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EDITED TRANSCRIPT

CRM - Q2 2018 Salesforce.Com Inc Earnings Call

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OVERVIEW:

CRM reported 2Q18 revenue of almost $2.6b and non-GAAP EPS of $0.33. Co. expects 3Q18 revenue to be $2.64-2.65b and GAAP diluted EPS to be $0.04-0.05.

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PRESENTATION

Operator

Good afternoon. My name is Doris, and I will be your conference operator today. At this time, I would like to welcome everyone to the Salesforce Fiscal '18 Second Quarter Results Conference Call. (Operator Instructions)

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

John Cummings - *Salesforce.com, inc. - SVP of IR*

Thanks so much, Doris. Good afternoon, everyone. Thanks for joining us for our fiscal second quarter 2018 results conference call. Our second quarter results press release, SEC filings and a replay of today's call can be found on our IR website at www.salesforce.com/investor. With me on the call is today 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.

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

Marc R. Benioff - *Salesforce.com, inc. - Co-founder, Chairman & CEO*

Okay. Thank you so much, John. I really appreciate it. And before I begin the script and talking about our quarter, I really wanted to read you something that I sent to the company last week regarding some of the things that we've been seeing in the world. And I thought it would be appropriate if we just took one minute and just allowed you to hear these words as well.

The world has watched with all of us the horrors of the last week taking place in the United States and Spain. The pure hatred that we have seen displayed is everything we all want to end. And I have been especially disenheartened to see the display of symbols of hatred, including Nazi flags and salutes to KKK hoods. The horrible, tragic death of Heather Heyer was a senseless act of terror, and this hatred must end now.

Salesforce is a company that is built on the values of love, equality and generosity. We work hard every day to improve the state of the world through our own work and promote our company's mission to others. We all have to recommit to our own personal acts of love and kindness as this is the only way to fight this pure hatred. We can all make our own choices between love and hate, and we can all love more. Now is the time for all of us to remember love they neighbor as thyself.

Okay. Thank you very much for allowing me to say that. And now I'd like to move into the quarter. We had our best quarter ever, and we reached a huge milestone for the company. As you might remember, 2.5 years ago, I talked about our dream of surpassing $10 billion in revenue. And at that time, we are just on a $5 billion revenue run rate. Well I can't remember how many employees and customers and partners came up to me and said, "There is no way you're going to get to $10 billion. What kind of a dream is this?" Now I'm absolutely thrilled that in the second quarter, we broke through the $10 billion run rate, doubling the company in such a short time. Now Salesforce is the first enterprise cloud software company in the history of the industry to reach the $10 billion run rate. No competitor has pierced $10 billion this fast, not Oracle, not Microsoft, not SAP and certainly not with $15 billion of deferred revenue on and off the balance sheet. This makes Salesforce the fastest-growing enterprise software company ever to reach this milestone.

And this incredible achievement is now coupled with an incredible dream. We now set our sights on $20 billion and doubling the company again. And you can see today how we can get there organically with our unmatched product portfolio, world-class team and, as I mentioned, $15 billion in booked business on and off the balance sheet. While this was a phenomenal quarter of growth, we continue to improve our profitability, executing at scale, and we remain the fastest growing of all the top 5 enterprise software companies.

Now let's talk about some of the highlights of the quarter. Revenue for the quarter rose to almost $2.6 billion, which was up 26%, and we're heading fast to $20 billion in revenue. As I mentioned, we have more than $15 billion in booked business on and off the balance sheet that's up 29% from a year ago. In fact, we added more than $3 billion to this balance since last year. Based on these strong results, we're raising full year top line revenue guidance by $100 million to $10.4 billion at the high end of the range, 24% growth for this dream. And I'll tell you, personally, I've got dreams of 25%. This is the second quarter in a row we have raised our revenue guide by $100 million and only the third time in our history.

Now there's a reason for our incredible success year after year and why we continue to be investing at such an incredible rate to be the #1 CRM company. It's because no other company like ours has ever been as committed to customer success as Salesforce. And that's reflected in how our customers are driving tremendous success for their customers.

You all know that customer relationship management, whether it's B2B or B2C, has already become the most important and fastest-growing enterprise software category growing at nearly 14%, and that's going to come for years to come. Well, it's a massive $100 billion-plus opportunity that CRM Salesforce is leading, and we're in a phenomenal position going forward. We all see the $1 trillion CRM opportunity in front of us.

Now we see that by our -- through our #1 position, and that's because we're #1 in CRM, #1 in sales, #1 in service, #1 in marketing, and we have the #1 platform, that we have a tremendous opportunity to deliver on these goals. And we're delivering this at a scale every single day, creating nearly 3 million sales opportunities, more than 5 million customer cases, sending 1.4 billion e-mails, processing 1 million purchases and producing 40 million reports and dashboards every single day -- that's 1 billion reports and dashboards a month, by the way -- all the while delivering more than 5 billion platform transactions a day.

And it's no wonder that Forbes just named Salesforce the Most Innovative Company in the World again. We were the first to bring innovations like cloud and social and mobile to CRM. And now we're the first to deliver artificial intelligence to all of our customers with Einstein right inside our core platform across all of our products, this is a massive trillion-dollar growth opportunity. According to IDC, the combination of CRM and IA -- excuse me, according to IDC, the combination of CRM and AI will create more than $1 trillion in new GDP impact worldwide, 800,000 net new jobs by 2021. Amazing. And we're already seeing how Einstein is a game changer for customers, delivering hundreds of millions of critical insights, recommendations and predictions every single day.

But our biggest advantage is the more than 27,000 talented employees of Salesforce, these incredible people who are focused on making our customers successful with our products. No other company can match this level of focus on the CRM market.

All of this adds up to Salesforce becoming increasingly strategic to our customers and to our partners who are trusting us to bring them into this incredible new future. You'll hear more about that in a second from Keith.

While it's only August, we're officially on the road to Dreamforce, which is going to take place in San Francisco November 6 through 9. And it's going to be the most exciting, most inspirational and most innovative Dreamforce ever. And I hope all of you can be there. You're not going to want to miss one moment.

Okay, Keith?

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

Thanks, Marc. Good afternoon, everybody. As you can see from our results, Q2 was another outstanding quarter across the board. It's clear that our strong execution and commitment to customer success are enabling us to build deeper and more strategic relationships with companies around the world of all shapes and sizes. In every conversation I have with CEOs, they mention growth as their #1 priority, and getting closer to their customers is a key driver of that growth. That's why leading companies like Amazon or 21st Century Fox or Jefferies Investment Banking, Samsung, all of them chose Salesforce this quarter to drive their digital transformation. One of the largest automakers is also going wall-to-wall with Salesforce, building a seamless brand experience for consumers across all touch points and channels. Today, 8 of the top 10 automakers around the world rely on Salesforce for their digital transformations.

We also expanded with one of the world's leading logistics and transformation -- transportation firms to transform the way that they deliver service to their millions of customers worldwide across every channel: social, mobile and the Web. We continue to establish and grow relationships with marquee brands and unlock new value for our customers by delivering innovative solutions and executing on 3 key priorities: expanding internationally, focusing on industries and growing our partner ecosystem.

Now our international growth continues to represent a huge opportunity for Salesforce as we march towards that $20 billion-plus goal that Marc mentioned. We continue to make significant investments in our international go-to-market resources, our operations and our infrastructure to serve our global customers. In fact, more than 40% of our new hires year-to-date have been outside the United States. And in Q2, Salesforce went live on Amazon's cloud infrastructure in Canada. Very, very exciting. Customers can now access Salesforce locally via the AWS Canada region, and Amazon continues to be an incredible partner as we expand in Canada as well as Australia. These investments contributed to our outstanding international results this quarter with constant-currency growth of 31% in EMEA and 27% in APAC, complementing our strong and consistent growth of 24% in the Americas.

In APAC, we had a very strong quarter in Japan, closing deals with established companies, including Toshiba and Nomura, and we have some great wins in Australia with Queensland Urban Utilities and Australia Post. In Europe this quarter, we entered into new relationships with Kering, one of the world's top luxury groups. I think everybody was excited about that one. Salesforce will be their client-selling solution across all of their brands, including Gucci and Yves Saint Laurent. We also expanded with Carrefour, the region's second-largest retailer, and formed a new relationship with Groupe Auchan, and we closed a strategic Commerce Cloud deal with Sephora Europe.

All good stuff. And clearly, the leading retailers of the world continue to turn to Salesforce. In fact, companies are coming to Salesforce as their trusted partner in digital transformation. Speaking of trust, we are committed to helping our customers comply with the forthcoming GDPR, including a GDPR website, a new Trailhead module and a contractual addendum to assist our customers with compliance. This fall, we will be publishing product-specific best practices, and we will have several sessions at Dreamforce.

Now let's turn to industries. You've already heard about our momentum in retail. We had a great quarter with retail, and we're very, very proud of those results. But we're also expanding our relationships in financial services with T. Rowe Price, New York Life and HSBC. T. Rowe Price chose the Financial Services Cloud to deliver personalized, highly relevant service to clients across every channel. New York Life, a great customer, doubled down, rolling out Sales Cloud and Service Cloud to another 6,000 agents and customer service specialists. And HSBC will leverage Marketing Cloud globally across its retail and wealth management divisions to create personalized banking experiences for their customers.

In the public sector, the Department of Veteran Affairs, which is working hard to improve services for veterans, expanded with Service Cloud analytics and platform in the quarter.

Lastly, in health and life sciences, we had a very large expansion with one of the top pharmaceutical companies in the world. And today, 15 of the world's 20 largest pharmaceutical firms rely on Salesforce.

Our success in the quarter was driven by our ability to speak the language of our customers. And that is translating into outstanding industry momentum for us. Now as Salesforce grows, so does the opportunity for our partners. Salesforce partner certifications have increased 5x in the last 4 years, and partners are investing more in their Salesforce practices. Accenture is actually a great example. In Q2, they expanded their Salesforce capabilities in the federal market, and they're also leveraging the Salesforce Platform to provide vertical solutions across many industries. I'm sure you all saw the announcement that Accenture will provide trade promotion and marketing operations for Unilever, all of which is built on the Salesforce Platform.

Now before I close, I want to give you a quick update on the integration efforts. We have moved quickly to integrate both products and operations across the companies that we acquired in FY '17, including Demandware, Quip and Krux, and it's clear that our integration efforts are absolutely paying off. In the case of Demandware and Krux, these products have not only enhanced our B2C product offerings and expanded our total addressable market, but they also accelerated our growth.

So to close, I'd like to thank our partners and our customers for their continued trust in us and, of course, our 27,000 employees who are laser-focused on making our customers successful every single day.

Now I'd like to hand the call over to Mark Hawkins who will share a bit more about our financial execution in the quarter. Mark?

Mark J. Hawkins - *Salesforce.com, inc. - President & CFO*

Well thank you, Keith. And as you've heard from Marc and Keith, we delivered a great second quarter. Revenue grew 26% in dollars and 25% in constant currency, excluding a year-over-year FX tailwind of approximately $7 million. We also saw a sequential tailwind of approximately $23 million.

Our portfolio of products performed extremely well in the quarter with balanced year-over-year revenue growth across the board. Sales Cloud growth accelerated to 17%, driven principally by core Sales Force Automation and continued traction of Salesforce CPQ. Service Cloud continued to outpace the market with 21% growth. This is a slight uptick in growth from last quarter, reflecting the investments we've made in the product and sales enablement. Platform and Other grew 32% where we saw especially strong growth from Heroku. Marketing Cloud, excluding Commerce Cloud, grew 36%, passing the $1 billion run rate this quarter. And Commerce Cloud contributed $63 million to total revenue with $51 million in subscription and support revenue.

Dollar attrition for the second quarter, excluding Marketing Cloud and other acquired businesses, remained below 9%. We expanded our second quarter non-GAAP operating margin by 195 basis points year-over-year. In the quarter, operating margin benefited from an FX tailwind that was roughly offset by a margin headwind related to the fair value adjustments of Demandware

Non-GAAP EPS was $0.33, which was up 38% over last year. Operating cash flow was $331 million, up 32% over last year. Deferred revenue ended the quarter at $4.82 billion, up 26% in dollars and 25% in constant currency, excluding an FX tailwind of $32 million. On a sequential basis, deferred revenue benefited from an FX tailwind of $17 million. Commerce Cloud contributed $54 million to deferred revenue in Q2.

Moving on to guidance, starting with revenue. Coming out of another quarter of outstanding performance, we once again are raising our full year FY '18 revenue guidance by $100 million to $10.35 billion to $10.4 billion for 23% to 24% growth year-over-year. We are also raising our FY '18 GAAP diluted EPS guidance of $0.07 to $0.09 and non-GAAP diluted EPS guidance of $1.29 to $1.31.

It's important to note that coming out of a strong second quarter, we are accelerating our investments and expanding our distribution capacity, new product initiatives and Trailhead. These investments are set up for the long-term growth while pressuring our near-term margins. Nevertheless, we remain on track to deliver 125 to 150 basis points of non-GAAP operating margin improvement in FY '18 despite a slight FX headwind. These investments are critical to sustaining our long-term growth and leadership in the largest and most important market in enterprise software. And at the same time, we are mindful of how important profitability is to our investors, and we remain committed to ongoing margin improvement year after year and our long-term non-GAAP operating margin target in the mid-30s.

Turning to cash flow. We are maintaining our full year operating cash flow growth guidance of 20% to 21% year-over-year, among other items, as guidance considered, one, a strong new business in the second quarter, which drove higher cash commission obligations; and two, the fact that Q4 is our second-largest cash collection quarter. So without the benefit of that quarter, it's difficult to further refine this full projection at this time. That said, we are closely managing our capital expenditures in the second half of the year and now expect FY '18 CapEx as a percent of revenue to be approximately 5%. In context, we expect free cash flow to grow faster than operating cash flow for the full year.

For Q3, we're expecting revenue of $2.64 billion to $2.65 billion, GAAP diluted EPS of $0.04 to $0.05, non-GAAP diluted EPS of $0.36 to $0.37 and year-over-year deferred revenue growth of 18% to 19%. This deferred revenue guide reflects the continued deepening of invoicing seasonality that we've been discussing for the past several years. And as a reminder, the same seasonality also impacts cash flow.

And one final item. We are on track with our implementation of ASC 606 for Q1 of next year. We expect to talk more about this at our Analyst Day at Dreamforce in November -- on November 7. And if you're interested in attending, please reach out to Investor Relations team.

So to close, our second quarter wrapped up a great first half of fiscal 2018. I'd like to thank our employees, our customers, our partners and our stockholders for their continued support. And with that, we'll open up the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from the line of Keith Weiss with Morgan Stanley.

Keith Weiss - *Morgan Stanley, Research Division - Equity Analyst*

And also, Mr. Benioff, thank you for those comments. Definitely, I think we need it in these times. I wanted to ask a little bit about sort of the margin profile for FY '18 sticking with the 125 to 150. It's evident that with FX getting a little bit easier into the back half of the year, you guys see some incremental room for investments. I was wondering if you could drill in a little bit on the decision to sort of keep operating margin guidance where it is. And maybe as a follow-up. What are those incremental investments you are planning on making through the back half of the year to offset that FX alleviation under pressure?

Marc R. Benioff - *Salesforce.com, inc. - Co-founder, Chairman & CEO*

Great. Thank you very much for asking that question. I think that when we think about earnings, and obviously, we have this incredible top line growth, and there's one word that really comes to mind, and that's balance, which is that it's incredibly important as we grow our company and exceed these incredible revenue targets but we also continue to grow our bottom line. And I'm sure that Mark will address the specifics of how much we've grown our bottom line in the last few years. But one of the things that continues to be on our minds is what are the ways that we can grow our margin while also continuing to grow our top line. And we are absolutely committed to doing both. I think that's on the mind of every single member of our management team. I think we've continued to deliver those numbers actually very well, and we'll continue to do that going forward. And that's also under the guise of pressure that we get from foreign exchange, like every time the euro increases, it's valuation that puts more pressure on our -- around margin. Mark, do you want address...

Mark J. Hawkins - *Salesforce.com, inc. - President & CFO*

Sure. Happy to do that, Marc. Thank you, Keith, for the question. I'll address both parts of it, Keith. One is the margin and one is the specifics of where we're investing. The first thing I just want to clarify is that for the full fiscal year, we're seeing a slight headwind from an FX standpoint for the full fiscal year. That's one point I want to clarify. We are maintaining the 125 to 150 basis point improvement. Again, that's consistent with what the guide has been on a larger base now as we've raised the revenue another $100 million. Second time we have raised $100 million, as you know, it's on a bigger base, and consequently, we've raised the EPS by $0.01. And what we looked at in terms of the opportunity is we looked at the big opportunity that Marc has talked about of over $100 billion in TAM. And we see that opportunity with unit economics that are very attractive in the mid-30s in terms of unit operating margin economics. And so we're pursuing that, obviously. We're investing and accelerating investing in distribution capacity, number one, Keith, very specifically; and also in new product initiatives, number two; and also Trailhead, number three. These are 3 things very specifically that we're doing to really help us, even in the growth beyond this current year. And so that is something that we're mindful of because this opportunity is very, very large, as we described. As Marc called out, this is the fourth year in a row of operating margin expansion. We're mindful of that. We're very focused on delivering this 125 and 150 plus the growth. Hopefully, that gives you a little complexion of both.

Marc R. Benioff - *Salesforce.com, inc. - Co-founder, Chairman & CEO*

Keith, do you want address the...

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

Yes. I mean, look, I think that the [Marks] have done a very good job articulating what our strategy is here. I think at the end of the day, we see the opportunity in the marketplace. We're already the market leader, and we're expanding our share. We're taking share. But we do see that opportunity. So that means that we have the opportunity to invest and continue to invest in our innovation, in our infrastructure, in our customer-facing assets to capitalize on that opportunity. And that's exactly what our strategy is.

Marc R. Benioff - *Salesforce.com, inc. - Co-founder, Chairman & CEO*

I'd like to think of this as investing and growth by design and enhancing our profitability every step of the way.

Operator

Our next question is from the line of Bhavan Suri with William Blair.

Bhavanmit Singh Suri - *William Blair & Company L.L.C., Research Division - Partner and Co-Group Head of Technology, Media, and Communications Sector*

And to echo Keith, Marc Benioff, thank you. Thank you for those comments. It was meaningful. I guess my -- I'll ask my 2 questions quickly. One is, you've seen acceleration now for a couple quarters in Sales Cloud. Service Cloud accelerated despite the very, very healthy growth last year. Marketing Cloud on an organic basis is doing really well. If you were to think about the breakout outside of cross-sell, meaning, how are these clouds doing on their own? Because obviously, cross-sell and Keith's business of sort of doing the enterprise deal, that's helping. Is there any way to understand sort of how these are doing on their own? I'd love to get a little color sort of pure Sales Cloud without sort of the cross-sell and its growth. And then the follow-up question I had was, one of the challenges you've had over the years is salespeople entering data into a CRM system. And obviously, Salesforce had a huge step forward above Siebel and BOM and the legacy solutions, and now Lightning has enabled that. But do you think sort of -- Marc, as you think about sort of acquisitions or organic strategy like natural language processing, your ability to talk to systems, as those sales guys entering data themselves is a path you'll go. I'd just love to get some color on both of those.

Marc R. Benioff - *Salesforce.com, inc. - Co-founder, Chairman & CEO*

Well, let me take the last question first, which is the -- Salesforce actually gets its data from a lot of different places. More than half of the transactions -- when we talk about 5 billion transactions a day, more than half of those transactions are API transactions already. That's other computers filling our database with the data. And we have just amassed a huge amount of customer data based on that. We have so many integrations and so many customers who are so deeply integrated. And then there's many different ways that customers get their information into our system. Of course, we have many natural language-type systems like what you've mentioned, voice-type systems like you've seen us do work with Alexa with Amazon. And I think you'll continue to see an evolution of that. I -- one area that I'm especially proud of is mobile. I don't think any enterprise software company has done as good a job with mobile as Salesforce. Salesforce has -- with Salesforce1, with My Salesforce1, with Salesforce Inbox, with many of our mobile offerings and mobile platform capabilities, more mobile capability than any other enterprise software company. And that has really allowed customers to access and work with and input data in lots of new ways. Because mobile devices are empowered and enabled with so many kind of, I would say, next-generation capabilities, including many operating systems that have very deep AI, as you know, all of that is already tied into Salesforce. So it's a very -- it's extremely powerful.

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

Let me try to address the first part of that question. So it's interesting. I think if you look at the history of software, most companies are lucky to have a great first act. But Salesforce is a company that's had a great first act with Sales Cloud, a great second act with Service Cloud, a great third act with Marketing Cloud, a great fourth act with Platform. And we continue to innovate for our customers, and we speak the language of the customer. So whether it's pure-play cloud innovation with add-ons or just pure-play features and functions or it's the solutions that we assemble by vertical, the financial services industry was a particularly strong one for us this quarter. We have this with retail as with HLS. This gives us the opportunity to cross-sell and upsell. So that each of these clouds, by themselves, would be the largest cloud company in the world or amongst the largest cloud companies in the world. So standing alone, they're very, very, very strong, and they're each a market leader. But when we have the opportunity to drive digital transformation for CEOs, the walls between sales, service and marketing come down, and we have the right solutions. And that's why you're seeing these results.

Operator

Our next question is from the line of Kash Rangan with Bank of America, Merrill Lynch.

Kasthuri Gopalan Rangan - *BofA Merrill Lynch, Research Division - MD and Head of Software*

One for Marc Benioff and one for Mr. Hawkins. Marc, when you look at your goal to double the company size to $20 billion in revenue organically, historically, you've seen some of your peers like SAP, Oracle struggle to maintain that hyper-growth once they hit the $10 billion mark after the ERP cycle ended. What have you been able to observe from history that it gives you the confidence that you can overcome those odds and position

Salesforce to be an organic growth company even at that level at which Oracle, SAP could not maintain that growth rate? One for Hawkins. I calculated your bookings margin. By the way, your bookings growth sort of include the off-balance sheet backlog change and the on-balance sheet deferred revenue. Your bookings grew about 39%. Fully spectacular. And I also calculated your bookings margin to be 30%. And I was intrigued when you said unit economics were running in the mid-30s. Just wanted to clarify and see what you meant by that.

Marc R. Benioff - *Salesforce.com, inc. - Co-founder, Chairman & CEO*

Yes. I mean, I think that -- and thanks for that, Kash. I think that, number one, for us, here we are, we're blasting through $10 billion. All of you have your models for Salesforce. You can plug these deferred revenue numbers into your models and do your calculations of where our revenue is going to be in each of the next several years. And I'll tell you, we took our whole management team off-site 2 weeks ago to lay out our plan for what we call Chapter 3. Chapter 1, for us, certainly was 0 to $1 billion. It's well documented in the book Behind the Cloud, how we did it, what we did, all of those capabilities. We want to write a second book now for entrepreneurs of what we did from $1 billion to $10 billion. We think that's an important story that needs to be told. That's certainly Chapter 2. Now we're in Chapter 3, which is to go from $10 billion to $20 billion. And I'm sure all of you can see that's going to happen in fairly short order. I think that one of the things that we have done to focus on and make sure that we blast through $10 billion is to focus on customer success. I think a lot of mistakes that the other entrepreneurs have made, and I can go through each one in an enterprise software specifically, is not to really double down at this point again on the customer, get absorbed in your own myopia, get absorbed in your corporate politics, get absorbed in your corporate bureaucracy and yourselves and try to break out of yourself and recognize the most important thing continues to be the customer and how do we enable that customer and empower that customer. Of course, we're going to hold ourselves accountable, and we're also going to deliver all kinds of other capabilities along the way as well. But that is really our focus, which is how do we make our customers more successful than ever. And we -- I think that's the heart of our culture. We have a great culture at Salesforce. It's a culture built on our core values of trust, of growth, of innovation, of equality. But I think that nothing is more important to our company than customer success. And even though the vast majority -- let's say, half of the 27,000 employees that work for us today probably were not with us 2 years ago. So that is something that we really have to spend time with them, that we're different than other software companies because we really care about that customer, and we're going to make sure that customer is successful. When you're in enterprise software, you have to realize it's hard work. Not everything is going to be perfect all the time. There's going to be problems. That's why being so committed to the customer, I think, is more important than ever. And I think that's why you're going to continue to see extraordinary growth for years to come because of this culture that's really driving it forward. And then we've coupled it with this incredible CRM opportunity. And I have to say, our competitors have really done a horrible job within the last few years. I just would say that a lot of them have abandoned the CRM market. If you talk to the major CRM analysts -- and we do that, we just had one of them at our management conference -- they are shocked; we're shocked of how these companies have really walked out of the CRM market. Companies that had huge multibillion-dollar positions in the CRM market have ceded that market to us. And that's very exciting when we look at the huge investments that we've made, not just in product but also distribution. More than half of our organization is a customer-facing organization. We sell directly to and service directly to the customer. That is going to serve us very well for years to come. So I feel very good, and I think you can see it in the numbers here. As I said, we're here forecasting 24% growth for the year. That's our official guidance. I have personal dreams of 25%. I think that would be amazing. No software company kind of went through the $10.4 billion number at these rates. And so when we've we chart -- and we had a chart a couple weeks ago, Microsoft's growth over 30 years, Salesforce's growth, Oracle's growth, SAP's growth and we're -- wow, we have -- we really separated ourselves from those traditional growth trajectories. And I feel that's going to continue to happen.

Mark J. Hawkins - *Salesforce.com, inc. - President & CFO*

And let me take the second part of the question, Kash. Thank you for the question. Kash, I haven't seen the modeling that you've done, but let me to disclose what we disclosed, which is around the total book of business. We have billed and unbilled deferred revenue totaling $15.2 billion. The billed portion, of course, grew 26%. The unbilled portion grew 30% to make up that full amount of our business. And as we like to think about it, that's -- that total billed and unbilled deferred revenue is obviously revenue waiting to happen over time. The one thing I would say to you about the unit economics, if we go back to our Dreamforce presentations for the last several years, we talked about lifetime economics, the cost to book, the cost to serve. And then what that results in over time is in the mid-30s in terms of the unit economics at mature growth rates. And that's what we see very specifically. That's what I can share with you. And obviously, that's against $100 billion market that we're pursuing. So that's what I would share.

Operator

Our next question is from the line of Pat Walravens with JPM (sic) [JMP] Securities.

Patrick D. Walravens - *JMP Securities LLC, Research Division - MD, Director of Technology Research and Senior Research Analyst*

Marc, first of all, thank you for sharing that message and for standing up for what's morally right. I mean, that's great to see from Corporate America. What I would love to hear is your thoughts on the platform strategy, how the environment has changed and how you think the platform strategy should have evolved over time.

Marc R. Benioff - *Salesforce.com, inc. - Co-founder, Chairman & CEO*

Well, the platform strategy has evolved over time. And I mean, one of the cool things for us is we have a tremendous capability with our platform. And that really started with this idea that we are building this amazing CRM apps like our sales and service app that our customers wanted apps really designed for them. The traditional approach has been companies building vertical apps almost from the get-go and kind of creating these customizations and enhancements right inside the hardline code. That never sat well with me, mostly because my background was in application development and deployment tools. So we really built our platform in a way that let us built our core applications and let our customers extend them. And that is why so much metadata has been built inside of Salesforce. I don't think a single customer has the same implementation of Salesforce. And yet when we upgrade and update our software, which we do 3 times a year, we don't break links and we don't break these customizations. And customers get Einstein and mobile and all of our enhancements, and yet they have their highly customized capability. No other company in the world has that. Even today, when most companies upgrade and update their core applications even in the cloud, they don't upgrade all customers democratically. They kind of give customers kind of the warning, "Well, we're going to do this, but it's going to break your system." We don't do that. We have a way through our metadata architecture to really extend that. And then as we've acquired companies, we have brought that platform religion to them. So when we look at our core -- all of our core products, they all have core platforms. Platforms are incredibly important because they let customers enhance their system in a highly specialized way. Platforms are also extremely important because they drive down attrition. I think we just ran our numbers for this management conference that I mentioned 2 weeks ago. We look at our attrition rate over the last 10 years. And one of the reasons we've been able to drive it down is because of our platform. I think one of the reasons we've been able to deliver so quickly this amazing work in financial services that Keith has led, which is the building of our Financial Services Cloud and our Financial Services business unit is -- and our success in financial services, is because of our platform. It rapidly -- when we figure out a market or a capability that we want to add or focus on, we can rapidly deliver that. That's also true with Keith's Health Care initiative as well. And that, I think, has been a very powerful part of our approach. Our platform is unique because not only, of course, do we have our core platform, which includes our Sales Cloud platform and our Service Cloud platform and our Marketing Cloud platform, but we also have extensions of that platform like Heroku, which is one of the most powerful and popular application development and deployment capabilities on Amazon. And we, of course, have tightly integrated that into our core platform. So customers -- for example, I'm wearing this amazing new Louis Vuitton watch today. And this Louis Vuitton watch is connected to something called LV Pass, which is the Louis Vuitton app that helps me manage all of my Louis Vuitton products. And that is built on Heroku. And then all of the CRM data for Louis Vuitton, however, is built and managed inside our core platform, and all of it is deeply integrated. So when I walk into a Louis Vuitton store, they know who I am. They know all the products that I bought like the watch or my Carryall or whatever it is that I like of their products. And I'm managing it all through that Heroku app on my phone with LV Pass. That's a great example of our platform strategy where we let customers build highly complex applications like Louis Vuitton with their ICON app. And you can see that inside any Louis Vuitton store when you go into -- work with a Louis Vuitton account executive. And you can see it yourself as a consumer with Heroku when you use LV Pass on your phone. I hope that answers your question.

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

I think at the end of the day, the other thing is our partners all right? If you look at the explosion of our ISV community, we have now gotten them to a situation where our ISVs are building mission-critical apps. Just a few short quarters ago, we made an announcement of a company that's actually building clinical trial management software, which is pretty interesting, okay, on top of our applications. You probably saw the Unilever announcement most recently with Accenture about Accenture building CPG-related applications on our platform. So it's very, very robust for our partner community. And of course, we have our largest ISV, which is Veeva, which is unique in the sense that it focuses just on pharmaceutical firms.

Operator

Our next question is from the line of Ross MacMillan with RBC.

Ross Stuart MacMillan - *RBC Capital Markets, LLC, Research Division - Co-Head of Software Sector*

And thank you Marc Benioff, for the comments. One for Marc Benioff or Keith to start with. Just on Einstein, I know it's still early days, but we started to see some bigger customer announcements like Airbus and U.S. Bank. I'm just curious as to when you think Einstein actually will start to have a material impact on your numbers, on the results. And then a follow-up for Mark Hawkins. Just we've raised revenue for 2 quarters here, we've raised EPS for 2 quarters here, but we didn't raise the cash flow from operations growth guidance. And I just wondered if you could [revisit] that as to why.

Marc R. Benioff - *Salesforce.com, inc. - Co-founder, Chairman & CEO*

Yes. I mean, I think Einstein has usually exceeded our expectations. And I would say from my perspective, it's already a material part of our results. I think it's a critical part of how we differentiate our product against now all of our competitors. Because we're the first company to take the robust AI capabilities, including machine intelligence, machine learning and deep learning, and offer that to our customers in a unified CRM platform through our sales, service, marketing applications, commerce applications across the board, that has really happened faster than we expected, more deeply than we've expected, and it's been more exciting for our customers than we expected. I think also, the branding choice that we made with Einstein also exceeded our expectations because it let us rapidly communicate to our customers that we've extended our core platform with artificial intelligence. As we kind of head towards Dreamforce, you're going to see a lot of exciting things with AI. I have seen some amazing things in financial services. I just saw some amazing things in health care. I'm not going to go into the details on the call because some of the results are still early, but we've seen some amazing breakthroughs in using artificial intelligence with health care. I think this is going to be one of the huge new drivers of growth. You can see that the cloud was a huge driver of growth for Salesforce. Mobile was a huge driver of growth for Salesforce. And now you've got AI as this next-generation system. And every company has to look at what are they using, what are they doing with AI to make their customer relationships better. I just gave you the story about Louis Vuitton. Einstein is built into all of those apps. And I can tell you that helps that Louis Vuitton account executive. When I walk in the store, they're able to give me that next best offer. I think it's probably one of the reasons that we were able to close the Kering Group in this quarter, another incredible luxury brand family with Gucci and Bottega Veneta, because we're able to offer these companies the ability to have much better, much smarter relationships and do it so unbelievably quickly. I also just bought some amazing new sneakers on adidas and -- called Primeknit shoes. You can check out some of the stuff they have or some of the Stan Smith finish shoes or other YEEZY 350s that they have on adidas, and a lot of the recommendations and capabilities that you're getting already on the platform are through Einstein. So Einstein is an incredible advancement, and it's great for all of our clouds. And again, I don't think the other enterprise software companies have moved fast enough into artificial intelligence.

Mark J. Hawkins - *Salesforce.com, inc. - President & CFO*

And let me pick up the second part of your question, Ross. Thank you for that. A couple things here. One is our guide, you're absolutely right, we're holding that at $2.6 billion roughly speaking. Really, 2 things that I would elaborate on. One is that we have a very distinct seasonality in Salesforce. We get a lot of our cash in Q1, and then the other big cash flow quarter is in Q4. And so at this time, with the line of sight that we have, I think it's better to wait and get better visibility than we have today. We think it's a very solid guide, and we'll revisit that in November, number one. Number two, I would say to you that I did call out a little bit earlier in the call but I'll elaborate a little bit, we had deferred commissions, the obligations on that on a cash basis because we had a strong book of business in Q2 are -- have an effect in the year even if the expense is capitalized over a longer period of time. And so obviously, we tried to factor things like that into it. I'd say the third point is just as a matter of reference, if you look at our trailing 12 month of operating cash flow and revenue growth, they're pretty close together looking back. So that's where we're at today. We think it's appropriate. And lastly, we are managing our CapEx tightly. And we'll talk again in November.

Operator

And our next question is from the line of Karl Keirstead with Deutsche Bank.

Karl Emil Keirstead - *Deutsche Bank AG, Research Division - Director and Senior Equity Research Analyst*

So I've got 2 -- questions on 2 backlog numbers. First is the 30% unbilled backlog you put up. That's a fantastic number because it's actually accelerating, I think, over the last couple of quarters despite that number getting larger. So I'm wondering if you could offer any added color. Maybe there were more multiyear deals, some larger deals. And then secondly, is the 18%, 19% 3Q DR growth. I guess, this one would be for Mark Hawkins. Mark, you mentioned that's due largely -- it's obviously less-than-normal seasonality. Is it due entirely to the invoicing seasonality? Maybe something else is going on. I know Dreamforce drops in 4Q this year rather than 3Q. Does that take any zip out of your 3Q DR growth?

Mark J. Hawkins - *Salesforce.com, inc. - President & CFO*

Sure. Let me jump in, and then maybe Keith or Marc might want to add on the first one. And I'll close loop on the second one on the 18% to 19%. But you're absolutely right, Karl. The unbilled deferred revenue at 30% is a slight acceleration and a very, very big number in terms of growth. We have -- I think it's really reflective of a strong business that we've been describing, that Keith has been describing in his dialogue, a large set of deals over a long time, but just overall, health across geos, across clouds. Keith, if you want to jump more into that, but I think the 30% is a slight acceleration. Karl is absolutely right. And if you want to add any more commentary, I will circle back to 18% and 19% DR.

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

Yes. Look, I think at the end of the day, the strategy around the innovation of our products is very, very compelling, and we're backing it up with incredible execution. So I want to take you back to our 3 growth levers of international strategy: speaking the language of the customer; which is the industry orientation, of course; and our partner strategy. And all 3 of those are just executing beautifully right now. We're very, very proud of the team. And that results in very deep relationships, very strategic relationships, multiyear relationships, multi-cloud relationships across all these different verticals. And that's why you're seeing this bit of an uptick. It manifests itself in small companies and large companies. But certainly, we're establishing and we continue to establish these very, very deep, multiyear, very strategic relationships with these customers. And that's why you see these financial results.

Mark J. Hawkins - *Salesforce.com, inc. - President & CFO*

Great. Thank you, Keith. And let me just pick up the second point, Karl. In terms of the DR at 18% to 19%, this is really about the deepening invoice seasonality. It just continues. And one of the things that I would call out to everyone, and I think just to share with you, is that we have 12 years of history on our Web page -- our IR Web page with supplemental information that shows every quarter for 12 years and the sequential impact because this has been a topic we've been trying to share at Dreamforces for the past several years. And you can actually see the math and even fit in the guide for this quarter. And it really shows this deepening invoice seasonality continues. And the other thing that I would add, and I do think there's one little extra bit of color that I like to add, Karl, which is look at that trending just as it is. And then you take a look at the fact that last year in Q2 '17, we had a seasonally soft Q2 '17 and we had a seasonally strong Q3 '17. And so you put that and you look at that result deliver a minus 9% quarter-on-quarter and you'll see it perfectly on the graph. But then you put it in juxtaposition to this year in Q3 '18, we have a -- obviously, we appropriately guided, and we had a very strong Q2. So those are the things to think about as well. But bottom line, that's where we're at, and that's what you should consider.

Operator

Our next question is from the line of Tom Roderick with Stifel.

Thomas Michael Roderick - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

So Keith, you referenced a great third act here in your Marketing Cloud. And if we look at numbers, I think you said 36% growth when you strip out the impact of Demandware. So can you just talk a little bit more about what's driving that? What sort of role is the Krux DMP playing here? And then how has the Demandware integration sort of served the pull-through core growth on the marketing side around the B2C business? Just love to hear a little bit more about that.

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

Yes. So there's a lot in there. So appreciate the question. So let me just start by saying that we're absolutely thrilled with the acquisitions that we've made. And they have worked out very strategically not just in our financial results, but more importantly, with our customers driving success. If you think about the product portfolio and our pivot here towards more vertical orientation, the assembly of Marketing Cloud plus Krux plus Demandware/Commerce Cloud is a very, very nice portfolio. I mean, if you think about the companies that we're doing business with, we talked about Kering, we talked about Carrefour, we talked about Groupe Auchan, we talked about Sephora, I mean, we just continue to ring up quite a roster of some of the world's leading retailers. And it's not just retailers, by the way, because every company is trying to go from, for example, B2B to B2B2C or directly to B2C. And that's where they buy into our vision and what these products bring to bear. So they are clearly resonating from a transformation perspective with those customers not just in the retail space, but in other companies who are trying to become more consumer-oriented, who are trying to get more insights around their customers or just connecting to their customers like they have never been able to do before. As far as the integrations are going, we're thrilled with the way that the integrations have gone. I think we all know that integrations can be difficult. They can be fraught with risk. There's lots of complexities associated with those integrations, and we've certainly cut our teeth on a number of acquisitions. And no integration is perfect. But I will tell you, with Krux and Commerce Cloud, we're thrilled with the way those integrations have gone, and we continue to invest in those products more than those companies would have invested in themselves had they remained stand-alone. And again, you're seeing it with the market penetration. Just to give you an example, Marc alluded to earlier that we're investing in our second half. Well, one of the things that we're doing is we're doubling down on the sales force associated with the Commerce Cloud because we see the opportunity for that particular product. So the net-net is I think we've assembled a really great core set of products, whether it's Krux individually, whether it's Marketing Cloud which has performed marvelously for us over the last 4 years or whether it's the Commerce Cloud acquisition that is resonating with our customers. And that's why you're seeing such great results.

Operator

Our next question is from the line of Sarah Hindlian with Maguire (sic) [Macquarie].

Sarah Emily Hindlian - *Macquarie Research - Senior Analyst*

It's Macquarie. I want to dig into a few areas with both [Marks]. I'll start with you, Marc Benioff. I want to pick your brain on the overall macro backdrop and how you're seeing in particular the federal vertical. Are you seeing anything going on around potential debt ceilings and anything there in regards to the federal [side]? And then for Mark H. Mark, I wanted to talk to you a little bit about the channel work we're doing and finding, which has some nice early ASP uplifts from new adopters of Einstein, in particular in services and sales as well. So I really want to talk to you about what's your Einstein strategy, where it's evolving and how you see that uptake impacting the financials going forward.

Marc R. Benioff - *Salesforce.com, inc. - Co-founder, Chairman & CEO*

So first of all, I think that you can see this great win with the Veterans Administration this quarter as an indication that the government vertical is working better than we expected. We've organized by specialized verticals. One I had mentioned was financial services. We've looked and built products there. We've also organized by health care. We've also built products there. Third one is government, and we've built products there. And I think our win with the Veterans this quarter, I think all of us know that nobody delivers better systems and better customer service than our Veterans. And that's why we are so excited to be able to align with the agency to be able to build these next-generation systems for them. And I think we started to see government spending come back online this quarter really for the first time. And so we're very excited about what the future can mean as the government looks to kind of build next-generation systems, looks to move to the cloud and provide better service and support to its customers.

Mark J. Hawkins - *Salesforce.com, inc. - President & CFO*

Okay. In the second part -- Sarah, happy to take as well here, and maybe, Keith, you might want to jump in, too, on the channel work that you are doing. I think the first thing I would say is that Einstein is early days, Sarah. But with that being noted, to your point, we do see opportunity. Some of the Einstein capability is built into all aspects of our clouds, and some of it is incremental SKUs where there is -- that the value is such that there'll be incremental money in those SKUs as well to deliver that specific value. And so there'll be a combination of those 2. Everything gets smarter, and then some things will have even more SKUs that will create even more solutions for our customers, which, obviously, if done well, creates great growth opportunity for us. And that's the way we think about it, and I think that's the way it will show up in the financials. And Keith, maybe you want to elaborate a little on that.

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

Well, I think I want to go back to Marc's comment about the Veterans Administration. I mean, our public sector team is one of our highest-performing organizations in the company. And they have had -- over the last 4 years, they have done incredibly well in terms of expanding their capabilities in all branches of the government, both federal, state and local. And that has been very, very exciting for us. I think we all know that the government is trying to undertake some sort of digital transformation. This is nothing new. It had actually started on -- it certainly started under the Obama administration. And the CIO under the Obama administration was one of our former employees, and he was very keen on introducing the cloud to the federal government. So we just kicked that up and continued. But it's clear that the government is really trying to accelerate that digital transformation. And that's why the Veterans Administration is yet again another example of trying to drive that transformation leveraging our technology.

Operator

Our last question is from the line of Kirk Materne with Evercore ISI.

Stewart Kirk Materne - *Evercore ISI, Research Division - Senior MD and Fundamental Research Analyst*

Keith, I want to follow up on a comment on you made around AWS and the partnership there in Canada. When we talk to some bigger financial institutions, data privacy has been something that's come up as maybe -- something that's been a bit of a [glue] machine in terms of feeling comfortable adopting Salesforce. It seems that this partnership's opening up that. And as you look across other geos, especially with, say, financial services customers, do you feel like that partnership is going to give you a lot of leverage and hopefully accelerate maybe some deals that were stuck on some localization questions?

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

First of all, thanks for the question. It's great to hear from you. So look, we have a great partnership with AWS. They're one of our largest customers. We continue to build that partnership with them, so we're thrilled about that. And of course, we've chosen them as our platform in Canada and plans for the second half of the year in Australia. I think there's a lot of synergies there in the eyes of financial services customers as well as other customers outside of the industry, and we're going to continue to leverage that. Some of these customers are already AWS customers, so there's a natural comfort level as well. So look, I think at the end of the day, having a strong partner -- having a set of very strategic partnerships is a great thing. Obviously, AWS is one. We have strong partnerships with others like IBM is another, and those things help to play out very nicely for our customers. But AWS, that relationship is strong, and that just gives us a lot of flexibility as we continue to focus and expand internationally.

Marc R. Benioff - *Salesforce.com, inc. - Co-founder, Chairman & CEO*

Yes. And as you mentioned, IBM, we continue to get more and more integrations with IBM. We've had some great -- early successes with Watson, and our opportunities are to work with all these amazing companies to deliver a solution that serves our customers. And I think we've been -- probably done a better job, I think, than -- forming these strategic alliances and maintaining them than probably any other company in the industry. I think it's one of the reasons we have such a great quarter.

Well, anyway, thank you, everyone, for a great call. And we couldn't be more excited. As I said, I think this is probably our best quarter ever. It's far exceeded our expectations. We're thrilled to raise guidance for the year and set our next dream as $20 billion, and here we go. Thank you.

Operator

Ladies and gentlemen, this does conclude today's conference call. You may now disconnect.