

**Salesforce.com, Inc. (Q2 FY19 Earnings)**

**August 29, 2018**

**Corporate Speakers:**

- John Cummings, salesforce.com, inc., SVP of IR
- Keith Block, salesforce.com, co-CEO
- Marc R. Benioff, salesforce.com, inc., Co-Founder, Chairman & Co-CEO
- Mark J. Hawkins, salesforce.com, inc., President & CFO
- Unidentified Company Representative

**Participants:**

- Bhavanmit Singh Suri, William Blair & Company L.L.C., Analyst
- Stewart Kirk Materne, Evercore ISI Institutional Equities, Analyst
- Richard Hugh Davis, Canaccord Genuity Limited, Analyst
- Raimo Lenschow, Barclays Bank PLC, Analyst
- Keith Weiss, Morgan Stanley, Analyst
- Heather Anne Bellini, Goldman Sachs Group Inc., Analyst
- Mark Ronald Murphy, JP Morgan Chase & Co, Analyst
- Ross Stuart MacMillan, RBC Capital Markets, LLC, Analyst
- John Stephen DiFucci, Jefferies LLC, Analyst
- Terrell Frederick Tillman, SunTrust Robinson Humphrey, Inc., Analyst

**PRESENTATION**

Operator: Welcome everyone to the Salesforce Second Quarter Fiscal Year '19 Conference Call.

(Operator Instructions)

Mr. John Cummings, Vice President, Investor Relations, the floor is yours.

John Cummings: Thank you so much, Jerome. Good afternoon, everyone, and thanks for joining us for our fiscal second quarter 2019 results conference call. Our results press release, SEC filings, and a replay of today's call can be found in our Investor Relations Web Site at [www.salesforce.com/investor](http://www.salesforce.com/investor).

With me on the call today is Keith Block, co-CEO; Marc Benioff, Chairman and co-CEO; Mark Hawkins, President and CFO; and Bret Taylor, President and Chief Product Officer.

As a reminder, our commentary today will be primarily in non-GAAP terms. Reconciliations between our GAAP and non-GAAP results and guidance can be found in our earnings press release. Some of our comments today may contain forward-looking statements, which are subject to risks, uncertainties and assumptions. Should any of these

materialize, or should our assumptions prove to be incorrect, actual company results to differ materially from these forward-looking statements. A description of these risks, uncertainties and assumptions and other factors that could affect the financial results are included in our SEC filings, including our most recent report on Form 10-Q.

With that, let me to turn the call over to [you, Keith].

Keith Block: Thanks, John. Thanks, everybody, for joining us on the call today. It's an exciting time in our industry, it's an exciting time for our customers, and it's an exciting time for Salesforce. As you can see from our results, we continue to deliver incredible growth [at scale]. You saw it at the end of FY '18, you saw it in Q1, and you see it again in Q2. We are seeing an unprecedented level of CRM engagement driven by an appetite for real digital transformation. And at the same time, we are in the midst of an economic environment that is fueling innovation. And as a result, our customers are making major and sustained investments in growth and Salesforce is at the forefront of their growth strategy.

CRM has never been more strategic. It is the largest and fastest-growing category in enterprise software. Salesforce is the number one provider and after 20 years, we continue to take share and separate from our competitors. In fact, we're growing at nearly twice the rate of the market. This gives us tremendous confidence in our ability to reach \$23 billion in revenue by FY '22 -- faster than any enterprise software company in history. Our vision, our execution and our relentless focus on customer success results once again an excellent performance across all clouds, all geographies and all industries in Q2.

Revenue for the quarter rose almost \$3.3 billion, up 27 percent. Revenue under contract, which we now call remaining performance obligation, grew 36 percent to approximately \$21 billion. And based on these strong results, we are raising full year revenue guidance by \$50 million to \$13.175 billion at the high end of the range or 25 percent growth this year. Clearly, we are set up for a strong second half. In Q2, sales cloud grew 13 percent surpassing \$1 billion in quarterly revenue for the first time. That is an incredible milestone and in the quarter, which expanded our relationship with a 100-year-old CPG company which is undergoing a multiyear digital transformation.

We're leveraging sales cloud and marketing cloud, service cloud and Einstein to accelerate decision-making and support customer-centric growth across their portfolio of brands. This is a great example of an iconic industry leader stepping into the future with Salesforce. Service Cloud grew 27 percent as more and more companies, including National Grid and Southwest Airlines turn to Salesforce to power their next-generation customer engagements. Southwest, which has won awards for its customer service leadership, is extending Service Cloud and Einstein to 4,000 service representatives nationwide enabling them to deliver smarter, more personalized customer experiences. Marketing and Commerce Cloud grew 37 percent.

In Q2, we expanded with Kimberly-Clark, whose products are used every day by 1 quarter of the world's population. We also deepened our relationship with Hulu which is using Marketing Cloud, Service Cloud and Einstein to personalize the viewer experience for more than 20 million subscribers. And finally, the Salesforce Platform grew 32 percent in Q2, 54 percent, including MuleSoft. Customers continue to embrace the platform from Heroku to Lightning App Builder to Shield and make all their apps smarter with Einstein.

Now, this is our first full quarter with MuleSoft, which is off to a fast start. The MuleSoft Anypoint platform has become tablestakes for digital transformation. It's in every conversation we have with senior executives and in Q2, [New York, like] the state of Colorado and Schneider Electric selected MuleSoft to transform their enterprises.

In our International business, we continue to deliver strong revenue growth across key regions, 32 percent EMEA, 28 percent APAC, all in constant currency. In EMEA, we strengthened our relationships with Rabobank Group. We also had a great commerce with leading Dutch food retailer, Ahold Delhaize. In APAC, we expanded with MUFG and Mitsui Sumitomo Insurance. In Japan and Australia we expanded with the countries' largest telecommunications provider, Telstra. And we formed an exciting new relationship in the public sector with Australia and Health Practitioner Regulation Agency.

Now turning to industries. We continue to see great momentum in this space. In health care, we launched Health Cloud for payers to make it easier for insurance companies to effectively and efficiently connect with members and providers. We also significantly expanded with one of the largest private payer in the U.S. by leveraging Health Cloud and Service Clouds to enhance of their member's experience to reduce the cost of care. In the quarter, IQVIA, a leading life sciences company significantly expanded with Salesforce and they are leveraging Health Cloud and the Salesforce Platform to build innovative solutions to address clinical, commercial and regulatory needs of their clients.

In financial services, we expanded with [BBDA] in the quarter and had a great Financial Services Cloud win with one of the largest banks in the U.K. You may also remember that we had our most significant Public Sector win ever for the U.S. Department of Agriculture last quarter; well, in Q2, the USDA significantly expanded again, in Salesforce, rolling out Service Cloud and the Salesforce Platform across their entire agency.

Now on the partners. Partners are absolutely critical in the Salesforce growth strategy bringing deep industry and domain expertise as they extend our reach and help drive our customers' digital transformation and our partners continued to strategically invest in the Salesforce [practices]. In fact, our top 5 SIs increased their total sales certification by 50 percent in Q2. Now I've mentioned before the deep partners run their businesses on Salesforce and in the quarter, we've had a significant expansion with Deloitte and they're rolling out Salesforce to more than 300,000 employees. So as you can see, it was a

fantastic quarter of execution across the entire company, our clouds, our geographies, our industries and we're absolutely well positioned for the second half of the year.

And finally, as you may know, I celebrated my fifth anniversary at Salesforce in Q2. It has been an incredible 5 years and I couldn't be more excited to leave the company with Marc for many years to come. I want to thank our customers, our partners, our employees and our shareholders for their continued trust in us.

And now I'd like to turn the call over to Marc.

Marc R. Benioff: All right, thanks so much, Keith, and congratulations on your promotion to co-CEO. Well done.

And as you heard from Keith, it was another outstanding quarter here at Salesforce. And honestly, I feel things have never been better. And I wanted to take a few moments to talk about the larger forces that are fueling and shaping the phenomenal growth of this company and our industry. Our drive to \$23 billion in revenue in fiscal year '22 and beyond is being driven by a technological revolution that's fundamentally transforming our society, the Fourth Industrial Revolution.

In terms of its size, depth, capability and speed, this revolution is altering the human experience in ways we've never experienced before. Our customers are going through an amazing digital transformation. Each and every one of them is started and ended with their customer. And as every company transforms their relationships with their customers using amazing new technologies from artificial intelligence to the cloud itself, they're fundamentally changing how they sell and how they service, how they market and how they innovate.

They're connecting with their customers in a whole new way, they're building incredible new intelligent 360-degree views of their customers and they're using extraordinary new tools to get faster, more informed decisions through advanced analytics. And at the heart of all this transformation is Salesforce. Our position as the number 1 sales, number 1 service, number 1 marketing and number 1 CRM platform is enabling our customers to stay ahead and drive this Fourth Industrial Revolution. And as more and more companies connect everything and everyone, they're realizing that integration is vital to their success and to their digital transformation and now they're turning to Salesforce MuleSoft, the number 1 Integration Cloud to do it.

Looking more closely, one of the critical aspects of the Fourth Industrial Revolution is artificial intelligence, the power of machine learning and especially deep learning to give computers the ability to learn from all kinds of data, and it's giving our customers the ability to learn about their customers and be far more personalized, efficient, effective in their relationships. Salesforce Einstein, our own artificial intelligence platform now provides our customers with over 3 billion predictions and insights every single day. That's amazing. And with the next generation of Salesforce Einstein that we introduced in the second quarter, Einstein Bots, first made available on our service cloud, our

customers can now unlock even deeper customer insight to deliver a transformational customer experience, whether it's with a service agent, whether it's a sales agent or whether a bot itself.

We demonstrated our leadership in AI by open-sourcing our automatic machine learning library for structured data, which is the engine that helps power Salesforce Einstein. And our Salesforce research team introduced deep learning breakthroughs that make it possible for the first time for a single model to master 10 different natural language processing patterns at once, significantly improving the way machines understand the many nuances of human language. It's an incredible step forward for artificial intelligence. With our acquisition of Datorama, also happened in the second quarter, we're also now able to extend our Marketing Cloud and bring all of our customers' marketing efforts into single intelligent dashboard so customers spend less time looking at spreadsheets and more time acting on the right insights to drive business decisions.

Also in the second quarter, we extended our strategic Alliance with Google to deepen integration between our Salesforce Marketing Cloud and their Google Analytics 360 and we're seeing amazing traction with customers that are experiencing the best of both worlds, Salesforce and Google together.

Salesforce commerce cloud continues to be the fastest growing enterprise commerce solution, delivering amazing results this quarter for marquee clients like Adidas and L'Oreal. We extended our Commerce Cloud with another great acquisition, CloudCraze, the leader in B2B commerce natively on the Salesforce platform. This means now with the Salesforce Commerce Cloud, our customers can create the same commerce experiences for their B2B business buyers that they do for their B2C consumers, all from a single platform.

As you can see, the Fourth Industrial Revolution is well underway here at Salesforce. Everyone and everything is more connected than ever before. And as part of that, we see an incredible community grow up as well, all around us and supporting each other to incredible new heights. These are our trailblazers and they're harnessing the power of our technology to transform not just their companies and industries but their lives and their careers. I have to tell you, these trailblazers are an inspiration.

More than 1 million vehicles have now used our free online Trailhead platform to learn Salesforce skills and elevate their careers and become Salesforce trailblazers. They have earned more than 8.5 million badges certifying their skills and positioning them for jobs in the digital economy. In fact, this Salesforce economy will now create 3.3 million new jobs by 2022. That's amazing and yet another example of how Salesforce is powering this Fourth Industrial Revolution. And that's why this year's Dreamforce, which is just going to happen on September 25, is going to be even more than highlighting our incredible technology. It's going to be a celebration of these trailblazers.

Dreamforce is going to run from September 25 to September 28 in San Francisco. We're bringing together thought leaders, industry pioneers and more than 100,000 trailblazers

for a whole 4 high-energy days of learning, inspiration, [equality and fun]. And I'm sorry to say if you don't have your tickets, it's already sold out. Amazing. A first for Dreamforce.

Finally, in all of our work, Salesforce is guided by our core values. Many of you know that. You've heard us talk about that now. Our core values -- trust, customer success, innovation and the equality of every human being. As you know, Salesforce has always tried to use of those values as a beacon of light for our industry. This started in our founding with our 1/1/1 model giving back and most recently has evolved with our deep work in equality. Discussions we have had with our Ohana now over the past few weeks have raised larger questions about not just the Fourth Industrial Revolution and what's happening but also about how our values and our core values apply to the use of Fourth Industrial Revolution technology and also any unintended consequences of their use.

We've seen this discussion take place in many companies as well. We can see that happening today on the news cycle. It's been amplified by the amazing recent progress in artificial intelligence and especially in deep learning. Now here at Salesforce, we have determined that this ethical and humane use of technology, especially within this context of the Fourth Industrial Revolution, it must be clearly addressed -- not only by us but our industry.

Our industry has reached an inflection point that must be supported by a strong set of guiding values. We all know that, and you see that every single day. We know the technology is not inherently good or bad; it's what we do with it that matters. And that's why we're making the ethical and humane use of technology a strategic initiative at Salesforce. We have appointed a new officer, an individual tasked with forming new office of ethical and humane use. And we will work with all of our Ohana, including our customers, our employees, our partners as well as industry groups and thought leaders and experts in this area to encourage, promote and publish and implement industry standards, guidelines and living frameworks around the ethical and humane use of technology.

This incredible aspect of the Fourth Industrial Revolution is the way forward, not just for our industry but for humanity. We have to make sure that technology strengthens our societies instead of weakening them. Technology needs to improve the human condition, not undermine it. We're looking forward to working with all of our Ohana and all of you in illuminating this important path together and continuing this incredible and critical discussion, especially here at Salesforce and including coming up at our Dreamforce conference.

With that, I want to turn over now to Mark Hawkins and discuss the financial details of the second quarter.

Mark J. Hawkins: Well, thank you, Marc.

And as you've heard, we delivered a strong second quarter result across all of our products and our regions. Second quarter revenue grew 27 percent in dollars and constant currency. While there was not a significant year-over-year FX impact to revenue, sequentially, we saw a \$38 million revenue headwind due to FX. MuleSoft contributed \$122 million to total revenue net of purchase accounting adjustments. This was higher than we anticipated due to a higher mix of license revenue in the quarter.

We're very pleased with MuleSoft's performance to date. Dollar attrition exited the second quarter of below 10 percent. Second quarter GAAP EPS was \$0.39 and non-GAAP EPS was \$0.71. Mark-to-market accounted for our strategic investment portfolio as required by ASU 2016-01, benefited the GAAP EPS by approximately \$0.18 and non-GAAP EPS by approximately \$0.14 in the quarter.

GAAP EPS also benefited by approximately \$0.18 related to the partial release of our tax valuation allowance as a result of the MuleSoft acquisition. Operating cash flow was \$458 million, up 38 percent over last year. The overall strength we saw in the quarter improving profitability and strong cash collections in Q2 -- were the drivers. Free cash flow defined as operating cash flow less CapEx, was \$288 million in the second quarter, up 42 percent over last year. Unearned revenue ended the quarter at nearly \$5.9 billion, up 24 percent in both dollars and constant currency.

Similar to revenue, FX did not have a significant year-over-year impact on unearned revenue, but we did see a sequential FX headwind of approximately \$66 million to unearned revenue in Q2. MuleSoft contributed approximately \$77 million to unearned revenue in the quarter. As you may recall in Q1, we started disclosing a new metric called remaining transaction price as part of our adoption of ASC 606. To conform with the emerging industry standard language, we have changed our terminology for the remaining transaction price to remaining performance obligation. At the end of the second quarter, our total remaining performance obligation was \$21 billion, up 36 percent over last year. This metric represents all future revenue under contract.

The current remaining performance obligation expected to be recognized as revenue in the next 12 months was \$9.8 billion, up 27 percent year-over-year. Keep in mind the current portion of this metric is not impacted by invoice and duration unlike unearned revenue.

Moving on to guidance. Let me briefly touch on the FX environment. As I mentioned, previously, we experienced a sequential FX headwind to revenues, and we continue to see some movements in rates. In context, we are now anticipating an FX headwind to revenue of approximately \$75 million to \$100 million for the remainder of the year. Despite this FX headwind, we are raising our full year 2019 revenue guidance by \$50 million to \$13.125 billion to \$13.175 billion or 25 percent year-over-year growth, including MuleSoft.

Speaking of MuleSoft, let me quickly touch on the revenue for the remainder of the year. We were very pleased with the performance of MuleSoft in the second quarter. That said,

as a significant portion of MuleSoft's revenue is recognized upfront as license revenue under ASC 606 and as we have limited history of forecasting under this model, we are not updating our guidance for MuleSoft contribution to revenue. We will, however, continue to provide their quarterly revenue contribution for the remainder of fiscal 2019.

Turning to operating margin. Based on our strong performance in the quarter, we are raising our FY '19 non-GAAP operating margin improvement range to 25 to 50 basis points for full fiscal year non-GAAP operating margin of 16.75 percent to 17 percent. We are raising our FY '19 GAAP diluted EPS guidance to \$0.97 to \$0.99 and non-GAAP diluted EPS guidance to \$2.50 to \$2.52. This guidance implies non-GAAP OIE of approximately \$250 million for the full year.

Keep in mind that this guidance does not take into account any possible future impact from the mark-to-market adjustments related ASU 2016-01, which may cause EPS volatility based on market conditions. We are raising our full year fiscal 2019 operating cash flow growth guidance to 15 percent to 16 percent year-over-year. We also now expect full year CapEx to be 4 to 5 percent of revenue compared to our prior guidance of approximately 5 percent. For Q3, we're expecting revenue of \$3.355 billion to \$3.365 billion, GAAP diluted EPS of \$0.01 to \$0.02, non-GAAP diluted EPS of \$0.49 to \$0.50.

We expect year-over-year unearned revenue growth of approximately 20 percent in Q3, including MuleSoft. Our Q3 UR growth rate reflects significant FX headwind to unearned revenue year-over-year in addition to the continued deepening of our quarter on quarter seasonality of UR. As a reminder, we will only provide unearned revenue guidance one more time on the third quarter call, at which point we intend to stop providing this guidance as you'll have more history WITH the remaining performance obligation metrics.

As you update your models for the back half of the year, keep in mind, that Dreamforce is in Q3 of this year and was in Q4 last year. So the associated costs will occur a bit earlier in FY '19.

To close, we delivered a strong second quarter, closing out a great first half of the year, positioning ourselves very well for the back half of FY '19 as we head into Dreamforce. We continue to execute on our strategy of delivering durable growth at scale with some leverage and are on track for our FY '22 target of \$23 billion. And speaking of Dreamforce, I look forward to seeing many of you at our Annual Investor Day on Wednesday, September 26. I want to say thank you to our employees, our customers, our partners and our shareholders for your continued support.

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

John Cummings: Hey, Jerome, you can just queue up the Q&A for us.

## QUESTIONS AND ANSWERS

Operator: (Operator Instructions)

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

Bhavanmit Singh Suri: I wanted to touch on sort of a broader question here given the Integration Cloud. Sort of starting to see a lot of this integration with ERP and into back office systems with MuleSoft. And you sort of verticalized the front end financial cloud, health cloud, et cetera. How are you thinking about sort of tying that back-end in? Is this sort of an idea of the supply chain cloud or something along those lines when you when you think about potential new verticals -- how do you sort of capture some of the value of the data that you're integrating with the ERP? I just want to understand how you guys are thinking about that.

Bret Steven Taylor: Yes, this is Bret Taylor. It's a really great question. I think one of the -- the best opportunity for MuleSoft and our innovation cloud is aligning with our vertical solutions. If you look at what we're doing with financial services and health care, it's really about transforming the customer experience with the industry and we can't do it unless we unlock the data in these legacy systems, whether it's in electronic medical records or whether it's the incredible amount of investments that the financial industry has made in their back office systems.

So when we think about the opportunity from MuleSoft, it's really about aligning with our overall value proposition of transforming customer experiences and upleveling the conversation of integration from an IT tactical decision to a strategic decision about how to transform their customer experience. And that's the opportunity that we see over and over again when we're talking about integration with our customers. It's not just a problem for the CIO; it's a problem for the CEO. And that's an opportunity integrating this value proposition.

Keith G. Block: This is Keith. Just to emphasize his point, this morning, I received an e-mail from the CEO of one of the largest banks in EMEA who wants to bring their entire executive team over to talk about integration and what MuleSoft can do to unlock their data. So it's a perfect proof point of exactly what Bret is talking about. There's huge opportunities in this space.

Marc R. Benioff: Keith, can you just tell us how the integration's going?

Keith G. Block: We're thrilled with the integration. As you know, it's just our first quarter, and we've done many, many acquisitions here. I would say that this is probably the smoothest integration that we've had. The integration with the field, the product teams, the marketing organizations across the board, all the lines of businesses has really, really been fantastic. And you can't have a conversation right now with a customer without talking about MuleSoft. Everybody wants talk about the importance of integration as it relates to digital transformation so we're very, very happy with what's going on.

Marc R. Benioff: Bret, you said kind of the acceleration of the public cloud combined with customers, major investments in their own data centers is driving this integration with cloud or what do you see as the core driver?

Bret Steven Taylor: There's so many trends happening simultaneously that is driving this investment in integration. We have customers who want to transform their customer experience and they're also looking to shift in their infrastructure from their own on-premise data centers to the cloud and every customer I talk to at scale has public cloud, private cloud, on-prem, sometimes even mainframe systems, and they can't wait for all of that technology change to shift before transforming their customer experience. And that's the promise of MuleSoft is we can actually transform it now. And that's why the conversations that Keith mentioned are happening right now is all of these trends are driving integration, sort of upleveling the discussion to integration to a strategic level.

Operator: Your next question comes from the line of Kirk Materne from Evercore ISI.

Stewart Kirk Materne: I'll add my congrats to Keith on his new appointment. I guess, my -- one question, then one follow-up for Mark Hawkins. I guess, just my question was around, Mark, some of your comments on deep learning and AI. And I was just curious how often Einstein's coming up in these engagements you're having with the CEOs. Is having an AI platform becoming really tablestakes to participate in this digital transformation discussion?

And then just a quick clarification for Mark Hawkins. Mark, I assumed the guidance you gave, the -- I guess, the FX headwind was incremental relative to what you're thinking earlier, maybe it's become a bigger headwind since we last talked to you 3 months ago.

Marc Benioff: Thanks for the question. I mean, it's been quite few years now when we made a strategic decision here that artificial intelligence has to be a core part of the Salesforce Platform. Of course, we've seen so many exciting technologies emerge we knew that had to become part of our platform on our journey over the last 20 years. But I think AI was probably the most daunting because there's many different aspects to artificial intelligence.

And through a lot of core native development, through acquiring companies, through finding incredible talent, we've been able to build a phenomenal platform with Salesforce Einstein. I don't think that there is a more successful business implementation of artificial intelligence than Einstein -- not just core in our platform but also now in all of our core clouds as well. I mean, you can see how Sales Cloud Einstein, our Service Cloud Einstein or even in the Marketing Cloud helps transform the customer experience. But probably, the most powerful is our Commerce Cloud.

When we actually turned Einstein on in the Commerce Cloud and customers have the option to do that, but when they did turn it on, they see double-digit revenue growth above what they were already experiencing on the Commerce Cloud; it's amazing. And really it goes to show how the ability to take this really powerful next-generation

technology -- can have dramatic business outcomes, and we're deeply committed to artificial intelligence and we're all -- and as I said, we're also deeply committed to the ethical and humane use of that technology because we all realize that AI is developing a lot faster and going a lot farther than any of us realized.

And Salesforce, as I believe, probably the premier provider of artificial intelligence certainly of business applications and enterprise applications, we still feel a deep responsibility to help in the guidance of that capability.

And I'll turn it over to Marc.

Mark J. Hawkins: Sure, thank you. Kirk, you are correct. Yes, this is a bigger since we had talked prior and despite the FX headwind that we see that impacted us in the second half obviously the raising for revenue or operating margin in our cash flow.

Operator: Your next question comes from the line of Richard Davis from Canaccord.

Richard Hugh Davis: Maybe as a broader question for Marc Benioff. Look, there are thousands of companies out there as you and I both know, most of them hit a wall and often times the stumbling block is a CEO who doesn't change with the company. So Marc, this maybe this would be a better question over a beer or whatever, but you and I have met a bunch of private companies, but it would be super helpful if you passed on kind of 1 or 2 key things that you've done to scale as a CEO because you've seen it. It's CEO hold on too tight, they don't do it, this, that or the other but that would be actually -- it's not a swansong question -- but I was just curious.

Marc R. Benioff: While it's a good question. And I'll tell you in the room here is Monica Langley, and we are working on you've probably read the book, *Behind the Cloud*, and we're working on a new book right now, which we're really excited about, and we just wrote one of the key chapters that really answers your question and I still firmly believe that you're an entrepreneur that really the key to kind of having durable success over multiple decades, which is what Salesforce has now done, is really maintaining a beginner's mind.

You probably heard me talk about this, but rarely does a morning go by where I don't take some time for mindfulness myself and really say, OK, knowing everything that's going on in the industry, in the world, in our company, with everything that's happening, what do I want right now? To really kind of start fresh, completely clear my mind. To really let everything go that has happened over multiple decades. And to say, "OK. What do I want now? Where are we going?"

And we do that -- I do that with myself -- and we do that also with our management team. We just finished one of our major management conferences, and we take that same approach where we really say, "OK. What is it that we really want?" And I think that's an incredible time. We're all so connected all the time, everything's going on, getting so much e-mail, we're all on our phones, I'm sure everyone on this call is looking down on

their phone right now and just put our phone down and stop and just be able to say OK. Let's take a moment and then move forward.

And I don't think for -- my mentoring the other entrepreneurs is -- they need to take care of themselves. This is the single most important thing and it starts with their beginner's mind.

And then you'll see that new book coming soon hopefully, right, Monica?

Monica Langley: In 1 year.

Marc Benioff: In 1 year, she said, all right.

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

Raimo Lenschow: Congrats to Keith as well. I just had a question, Keith, for you. Now, that you have MuleSoft in for a little bit, what has been the feedback from the salesforce because I'm sure you could say MuleSoft is a little bit more of a technical sale, but you guys also talked about that the whole discussion is becoming a lot more strategic. How has your salesforce been able to kind of take on MuleSoft and integrate it into the overall offering?

Keith G. Block: Yes, so I will just characterize it this way. Nearly universal euphoria.

And if you think about the conversations that we're having at the CEO level of, these are all about digital transformation and the whole concept of integration just completes the thought and the promise of digital transformation again by unlocking the data from these legacy systems. So MuleSoft already had a very, very capable and high-performing sales organization, which we continue to invest in. And we've been able to have very, very tight alignment and enablement with the core Salesforce sales organization and that's just created a lot of traction.

But again, if you think about the conversation and the dialogue that we're having with our customers, this was a missing piece of the puzzle. And we listen to our customers. That's why we made this acquisition because we knew exactly how important this was going to be to completing that digital transformation. So the integration is going very, very well. The traction is there, the alignment's there, the alignment's there, enablement is there and the customers want this message, they want this story, they want this solution.

Marc R. Benioff: Bret, are you surprised with the kind of the rate of acceptance, the integration cloud and what's happening is and I know you have a lot of surprises planned for Dreamforce around that as well. Is this a shock?

Bret Steven Taylor: It's not a shock because for me, when I look at our product portfolio, I don't view it as separate products or separate clouds; I really view it as stages of customer life cycle, customer touch points. And we really sought an integrated transform

customer experience. Just like automation and AI are in every conversation because every company wants a more predictive, smarter personalized experience for their customers, every customer wants an integrated experience that pulls together all different departments, all different legacy systems to provide an integrated view of the customer.

You want every single person who touches a customer to be able to have a single view of the person they're talking to. And that's fundamentally what MuleSoft integration provides. It's relevant in every single customer conversation.

Operator: Your next question comes from the line of Keith Weiss from Morgan Stanley.

Keith Weiss: I was wondering if we could dig in a little bit to Marketing Cloud. We've seen a couple of quarters of acceleration there. Marc Benioff, on the last call you alluded to benefits that you expect to see from GDPR. Are we starting to see those benefits roll through? Or is it too early for that and there's other things?

And maybe if I could sneak in a second question. I was just wondering about sort of the decision to open source part of the Einstein data framework. What was the sort of rationale behind that, pushing that into the open source community? What's the benefits you're expecting to see from that open sourcing of that technology?

Marc R. Benioff: Well, I think that number one, I mean, when I was in Switzerland last week in a conference and I met with more than 100 of the top European CEOs and probably in each and every conversation that I had with them, I see a deep yearning with them to have a more complete relationship with their customer. But it's a deeper aspect of that. They want a one-on-one relationship with their customer, especially consumer companies, you can see that when you look at -- if you go some of the major consumer sites and companies that we work with like Louis Vuitton or Adidas or L'Oreal or Puma or New Balance, you can see that you're starting to have a one-on-one relationship with the company.

That they're able to really provide a one-to-one experience with you, and that's not just in commerce, but it's in marketing, it's in service, it's in sales and to bring in some of the previous questions, it's intelligent, too. That is, we're using AI to make that a more personalized experience to give you that opportunity. And that's what every company wants to get to whether they're a B2B company or a B2C company.

It's one of the reasons I was so excited, for example, in the CloudCraze acquisition, on a company like Adidas, a significant percentage, of course, of their commerce is B2C. We all know that. We go on their site and we buy our Yeezys. But did you know that an even larger percentage of their electronic commerce and B2B? That is, of course, they need to be able to go and sell to all the other companies that sell Adidas and we all know who those companies are. And that opportunity to offer a B2B and B2C experience that's one-on-one that is really driving this phenomenal growth, especially in the Marketing Cloud.

Of course, e-mail is a key driver there and no one sends more business e-mails in a highly personalized, intelligent way than we do. You'll also see that it drove our acquisition this quarter of Datorama. If you haven't seen Datorama, it is an amazing company. It's a company that through artificial intelligence is automatically able to integrate all these different marketing automation applications. Of course, Salesforce is probably the number 1 Marketing Cloud in the world. But there are other marketing clouds as well and there's other marketing technologies. Datorama's able to automatically reach out to those and then provide to the marketer automated dashboards with integrated KPIs to give them basically an incredible opportunity to drive their marketing. That is going to be future growth of our Marketing Cloud. I'm so excited that we're able to acquire this company that we're able to rapidly start to integrate it into our system.

Finally, you mentioned open sourcing, a key part of our AI. We're working closely with the entire AI community and as part of that, we believe that we are all working on artificial intelligence together. And we are all certainly -- we benefited from the open source community, and we're going to contribute as well back to the open source community. That's part of our philosophy at Salesforce.

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

Heather Anne Bellini: Marc Benioff, I just had a question about MuleSoft. You've obviously had great success [starting] the company almost 20 years ago. But how do you see MuleSoft, if at all, helping to modernize, if you will, your own internal IT and your clouds? And are there new offerings, as a result of that, that you envisioned might be able to offer to customers as you do this?

And then my follow-up was just related to you've been very vocal about how great the IT spending environment is this year, and I'm just wondering, I know it's early but any reads from all the customer visits you've done as you look out to next year?

Marc R. Benioff: Well, I'll hit the last part first, which is, I've never seen such a robust spending environment. This is just a time when, and I'll just speak really to the CEO level, I've never seen CEOs spend so aggressively. They've benefited really dramatically from these tax cuts and also from the deregulation focus, especially in the United States. And it doesn't matter if it's an American or European, as I mentioned, I was there last week or an Asian CEO. I have had experiences with all of them recently and I can tell you that, across the board, I don't know a CEO who is not aggressively spending at a level that I have not seen them spend at before.

And probably the number 1 thing that they're spending on is their own digital transformations. They're really positioning their companies for the future. I mean, we're really in an incredible time. And I can -- I have been -- continue to be extremely impressed with that. Of course, we have a tremendous offering for them as well. We have the right product at the right time; that has really helped us.

In regards to the Integration Cloud, this is a company with MuleSoft that, of course, we helped fund it at the beginning. I personally recruited other investors like Cisco into the company. Board members, I really always loved the company. And then something amazing happened last year.

I was just talking to a lot of customers and I keep hearing that integration was moving up on their priority list. And the reason why is very simple. Everybody knows that public clouds are becoming more dominant. We've seen this incredible growth of amazing Salesforce Customer like Amazon and Google, 2 of our largest customers and their public clouds. But out of our customers move to these public cloud environments, including ours, by the way, it really motivates the integration issue because not only do they have their data in their data centers but now they have data in multiple in most cases -- public clouds -- as well as they're getting data from other SaaS vendors and using other public data sources.

All of these things create an integration gambit like we've never seen before and yet here's this company, MuleSoft, that has a radically new API-driven approach to integration that's just phenomenal. And it's just been on a tare and all of a sudden, I just -- I turned to Keith and Bret, and they know this -- I came back from one specific customer and I said "boy, I mean we can offer our solutions to the customer and provide an incredible 360-degree view of the customer -- of their customer on my customer and give them insights like never before. But we are not going to be able to do that without this level of integration because the customer, their ability to have that 360-degree view of their customer is in so many different places now, it's unbelievable."

So Bret, can you amplify or extend any of that?

Bret Steven Taylor: Yes, I mean, if you think about the Fourth Industrial Revolution, really is about the pace of technology change, increasing more rapidly than we've ever seen and I think when I talk to CIs and CIOs, the main thing they're focused on is agility, how can we move our business more -- faster and keep pace with the change in expectations of our consumers and this concept of the API economy and breaking your company up into services and APIs so you can empower your business units to actually move faster than ever before is on everyone's mind.

And MuleSoft really amplifies that strategy and really helps CEOs increase the clock speed of their digital transformation. It's an incredible opportunity because the way they approach it's so perfectly aligned with this concept of agility that's become so strategic in this Fourth Industrial Revolution.

Unidentified Company Representative: I just had to ask you because obviously, you've been here for 5 years. You've seen us do lots of acquisitions. Has there ever been an acquisition that had the kind of rate of growth and speed and acceptance by customers that this one has had?

Keith G. Block: We had a lot of great acquisitions, as you know. I think that this 1 is very, very cutting, and it goes back to the comments that both of you, both you and Bret have made. If you think historically about what is going on in the world with the legacy debt, the processes that have built up over a decade, the technology processes, the business processes. Companies, now more than ever, because we are in the Fourth Industrial Revolution and we have these amazing technologies, they have to be agile, they have to be nimble.

They have to reinvent themselves and drive new business models and if they can't get access to the data, if they can't leverage the strength of the data that is like an ocean of data, then they will miss out on the opportunity, and you can think about how offensive strategy if you're a CEO or a defensive strategy, but you must do something, and that's what we're seeing in these conversations. So that's why I get excited about MuleSoft, as I talk to customers and I know our employees do as well because this is really an opportunity to unlock that. So as good all these other acquisitions have been and they've been fantastic, I'm very, very excited about this 1 and we're off to a great start.

Marc R. Benioff: And you're going to see an incredible new reveal at Dreamforce (inaudible). Bret has done amazing work this year.

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

Mark Ronald Murphy: Keith, congrats to you and nice performance.

Mark Hawkins, I wanted to ask you, MuleSoft contributes \$200 million to the total RPO balance, and I'm just curious if you're able to ballpark what it would have contributed to the current RPO balance if it was anything material?

And then also for Keith and possibly Bret, we started to hear some feedback about underappreciated emerging jewels in the product portfolio. And in particular, those were references to commerce with CloudCraze and CPQ with SteelBrick. A couple of your partners are now saying that they've had the 3 big focus areas of sales, service and marketing and that they're now can have a fourth pillar in these areas and sometimes they're seeing the contract values are increasing 20 percent or 30 percent when a customer adopts commerce and CPQ. So I just wanted to ask you, do you see the ingredients for those products to surprise for the upside and possibly have that kind of \$1 billion multiyear potential?

Mark J. Hawkins: So let me take the first one. Thank you, Mark. In terms of the RPO, you're absolutely right, in aggregate, there was \$200 million that MuleSoft added to our total RPO, if you will. What I can share with you is the breakdown of that. We have about \$100 million of that in the current RPO, Mark, and then obviously, the other \$100 million would be noncurrent. So that's a little bit of additional granularity that I can provide for you.

Keith G. Block: This is Keith, obviously, to your other question, I think the success of our sales cloud, our service cloud, and our Marketing Cloud is pretty amazing. The sales cloud's growth is now at \$1 billion plus run rate, which is unprecedented in the marketplace. We've obviously seen great success with Service Cloud and Marketing Cloud but all of this really speaks to our culture of innovation, whether it's our organic innovation or our hard innovation.

And I'm very, very close with the partner community and the ecosystem. I mean, it's one of our 3 growth levers to have the largest ecosystem in the cloud, and we'd love the fact that our partners are investing in these elements of innovation. I mean, our partner certifications year-over-year are up 50 percent. I think that speaks volumes about their confidence in our solutions, whether it's in CPQ, whether it's in Commerce Cloud but all of these are solutions.

And this is a hand in glove conversation. These are solutions that are oriented around our industry focus, they're organized around our line of business focus. We are long gone from the days of focusing on single clouds. We are out there driving solutions, driving digital transformation, multi-cloud solutions, and that's why you see the great results that we've seen in the quarter -- what you saw in Q1, what you saw at the end of the last fiscal year and why we're so confident about the second half of the year.

Operator: Your next question comes from the line of Ross MacMillan from RBC Capital Markets.

Ross Stuart MacMillan: Maybe one for you, Keith, and just a follow-up for Mark Hawkins.

Keith, you mentioned Einstein I think in a number of the descriptions of the major wins this quarter in CPG and airlines, et cetera. And I'm just curious as to how fast that's evolving. And we're getting to a point now where you're feeling more confident that Einstein is an incremental monetization opportunity for the company.

And then I had a follow-up for Mark Hawkins.

Keith Block: Thanks for the comments and for the congratulations.

Einstein is an incredible product and we're at just in the beginning here. It's an incredible piece of innovation, they put a lot of time and effort into this, we've got some amazing talent associated with it, thought leadership and Bret's team has done an unbelievable job, and it is part of every dialogue because customers, no matter what industry, no matter what geography, no matter what size company you want insights and what I love about Einstein, I mean, there's many things to love, but what I particularly love about Einstein is its applied intelligence.

A lot of people talk about artificial intelligence in the world without really having a scope or definition or any sort of boundary and ours is real, it's tangible, it's pragmatic, it's

practical. So it is something that's applied to fantastic CRM use cases, whether it's sales, services, marketing, commerce, and it makes our conversation even more relevant and our customers get even more value out of our existing products.

So we drive more value. There's an opportunity to grow deal sizes to extend relationships to deepen relationships and there's a lot way to go, but, boy, the results are from a mindshare perspective and early days on the money side and revenue side, we feel very, very good about where we're going here.

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

John Stephen DiFucci: My question's for Keith. Keith, sounds like the vertical businesses are doing very well; they continue to do very well. Salesforce as an organization hasn't been shy about standing up for just causes beyond the business of salesforce.com. And I want to ask one question on one of these verticals, and it's really the public sector. And according to what we hear, the public sector's vertical sounds like it's been doing very well for a while here. I guess, have you seen any recent impact on that business due to recent corporate Activision by salesforce.com? Just curious if that's affecting that business at all.

Keith G. Block: Thanks, John. Appreciate the kind words and comments.

Look, public sector is one of our strongest verticals. It continues to be one of our strongest verticals. Whether it's the United States government, or the U.K. government or any government in the world of their charter is to provide a higher level of service to their citizens. And that comes to the modernization of their legacy systems and using new technology like ours so that they can engage with citizens in an unprecedented way, and that's what's really fueling our growth. That business is very, very healthy, and we support those organizations in their mission and the results speak for themselves.

Operator: Your next question comes from the line of Terry Tillman from SunTrust Robinson.

Terrell Frederick Tillman: Appreciate you fitting me in, just one question. I know you guys have the idea of durable growth over time. What I'm curious about is if you look at the platform business, and you back out MuleSoft, the platform business has just been chugging along well over 35 percent growth. I guess, could you talk about maybe what's been driving growth more recently in terms of is it just custom builds, extensions off of your core cloud apps or ISV traction? Just wanting to kind of double-click more into the strength of your platform business.

Keith G. Block: It's Keith, I'll answer this and Marc if you want to chime in, please do. But our platform business is very strong, and you think about the capability around Heroku, you think about capability around the core platform, you think about Shield, you think about analytics, these are all growth drivers and difference makers for our customers to just extend the platform. And we try to a great deal of focus and energy on

this topic, and we've executed incredibly well. So I think you're just going to continue to see that happen.

Mark J. Hawkins: I would totally echo that. I think things like Heroku, it's really been exciting to be able to see that group in addition to everything you called out, shield, these are things that look really good. Even our ecosystem and what that's contributing as well has been positive.

Mark Hawkins: And I'll just add that Dreamforce, you're going to see some amazing extensions to the platform. We're not going to go through all of them right now, but I'm sure you will be as blown away as I am. You saw yesterday, we also announced our lead band for Dreamforce which is Metallica but we have a lot of other amazing entertainment planned and speakers. Some of that we're going to be dribbling out as we head between now and September 25 and a lot of it, you're going to see revealed for the first time during the Dreamforce keynote. I promise all of you this will be the Dreamforce that you will never forget. And I'll look forward to seeing all of you there. And with that.

John Cummings: Great. Thanks so much everyone for joining us today. If you have any further questions regarding our second quarter results, please feel free to e-mail us at [investor@salesforce.com](mailto:investor@salesforce.com). Otherwise, we look forward to seeing many of you at our annual Investor Day at Dreamforce on September 26. Thank you so much.

Operator: Thank you, and that concludes today's conference. Thank you all for participating. You may all disconnect.