision for Sales Cloud, not just incredible social vision. You all know it's been built on this incredible engagement platform, built on our chatter core and then extended into Salesforce one.

Of course it has incredible mobility, the best of any enterprise application in the world with more mobile users on it than any other application that I'm aware of. And we are now introducing this new AI wrapper that you can see that artificial intelligence is becoming part of Sales Cloud. You can see that already in Salesforce IQ, Salesforce Inbox. You can see that in the predictive journeys.

You're going to start to see that more aggressively. Because we are innovating so aggressively on Sales Cloud, you are going to continue to see great results. Because what customer does not want or need this ability to grow their top line? And that's what Sales Cloud is giving them in this tough environment.

And by the way, all those same things that I just mentioned work with Service Cloud. They work with our platform. They work with our community. We have one very solid core platform that is extended through this work that we're doing. So I've never been more jazzed about the capabilities in the Company and what our developers are doing, what our innovators are doing. It's so exciting.

Mark Hawkins - *salesforce.com, inc. - CFO*

Marc, I agree. The thing I would add in, Steve, is not only has it accelerated this quarter, this is the fourth consecutive quarter of Sales Cloud accelerating in terms of the year-on-year growth. So all this stuff that Marc's talking about is taking hold. The other thing, keep in mind and I know you know this, Steve, this is US dollar growth that we're talking about, not even foreign exchange. Because you alluded to like, where's the growth coming from and such. That's another point to be aware of.

The third thing I would say is when you look at all the innovation Marc's talking about and you look at market share, and you probably have seen the Gartner data that just came out, again, we took market share again in Sales Cloud. But even more importantly, we took market share at the CRM level, number one again, took 150 basis points. And our key competitors are falling behind and actually losing market share. So that's exciting too. But this is a continuing trend and it's not just one acceleration quarter, Steve.

Keith Block - *salesforce.com, inc. - Vice Chairman, President & COO*

Just a final comment on the acceleration of Sales Cloud here. If you think about the agenda of every CEO and certainly the most progressive CEOs, it is about growth, it is about shareholder value, it is about stakeholder value. And this is why we align so well with our customers and this is why they're interested in our Sales Cloud. Because they want to grow. They want to engage with our customers. And this is the market-leading platform, and that's why we're seeing a reacceleration.

We are aligned beautifully with the agenda of the CEOs of the best companies in the world. And they're looking for solutions and this is the best solution in the marketplace.



Marc Benioff - *salesforce.com, inc. - Chairman & CEO*

I would just get back to my competitive comment, which is you look at these other vendors and what they've done with their technology in this category, it's been pretty poor. And that's why when you saw that Magic Quadrant from Gartner, we are way high, up and to the right, because everyone else has abandoned their technology in this area. And they've -- they give it a lot of lip service, but the reality is there's just no comparison between what we have and what the other vendors have at this point. It's incredible. And it comes through in our demos, it comes through in our wins, and it comes through in the core customer success.

Operator

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

Raimo Lenschow - *Barclays Capital - Analyst*

Thanks for taking my question and congratulations on the great quarter. Two quick questions. First one is, Keith, can you talk a little bit about the linearity in the quarter? We saw Q1, obviously, a very terrible earnings season for a lot of the old-time software companies. I just wanted to see if that's timing or the market-share comments that you laid out in the first questions.

The second one is since we talk about London and the event there tomorrow, I saw like, the European growth accelerate again. Can you talk a little bit about where you see the maturity of that market versus the US market. Thank you.

Keith Block - *salesforce.com, inc. - Vice Chairman, President & COO*

So thanks for the question. Let me just start with the international market, since it was the second part of the question. This has been a big focus area for us over the last three years as part of -- one of the three growth levers, again, expanding our partner ecosystem, speaking the language of industries and focusing our resources internationally.

Obviously, we made investments with data centers in Europe which we're very, very excited about. Our customers are obviously excited about that. We're just responding to our customers in that regard. But we've also invested more in terms of customer-facing assets internationally, because our customers want to engage with us more deeply. They want those more strategic relationships. So we're just seeing the results of this investment that we've made over the last three years.

As far as the market trends, there's a lot of legacy on-premise providers out there, quite frankly, that are still trying to figure out if and how they can possibly transition to the cloud, which is very difficult. A lot of companies will claim that they are a cloud company, but the reality is being a cloud company is about technology, it is about a business model, and it's about a culture of driving customer success.

And these companies that have had poor results or soft results, they represent the past. And they do not have these three pillars that really were the foundation for Salesforce 17 years ago. And that's why we continue to drive success for our customers. We see great results in the marketplace. We are taking share.

Quite frankly, these other companies are losing share as we gain share, so we're creating separation with them in the market. And we have the right vision. We have the right story. We have the right products. We have the right execution. We have great partners and we have great customers, and that's why you're seeing these results.

Operator

Your next question comes from the line of Philip Winslow with Credit Suisse.

Philip Winslow - *Credit Suisse - Analyst*

Hi, guys, just want to echo my congratulations on what was a huge quarter. We've talked a lot about Sales Cloud and platform, and those are phenomenal too, but we haven't touched on the Marketing Cloud yet. Our checks are picked up that you guys continue to increasingly good job in cross selling that into that big Sales Cloud base, and obviously the product itself has evolved pretty rapidly over the past 12, 18 months. Wonder if you could give us some color there. As you think about the rest of FY17 how do you think about the outlook for the Marketing Cloud in particular? And then one quick follow-up to that.

Keith Block - *salesforce.com, inc. - Vice Chairman, President & COO*

Well, we just came off of Connections. We had this incredible event last week in Atlanta where we had a record number of customers show up for this event. A lot of great CMOs, a lot of great C-level executives. They love our messaging. They love our vision. We've done a very, very nice job of integrating, not only integrating I would say, that acquisition that we made almost three years ago in June of ExactTarget, but we continue to strengthen the product.

So it is a natural adjacency to customer engagement, along with sales cloud and service cloud. We've continue to invest in the product. We've continued to invest in the marketing assets as well as our field assets. And we are driving the results and the message continues to resonate.

Marc Benioff - *salesforce.com, inc. - Chairman & CEO*

I would add in on that one too, Keith. I think you guys have landed some amazing big deals in the Marketing Cloud. It's been really productive in that way as well. So it's really nice to see those attributes. Marketing Cloud is coming along really nicely.

Philip Winslow - *Credit Suisse - Analyst*

Great, and then just a follow-up for Marc B. Service Cloud has obviously been a phenomenal success. It's a big dollar number and continues to grow rapidly. It seems like the customer service market as a whole is pretty hot right now. We've heard some new players start to talk about coming into this space even just this week.

When you think about your positioning and what you bring to market here first to some of the existing [fettors], but also these new ones trying to get into the market, just how do you think about your positioning? What advantages do you have and how do you think about especially the new entrants?

Marc Benioff - *salesforce.com, inc. - Chairman & CEO*

Well, service is a huge focus of Salesforce, and I immediately default to, again, my comment on innovation. And as evidence of the innovation, Gartner's lead analyst just published their Magic Quadrant on customer engagement. If you haven't seen it, you should get it and contact Gartner. You'll see when you get it that Salesforce has farther up and to the right of any product that I've ever seen in the history of Gartner Magic Quadrants So you'll have to take a look at that.

And we're not done, because we're replatforming service completely on the Lightning, which will be done by Dreamforce. We are continuing to add and extend service. It remains one of our most exciting, fastest growing products. It is chasing Sales Cloud to be our largest cloud. It's an exciting market.

Now, service is a huge and exciting market. There will be many players in service, just as there are many players in sales, just as there's many players in platform. We are in mega markets, and I like that there's innovation in service and competition in service. It makes the markets bigger, but it

doesn't change our position as being the number one, most important provider of service solutions in the world with the largest market share. That is where we want to be and continue and where we will continue to be.

Mark Hawkins - *salesforce.com, inc. - CFO*

Just to add to that, just in case you haven't seen the report yet, we gained 330 basis points in the report that just came out. It's pretty -- it's a pretty major share shift to add on the our already number one position.

Operator

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

Mark Murphy - *Piper Jaffray & Co. - Analyst*

Thank you. I'll add my congratulations. Question for Marc Benioff. In recent months, we have seen a lot of evidence of the major consulting firms, such as Accenture and Deloitte and PWC, moving pretty aggressively to build out their Salesforce practices. They've been doing it both organically and through acquisitions, and they seem to be centering their entire digital transformation strategy around Salesforce.

And we've seen them converging their services with apps from multiple of your app exchange partners and they're wrapping that around Salesforce. And it seems to be resulting, in part, in this growth trajectory that you've got. So I am curious, does the path even beyond \$10 billion and maybe to \$15 billion or \$20 billion in revenue seem any clearer to you as you have these consulting firms coalescing around Salesforce for their digital transformation strategies?

Marc Benioff - *salesforce.com, inc. - Chairman & CEO*

Okay, well this is a great question, and I'm going to go to Keith pretty quickly on this. But you saw it in my February 2nd presentation where we highlighted Accenture and where we've also now toured them around the world. You've seen the videos on YouTube between Salesforce and Accenture. If you haven't, it's a great opportunity to go and check that out, as well as the demos.

You heard from their CIO, from their CEO, from their President, Salesforce is their fastest and most strategic growing practice and it is their transformation practice. It is their key cloud practice You also see that with some of the other major SIs as well.

I'm especially proud of our work with Deloitte. I'm especially proud of our work with Capgemini. And you know from the fourth quarter, PWC was just an awesome, awesome relationship that is emerging, and we are delighted with that as well. All of these players have our full attention.

Now for all of them, they are competing to grow to be the fastest grower with Salesforce's ecosystem, because all of our customers want service capabilities. Because Salesforce itself provides actually only strategic services. We don't really provide these core implementation services. So these large players have acquired many of the key parts of our ecosystem, and you just saw that with IBM. They just bought Bluewolf. They are (inaudible) company, but they've all made strategic bets and they are trying to acquire our ecosystem as fast as possible.

We're continuing to invest into these companies, into these ecosystem companies. We want to start more companies that provide service capabilities regionally in the United States, in Europe, in the Japan, in Australia, and other places in the world. And these companies grow up and they get acquired by these large companies. That's a great model for us. Of course, our venture firm has made an incredible return on that strategy over the last 10 years.



Now, on top of that, I will tell you that I don't think that there is a strategic systems integrator who isn't making massive investments in Salesforce right now. A lot of that has been led by Keith. I'm going to turn it over to him. He's really given us a partner focus like we did not have before. And Keith, can you tell us how you doubled down on that and how you've provided such great leadership around the systems integrators?

Keith Block - *salesforce.com, inc. - Vice Chairman, President & COO*

So again, this has been one of our growth strategies to really drive this partner ecosystem in many fronts. And Mark mentioned a lot of the large and significant players. These are firms that have deep relationships in the boardroom, have companies of all shapes and sizes all over the world.

Deloitte has rebranded the Deloitte Digital, and really, when you look at the centerpiece of everything that Deloitte brings to the table in terms of digital transformation, it starts with Salesforce. They've done a terrific job there.

I just last week, I addressed the global partners forum at Accenture in Munich and talked about digital transformation and how Accenture and Salesforce are doing so well together. And just to give you an example of Accenture, we just don't have a go-to-market relationship with them, which is terrific and they continue to build their practice. They're also a very large customer of ours.

So they are leveraging the Lightning platform. They're rolling it out very aggressively. They're getting all the benefits of it and they are building product on top of our platform. So it's a beautiful 360-degree relationship with Accenture that has really served as the model for all of these great systems integrators.

I'm going to be with Capgemini next week to explore how we accelerate going to market with Capgemini. We collaborate with them very regularly about how to drive the market together. I was with the Vice Chairman of PWC a couple weeks ago talking about our growth strategies together. And our job is really to work very closely with these very trusted advisors to listen to them, to help feed and drive the ecosystem, because it's just a huge part of our strategy.

Operator

Your next question comes from the line of John DiFucci from Jefferies.

John DiFucci - *Jefferies LLC - Analyst*

Thanks for taking my question. I think this question is for Keith. This has been two quarters -- Salesforce has been putting up numbers that are good numbers for a while, but these last two quarters look to us to be really strong and strong primarily it looks, anyway from the enterprise. The SMB seems to have been pretty consistent for quite some time. But something seems to have changed with the enterprise -- the enterprise customers.

So Keith, can you talk about what's driving this, what's happening? Are enterprises just more willing to engage with SaaS vendors and specifically Salesforce? Or have some of the processes -- you came in, Marc said it's your third-year anniversary coming up) You obviously made some changes and put some things in place. Are they just starting to really sink in right now and how sustainable is this? We've seen it now for a couple of quarters.

Keith Block - *salesforce.com, inc. - Vice Chairman, President & COO*

John, thanks for the question. So I think a couple things. Number one, honestly, this has been 17 years in the making. This is an incredible Company with incredible people and an incredible set of products and customers that I alluded to earlier. And we've been able to gain incredible market share and momentum starting with Marc's vision for cloud computing 17 years ago. So we've been able to capitalize on that, s that's point number one.



Point number two is we find ourselves in a world where there's this convergence of cloud and mobile and social and data science and IoT all coming together. We lit the match, again, with Marc's vision 17 years ago. We've been able to reinforce that vision by driving success to our customers.

And then over the last -- the third point is over the last three years, and successful as the Company has always been, we have put a particular emphasis on the enterprise and a focus on expansion in our international markets, becoming trusted advisors by speaking the language of the customer around the industries, and building out our ecosystem, how I answered the question about our SI partners before.

So all of these things have come together. We are built to last. That's been part of the strategy from 17 years back. And I think in the last few years, as I said, all these piece parts are just augmenting what has always been a great Company with great products and great leadership and incredible employees and customers.

Operator

Your next question comes from the line of Ed Maguire from CLSA.

Ed Maguire - CLSA - Analyst

Hi. Good afternoon. I'd like to just ask a question about the source of demand that's driving the acceleration in the platform. Would you characterize that more as a push to find demand where you're building a developer ecosystem with all of the new features in Lightning, et cetera? Or are you actually starting to see more pull demand as this broad ecosystem of all the clouds work together and attracts more business to the platform?

Keith Block - salesforce.com, inc. - Vice Chairman, President & COO

So this is Keith. So, look, this is really a multifaceted thing. Number one, our job is to paint a vision for our customers around driving success and customer engagement. And then we have to back it up by driving that success, and one of the ways we do it is with industry-leading products. And that starts with our platform. That platform is really the secret sauce that allows us to drive this customer engagement level for all of our customer base in the market.

So we do create a vision, if you will. We do create demand, but there also is timing in the market, as I talked about earlier, between this convergence of cloud and mobile, social, data science, and IoT all coming together. So customers are seeing the need because the market is ripe for disruption with all these technologies. Our platform is amazing. So we're able to deliver on that promise.

And then we have built out this incredible ecosystem of ISVs who are building on our platform. And they are driving success for our customers by building unique solutions. They love the vision of Lightning and the reality of Lightning. So all those things are coming together. So it's a push-pull effect. The market has been created and we fuel that and it's very cyclical. And as a result, you'll see the results in our platform.

Marc Benioff - salesforce.com, inc. - Chairman & CEO

All right. I think that's all the time we have for questions for today, so I want to thank everyone for joining us on our call for the first quarter. Look forward to updating you on our Q2 results in August, and remember to register for our TrailheaDX event here in San Francisco June 7th and 8th. And of course, gear up for Dreamforce October 4th through 7th. Look forward to talking to you all in a few months. Thanks so much.

Operator

This does conclude today's conference call. You may now disconnect. Thank you for your participation.



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