

# Q2 FY18 Financial Update

Salesforce

salesforce

NYSE: CRM  
@Salesforce\_ir



# Safe Harbor

Safe harbor statement under the Private Securities Litigation Reform Act of 1995:

This presentation contains forward-looking statements about our financial results, which may include expected GAAP and non-GAAP financial and other operating and non-operating results, including revenue, net income, diluted earnings per share, operating cash flow growth, operating margin improvement, deferred revenue growth, expected revenue run rate, expected tax rates, stock-based compensation expenses, amortization of purchased intangibles, amortization of debt discount and shares outstanding. The achievement or success of the matters covered by such forward-looking statements involves risks, uncertainties and assumptions. If any such risks or uncertainties materialize or if any of the assumptions prove incorrect, the company's results could differ materially from the results expressed or implied by the forward-looking statements we make.

The risks and uncertainties referred to above include -- but are not limited to -- risks associated with possible fluctuations in the company's financial and operating results; the company's rate of growth and anticipated revenue run rate, including the company's ability to convert deferred revenue and unbilled deferred revenue into revenue and cash flow, and ability to maintain continued growth of deferred revenue and unbilled deferred revenue; foreign currency exchange rates; errors, interruptions or delays in the company's services or the company's Web hosting; breaches of the company's security measures; the financial and other impact of any previous and future acquisitions; the nature of the company's business model, including risks related to government contracts; the company's ability to continue to release, and gain customer acceptance of, new and improved versions of the company's services; successful customer deployment and utilization of the company's existing and future services; changes in the company's sales cycle; competition; various financial aspects of the company's subscription model; unexpected increases in attrition or decreases in new business; the company's ability to realize benefits from strategic partnerships and strategic investments; the emerging markets in which the company operates; unique aspects of entering or expanding in international markets, including the compliance with United States export control laws, the company's ability to hire, retain and motivate employees and manage the company's growth; changes in the company's customer base; technological developments; regulatory developments; litigation and any related claims, negotiations and settlements, including with respect to intellectual property matters or industry-specific regulations; unanticipated changes in the company's effective tax rate; factors affecting the company's outstanding convertible notes, term loan, and revolving credit facility; fluctuations in the number of company shares outstanding and the price of such shares; collection of receivables; interest rates; factors affecting the company's deferred tax assets and ability to value and utilize them; the potential negative impact of indirect tax exposure; the risks and expenses associated with the company's real estate and office facilities space; and general developments in the economy, financial markets, credit markets, and the impact of current and future accounting pronouncements and other financial reporting standards.

Further information on these and other factors that could affect the company's financial results is included in the reports on Forms 10-K, 10-Q and 8-K and in other filings we make with the Securities and Exchange Commission from time to time. These documents are available on the SEC Filings section of the Investor Information section of the company's website at [www.salesforce.com/investor](http://www.salesforce.com/investor).

Salesforce.com, inc. assumes no obligation and does not intend to update these forward-looking statements, except as required by law.

# Company Overview

The global leader in CRM

- Founded 1999, public listing (**NYSE: CRM**) 2004
- **#1 CRM provider** for the fourth year in a row<sup>1</sup>
- **Fastest growing top five enterprise software company** with \$8.39 billion in revenue FY17 (26% Y/Y)
- **Nearly tripled free cash flow (\$0.58B-\$1.70B)** over past three years (FY14-FY17) **while doubling revenue (\$4.07B-\$8.39B)**
- Headquartered in San Francisco, with **>27,000 Employees** focused on CRM and customer success

“Innovator of  
the Decade”  
**Forbes**  
September  
2016

FORTUNE  
**100  
BEST**  
COMPANIES  
TO WORK FOR®  
2017

2009 • 2010 • 2011  
2012 • 2013 • 2014  
2015 • 2016 • 2017

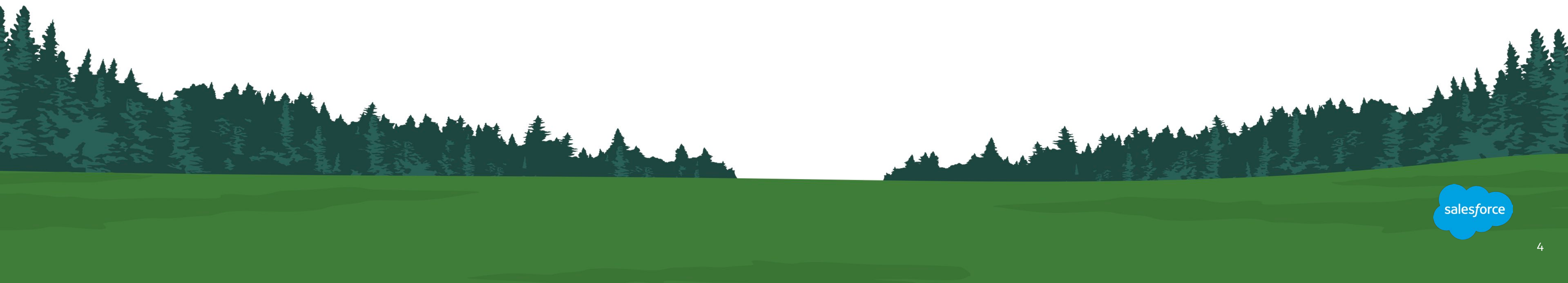
**Forbes**  
The world’s most  
innovative  
companies

2011 • 2012 • 2013  
2014 • 2015 • 2016  
2017

FORTUNE  
**500**  
2016

<sup>1</sup>IDC, WW Semiannual Software Tracker, 2016H2 Historical release, 4.21.17

# Financial Overview



# Q2 FY18 Results Highlights

## Surpasses \$10B Run Rate Milestone

- Raises **FY18 Revenue Guidance by \$100 Million to \$10.35 Billion to \$10.40 Billion**<sup>1</sup>
- **Second Quarter Revenue of \$2.56 Billion**, up 26% Year-Over-Year, 25% in Constant Currency<sup>2</sup>
- **Second Quarter Operating Cash Flow of \$331 Million**, up 32% Year-Over-Year
- **Deferred Revenue of \$4.82 Billion**, up 26% Year-Over-Year, 25% in Constant Currency<sup>2</sup>
- **Unbilled Deferred Revenue of Approximately \$10.4 Billion**, up 30% Year-Over-Year<sup>2</sup>
- **Guidance**<sup>1</sup>
  - Initiates **Third Quarter FY18 Revenue Guidance** of \$2.64 Billion to \$2.65 Billion
  - Raises **FY18 Revenue** Guidance to \$10.35 Billion to \$10.40 Billion
  - Raises **FY18 GAAP EPS** Guidance to \$0.07 to \$0.09
  - Raises **FY18 Non-GAAP EPS** Guidance to \$1.29 to \$1.31<sup>3</sup>

<sup>1</sup>Guidance provided August 22, 2017. <sup>2</sup>Refer to slide 9 for an explanation of non-GAAP revenue constant currency ("CC") growth rate and to slide 10 for an explanation of non-GAAP deferred revenue CC growth rate. Unbilled Deferred Revenue is an operational measure and represents future billings under our non-cancelable subscription agreements that have not been invoiced and, accordingly, are not recorded in deferred revenue. <sup>3</sup>Non-GAAP EPS is a non-GAAP financial measure. Refer to the Appendix for an explanation of non-GAAP financial measures, and why we believe these measures can be useful, as well as a reconciliation of non-GAAP financial measures to the most comparable GAAP measures, when applicable.

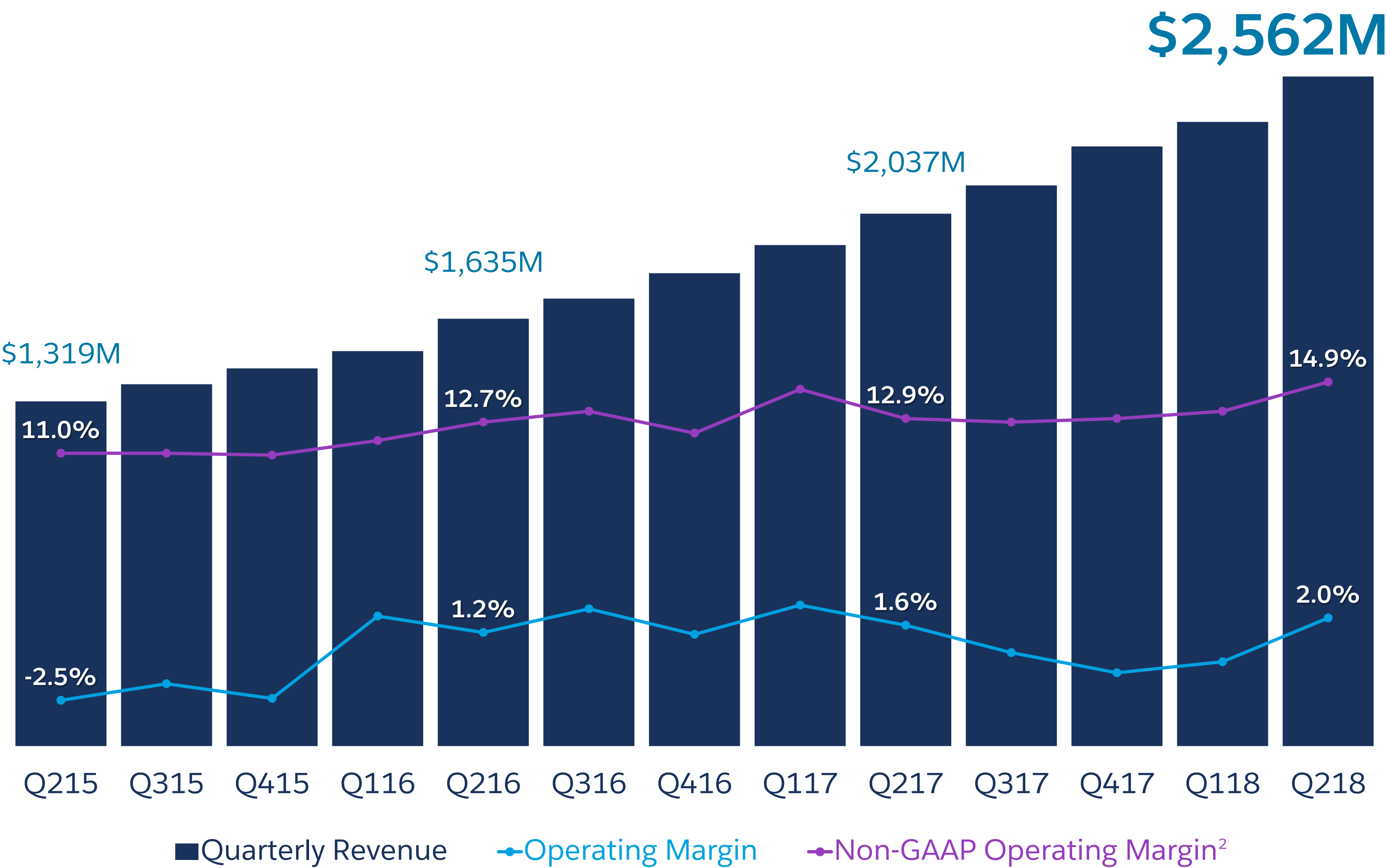
# Q2 FY18 Financial Summary

|                            | GAAP                      |                         | Non-GAAP <sup>1</sup>     |                         |
|----------------------------|---------------------------|-------------------------|---------------------------|-------------------------|
|                            | Quarterly Results         | Increase/(Decrease) y/y | Quarterly Results         | Increase/(Decrease) y/y |
| Revenue                    | \$2,562M                  | 26%                     | \$2,555M CC               | 25% CC                  |
| Deferred Revenue           | \$4,819M                  | 26%                     | \$4,786M CC               | 25% CC                  |
| Unbilled Deferred Revenue  | N/A                       | N/A                     | \$10,400M                 | 30%                     |
| Operating Margin           | 2.0%                      | 38 bps                  | 14.9%                     | 195 bps                 |
| Diluted Earnings Per Share | \$0.02 cents <sup>2</sup> | (94%)                   | \$0.33 cents <sup>2</sup> | 38% <sup>3</sup>        |
| Operating Cash Flow        | \$331M                    | 32%                     | N/A                       | N/A                     |

<sup>1</sup>The Non-GAAP columns present only non-GAAP financial metrics and the related non-GAAP growth rates as compared to prior periods. Non-GAAP revenue and non-GAAP deferred revenue represent CC results. Refer to slide 9 for an explanation of non-GAAP CC revenue and to slide 10 for an explanation of non-GAAP CC deferred revenue. Unbilled Deferred Revenue is an operational measure and represents future billings under our non-cancelable subscription agreements that have not been invoiced and, accordingly, are not recorded in deferred revenue. Non-GAAP operating margin and non-GAAP EPS are non-GAAP financial measures. Refer to the Appendix for an explanation of non-GAAP financial measures, and why we believe these measures can be useful, as well as a reconciliation of non-GAAP financial measures to the most comparable GAAP measures, when applicable. <sup>2</sup>Diluted EPS calculation utilizes GAAP revenue results disclosed above. <sup>3</sup>Non-GAAP Diluted EPS year-over-year growth is calculated using the EPS results for the current and prior periods rounded to the nearest whole cent, as presented in the Appendix.

# Total Quarterly Revenue and Operating Margin

Three years of operating margin improvement



**Q2 FY18**

**+25% CC<sup>1</sup>**  
y/y revenue growth

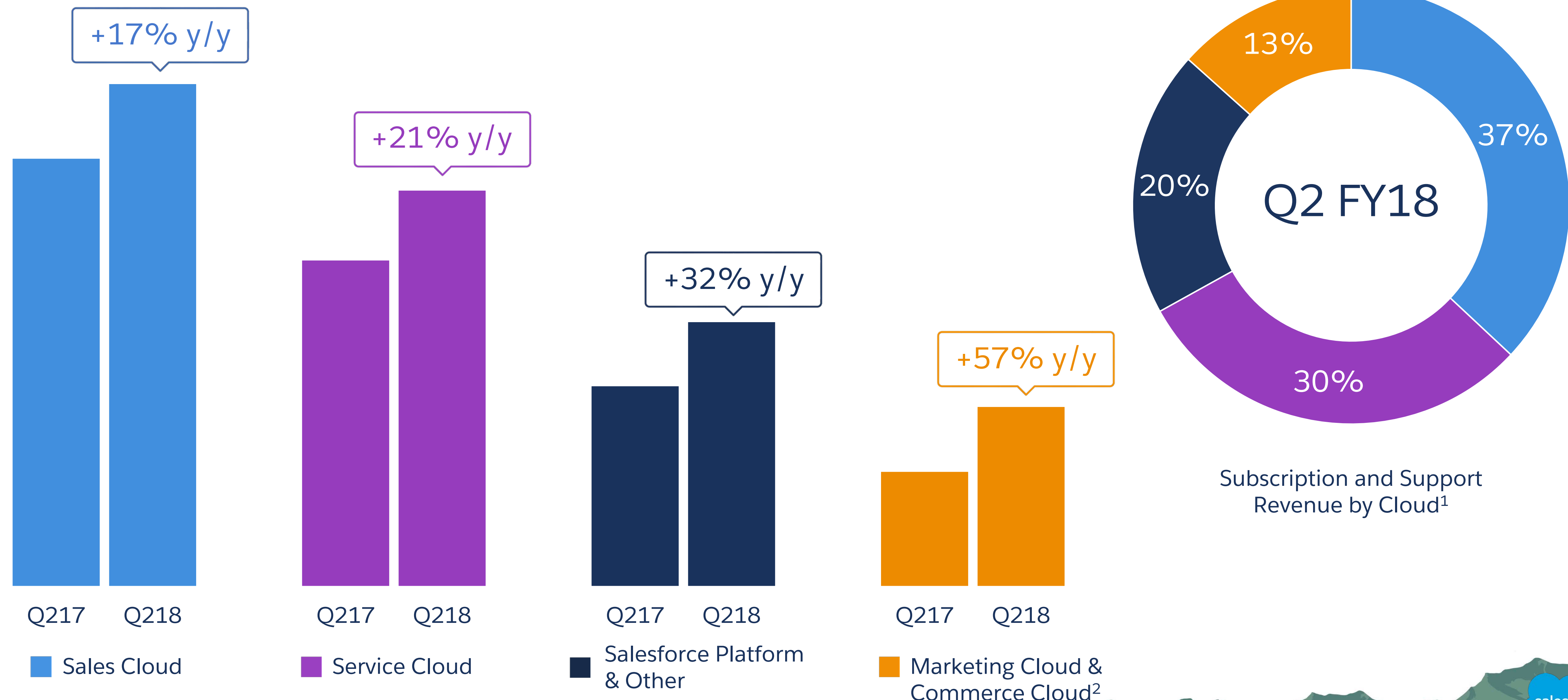
Non-GAAP operating margin<sup>2</sup>  
**+390 bps**  
over 3 years

GAAP operating margin  
**+450 bps**  
over 3 years

<sup>1</sup>Refer to slide 9 for an explanation of non-GAAP revenue CC growth rate as compared to the comparable prior period. <sup>2</sup>Non-GAAP Operating Margin is the proportion of non-GAAP income from operations as a percentage of revenue and is a non-GAAP financial measure. Refer to the Appendix for an explanation of which items are excluded from our non-GAAP financial measures, and why we believe these measures can be useful, as well as a reconciliation of non-GAAP financial measures to the most comparable GAAP measures, when applicable.

# Quarterly Subscription and Support Revenue by Cloud

Complete portfolio of CRM products



<sup>1</sup>Percentages represent Q2 FY18 cloud revenues as a proportion of total Q2 FY18 Subscription and Support revenue <sup>2</sup>Marketing Cloud, excluding Commerce Cloud, grew 36% year-over-year.

# Q2 FY18 Revenue by Region

Balanced revenue growth across geographies

**AMERICAS**  
\$1,854M



+24%<sub>y/y</sub>

+24%<sub>CC y/y<sup>1</sup></sub>

**EMEA**  
\$464M



+34%<sub>y/y</sub>

+31%<sub>CC y/y<sup>1</sup></sub>

**APAC**  
\$243M



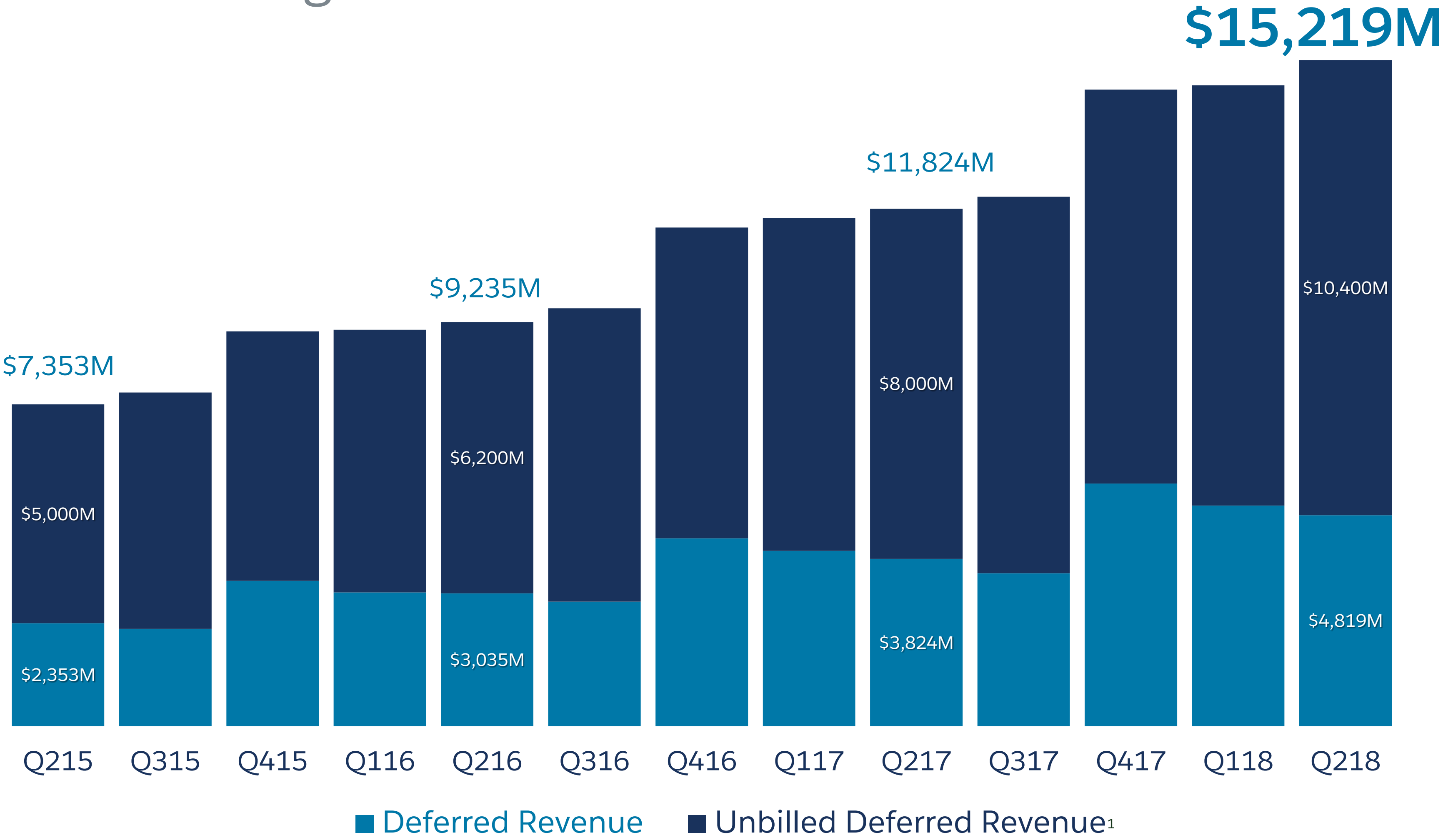
+25%<sub>y/y</sub>

+27%<sub>CC y/y<sup>1</sup></sub>

<sup>1</sup>Non-GAAP revenue CC growth rates as compared to the comparable prior period. We present CC information for revenue to provide a framework for assessing how our underlying business performed excluding the effects of foreign currency rate fluctuations. To present CC revenue, current and comparative prior period results for entities reporting in currencies other than United States dollars are converted into United States dollars at the weighted average exchange rate for the quarter being compared to for growth rate calculations presented, rather than the actual exchange rates in effect during that period.

# Quarterly Deferred Revenue: Billed and Unbilled

Consistent growth on and off the balance sheet



Q2 FY18  
y/y growth

Billed & Unbilled  
Deferred Revenue  
+29%

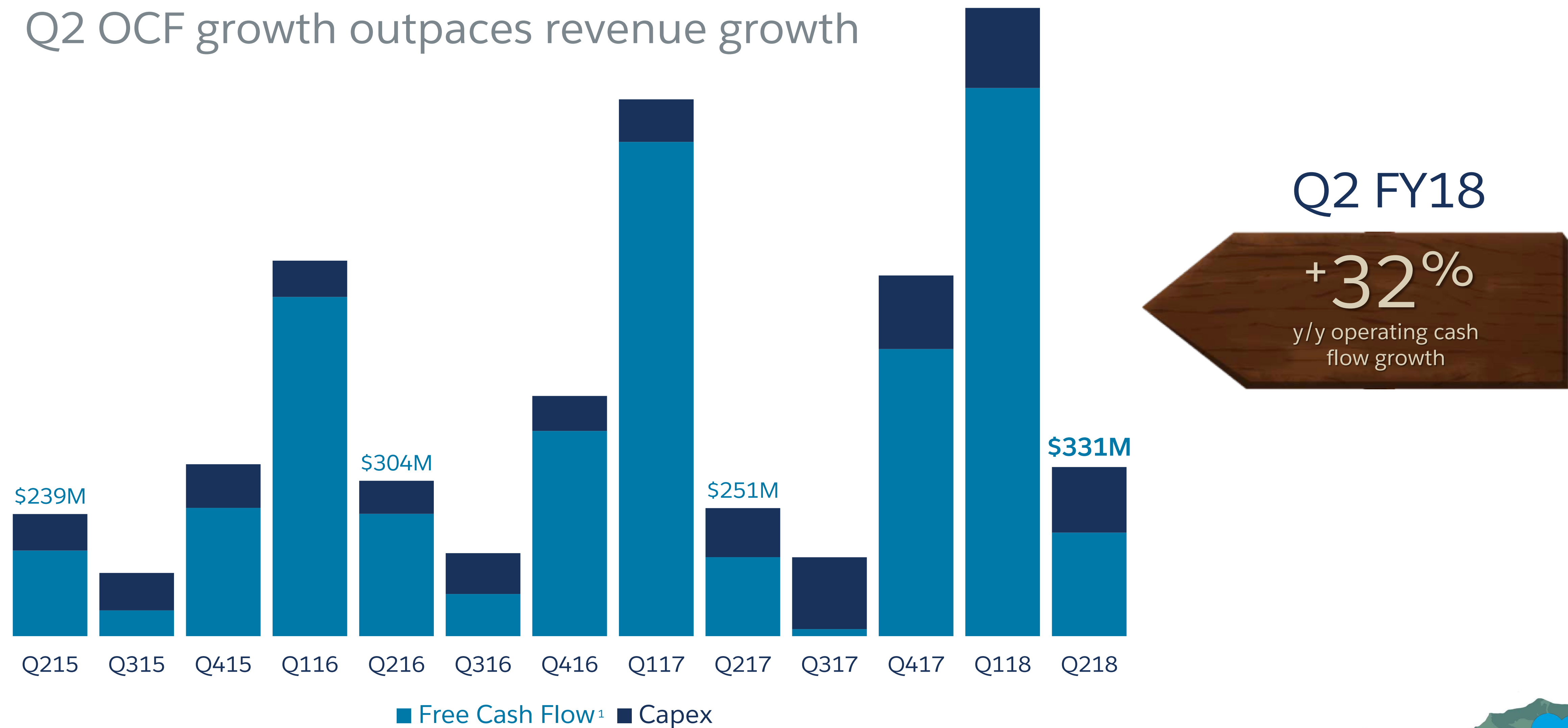
Unbilled Deferred  
Revenue  
+30%

Deferred Revenue  
+26% | +25%  
CC<sup>2</sup>

<sup>1</sup>Unbilled Deferred Revenue is an operational measure and represents future billings under our non-cancelable subscription agreements that have not been invoiced and, accordingly, are not recorded in deferred revenue. <sup>2</sup>Non-GAAP CC growth rates as compared to the comparable prior periods. We present CC information for deferred revenue to provide a framework for assessing how our underlying business performed excluding the effects of foreign currency rate fluctuations. To present CC deferred revenue, we convert the deferred revenue balances in local currencies in previous comparable periods using the United States dollar currency exchange rate as on the most recent balance sheet date.

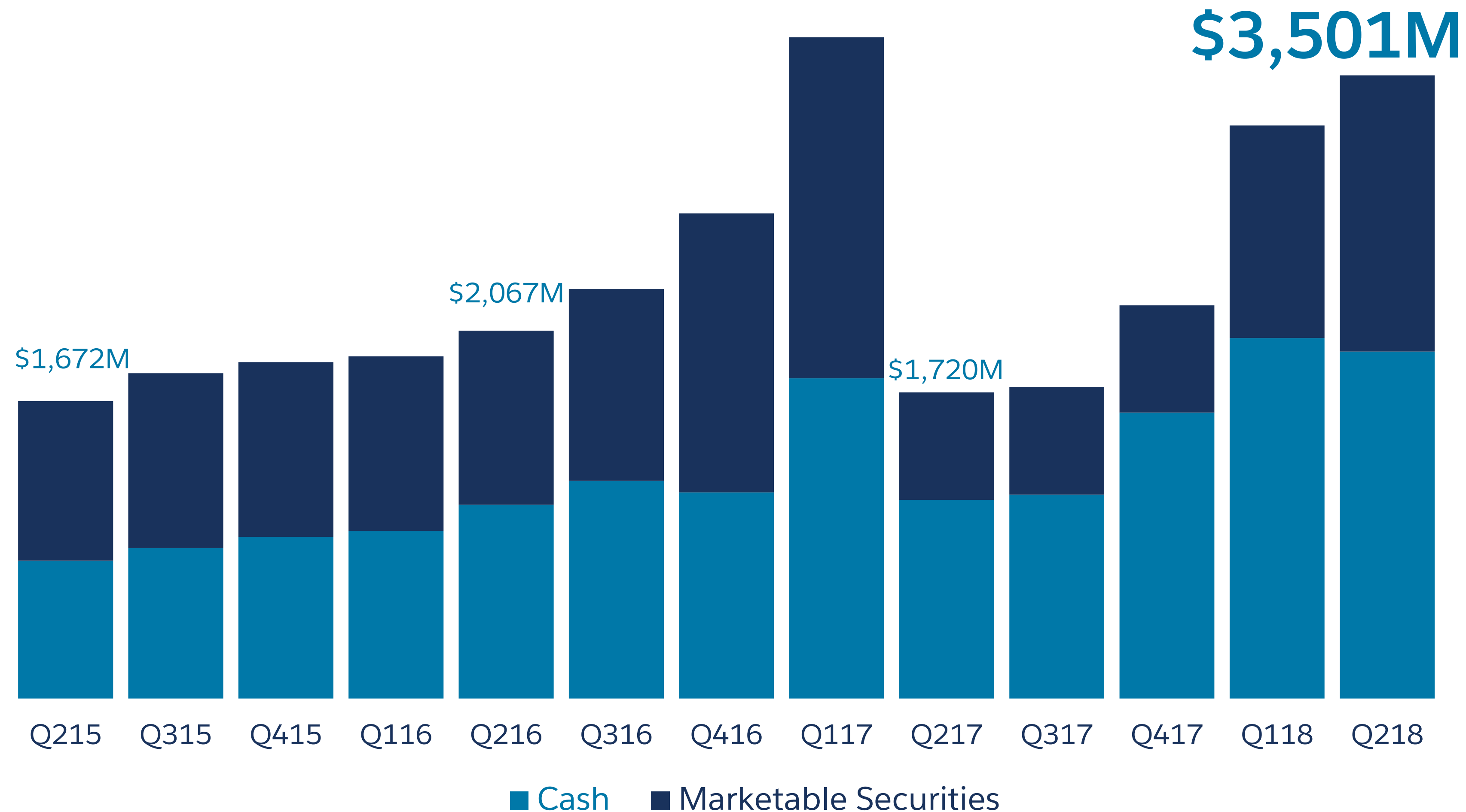
# Quarterly Operating Cash Flow

Q2 OCF growth outpaces revenue growth



<sup>1</sup>Free cash flow is a non-GAAP financial measure. Refer to the Appendix for an explanation of non-GAAP financial measures, and why we believe these measures can be useful, as well as a reconciliation of non-GAAP free cash flow to the most comparable GAAP measure.

# Quarterly Cash and Marketable Securities



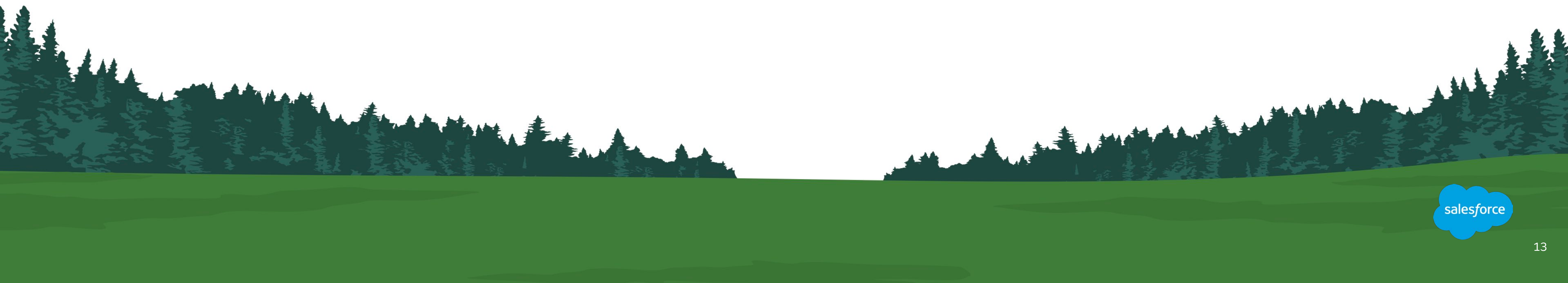
Q2 FY18  
y/y growth

Cash  
+75%

Marketable Securities  
157%

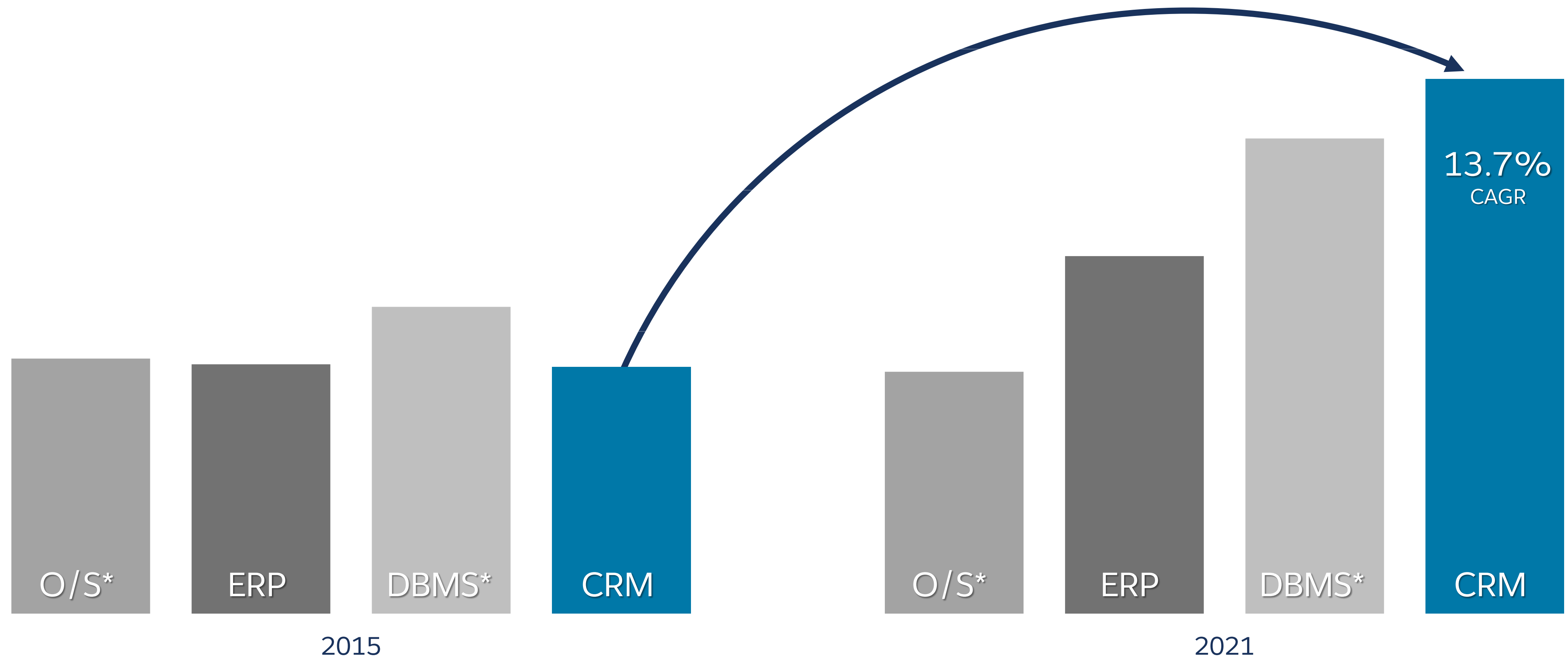
Total Cash & Marketable  
Securities  
104%

# Business Overview



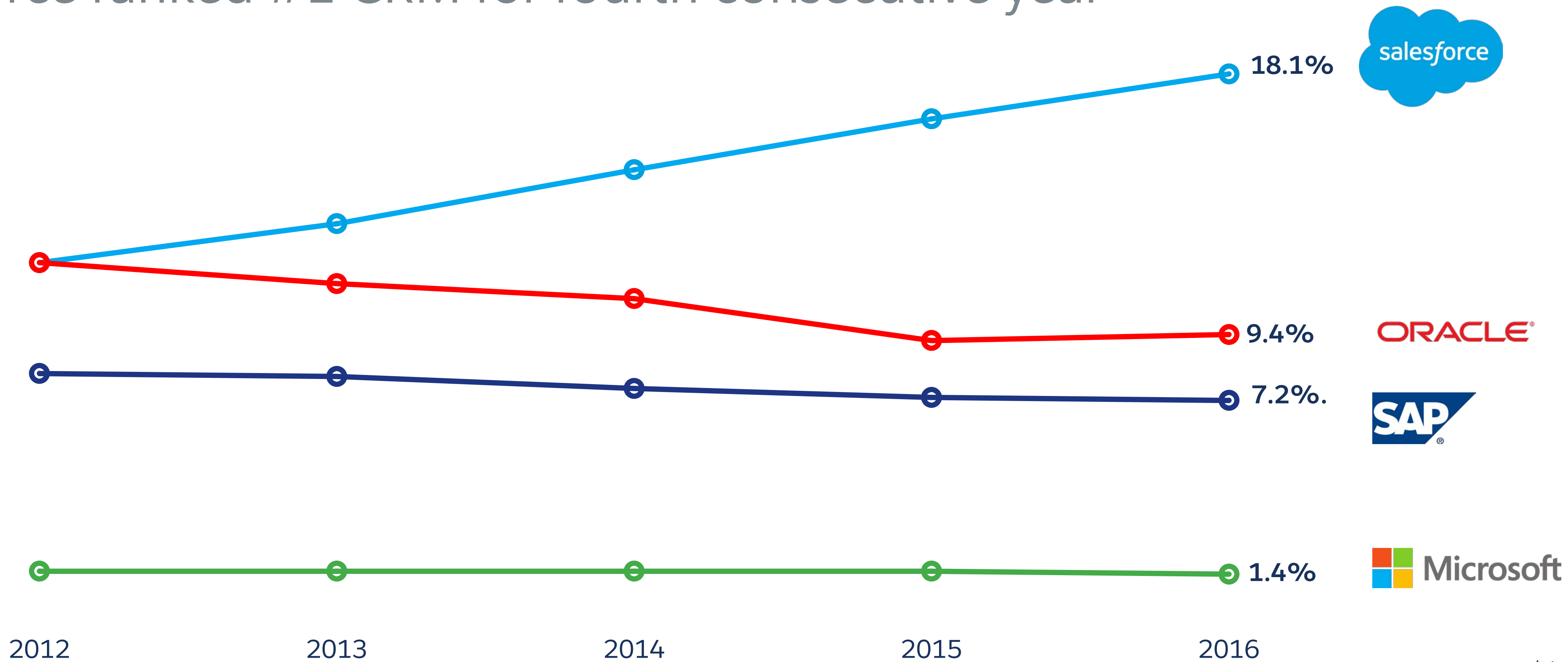
# Market Expansion

CRM is the fastest growing enterprise software category



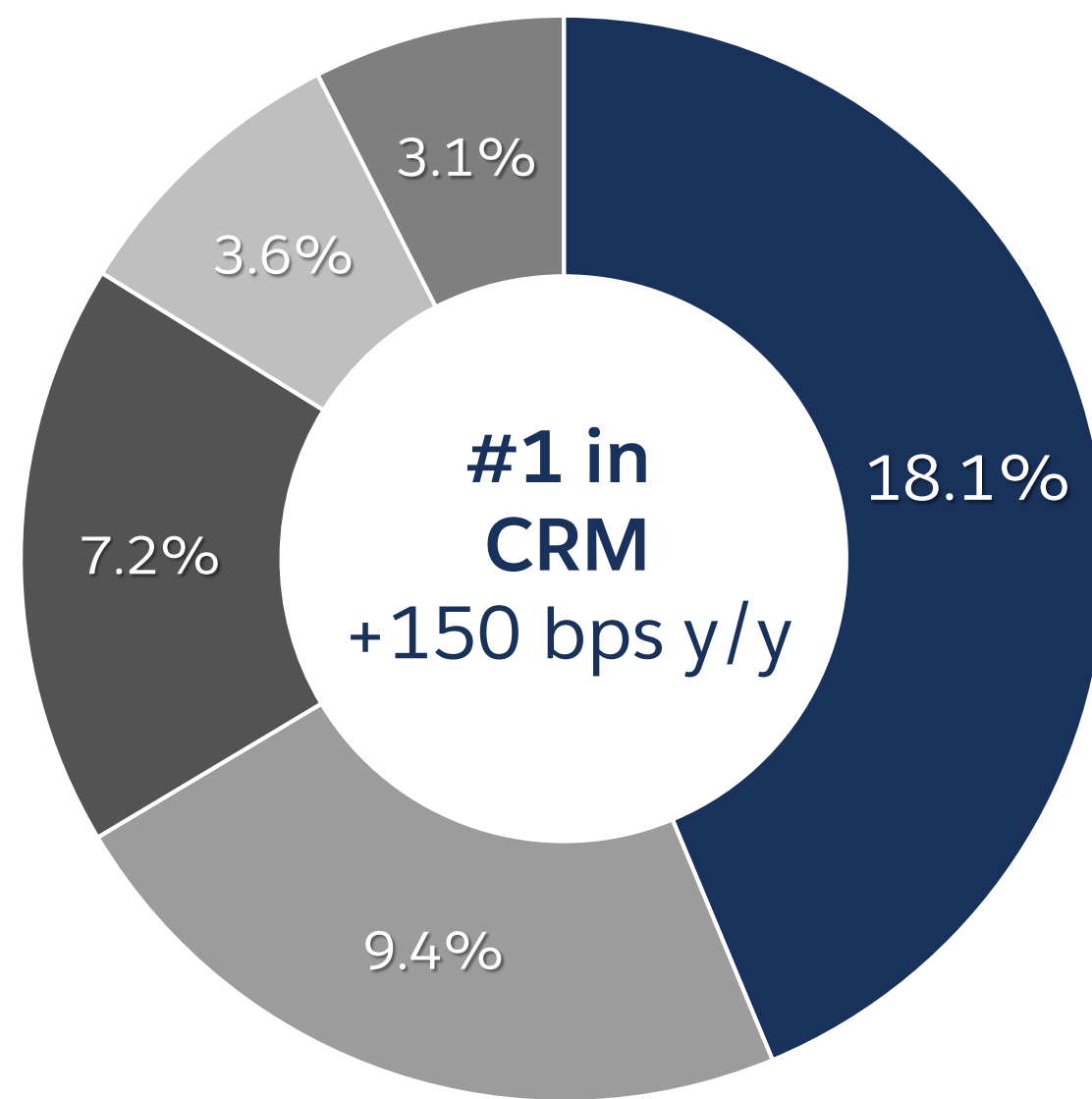
# We Are the Undisputed CRM Market Leader

Salesforce ranked #1 CRM for fourth consecutive year

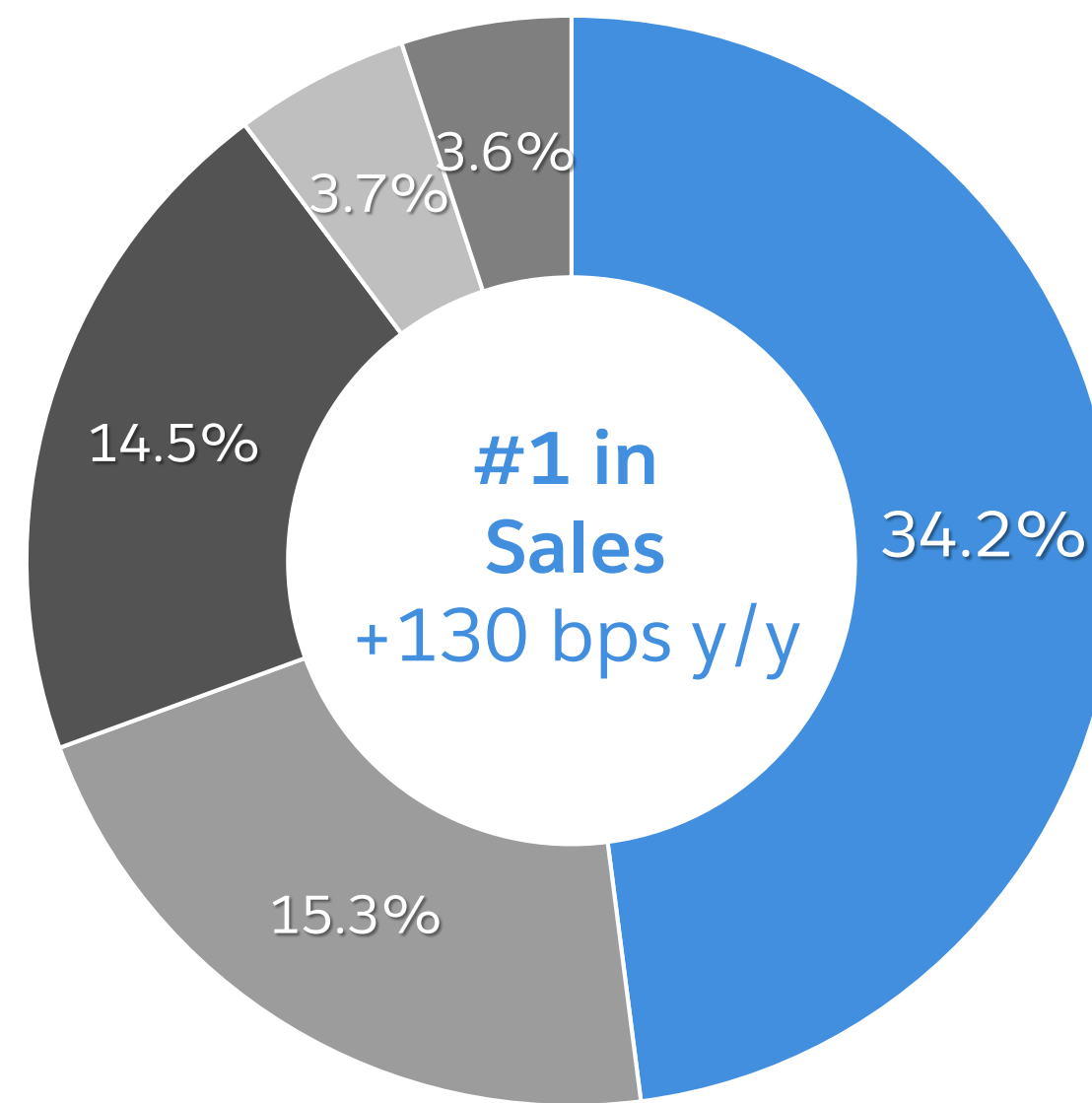


# Growing Share More Than Any Other CRM Vendor

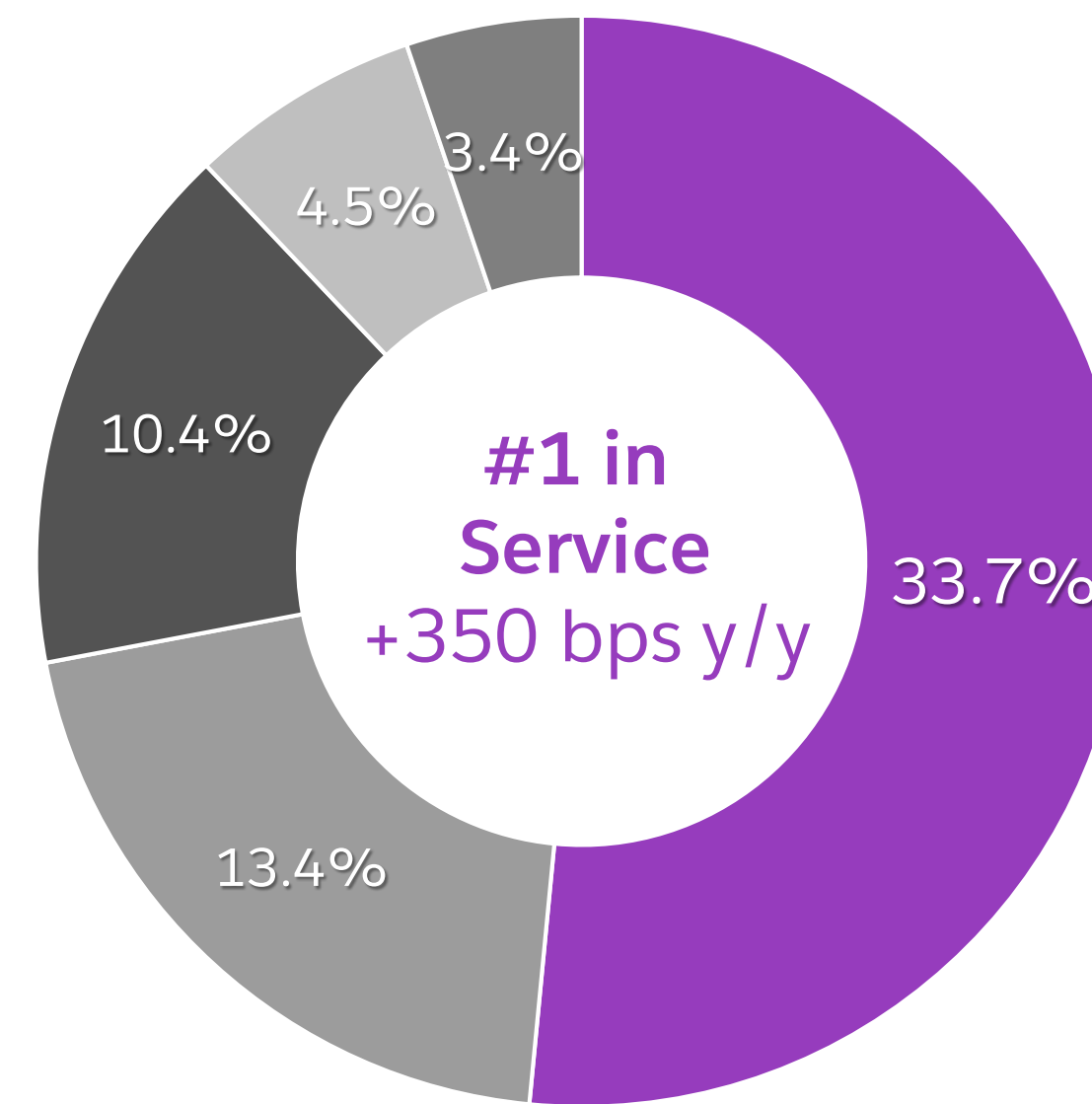
Salesforce expands #1 market share position in every category



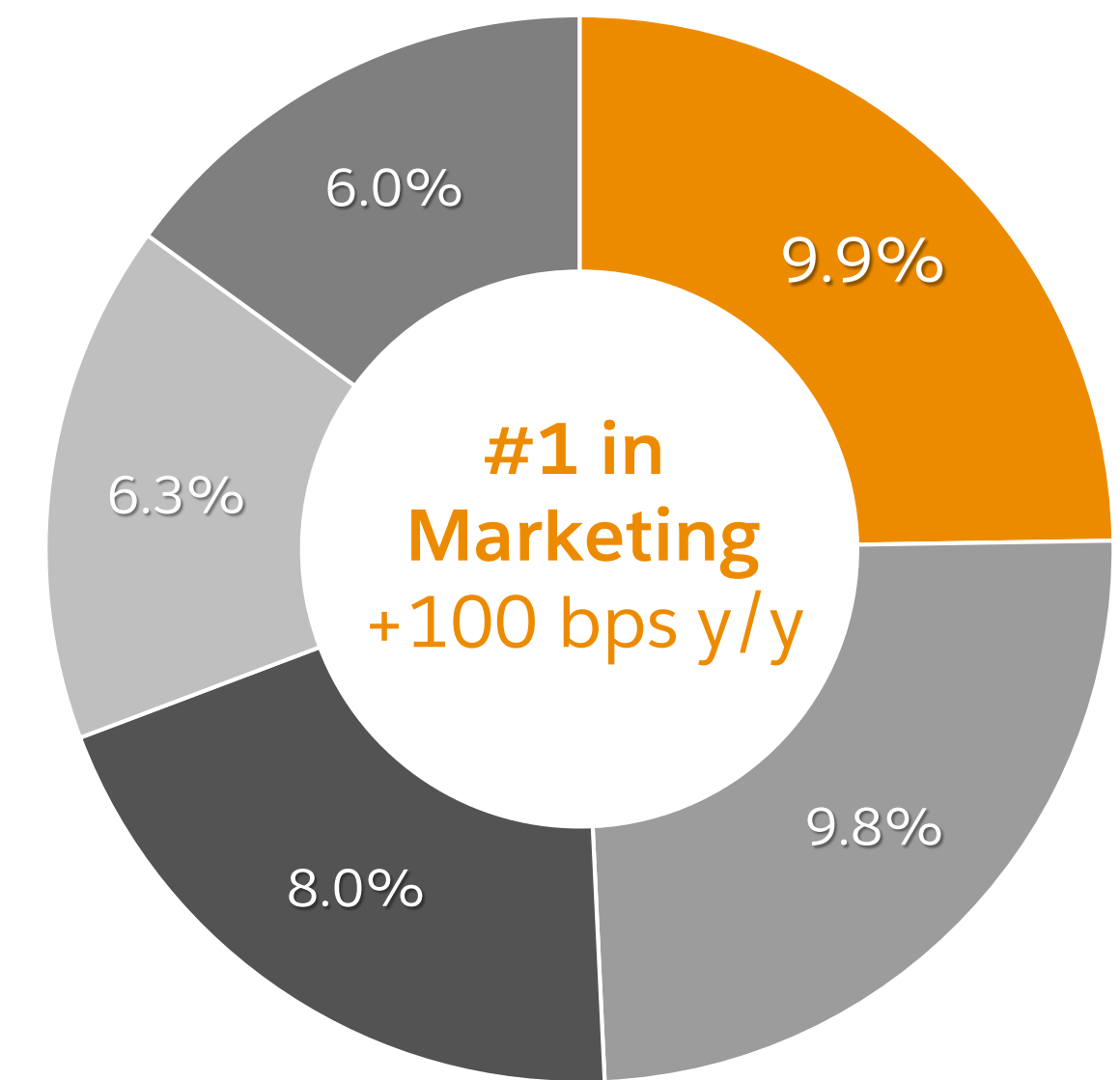
Worldwide CRM  
Market Share



Worldwide Sales  
Applications Market Share



Worldwide Customer  
Service Applications  
Market Share



Worldwide Marketing  
Applications Market Share

# Industry Leaders Rely on Salesforce

|          |                                     |
|----------|-------------------------------------|
| 7 of 10  | Top European banks                  |
| 8 of 10  | Top U.S. retailers                  |
| 8 of 10  | Top global automakers               |
| 9 of 10  | Top global wealth management firms  |
| 10 of 15 | Top global communications companies |
| 11 of 15 | Top CPG companies                   |
| 10 of 20 | Top global retailers                |
| 15 of 20 | Top global pharmaceutical companies |

NORTHERN  
TRUST



P&G

L'ORÉAL

Lilly

BARCLAYS



salesforce

# The Salesforce Economy

Thriving ecosystem of customers, partners, and developers

**\$389B**

GDP impact by the end of 2020<sup>1</sup>



**1.9M**

jobs created by the end of 2020<sup>3</sup>



Heather Beller, Thersia Pakett, Karen Aberant  
ADP

**2 of the Top 10**  
jobs in 2017 Salesforce-specific<sup>2</sup>



**300K**

job postings today with  
Salesforce related skills<sup>4</sup>



<sup>1</sup>"The Salesforce Economy", IDC, Aug 2016. <sup>2</sup>Indeed, Mar 2017. <sup>3</sup>USA Today, Mar 2017.

<sup>4</sup>Burning Glass Report, "Salesforce Skills Demand", Aug 2016.

# Global World Tour and Ad Campaign

Extending our brand presence globally



## Ad Campaign

**Amsterdam**

March 9

**Munich**

March 20

**Sydney**

March 21

**Washington D.C.**

April 4

**Toronto**

April 20

**New York**

May 2

**London**

May 18

**Boston**

May 31

**Paris**

June 8

**Chicago**

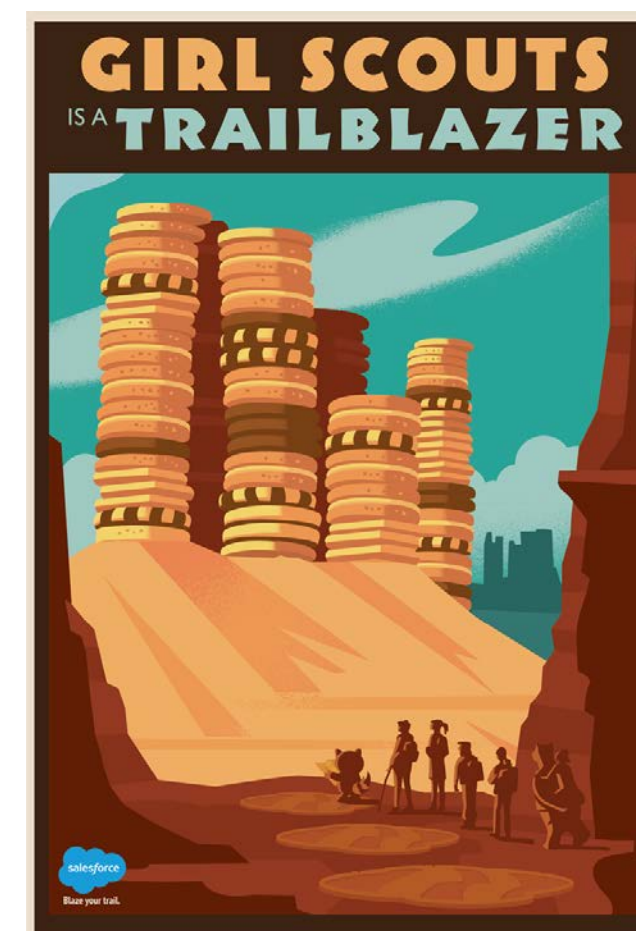
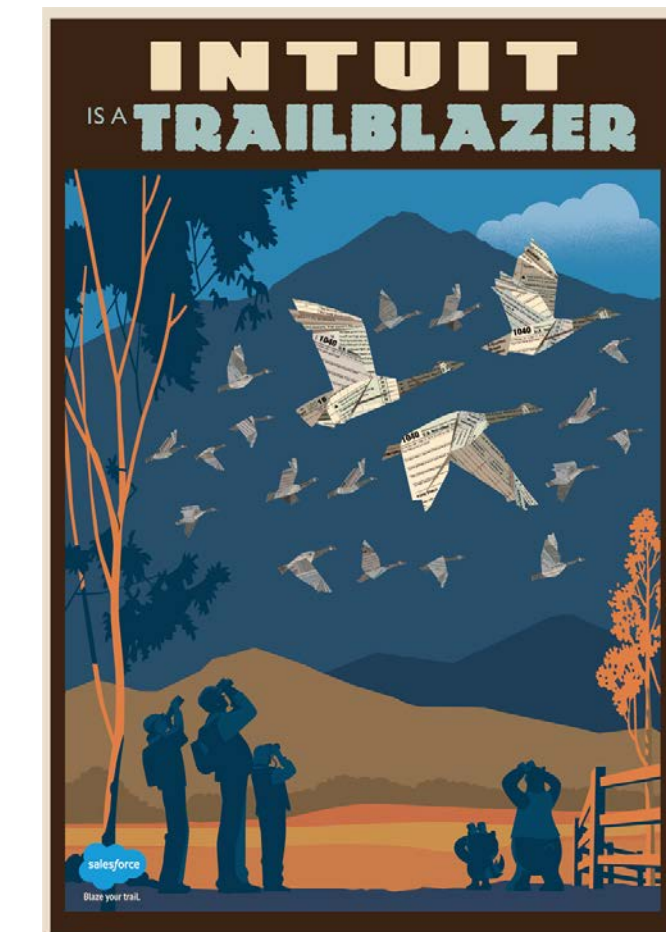
June 15

**Atlanta**

Sep 14

**Tokyo**

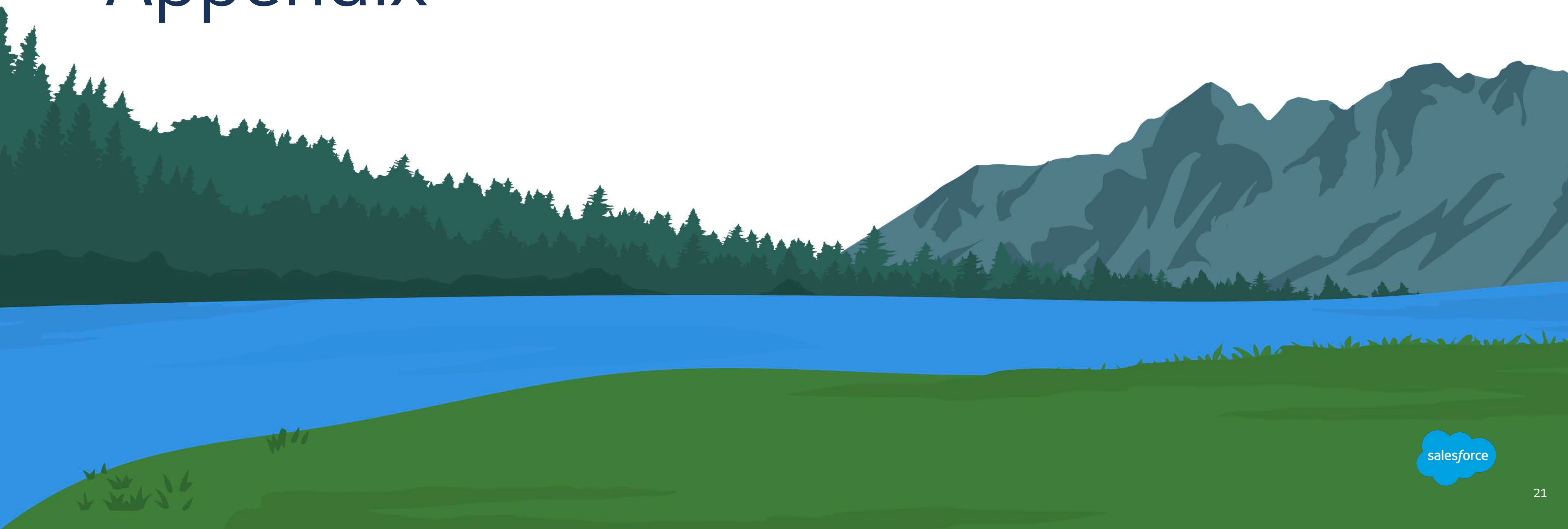
Sep 26



# Thank You

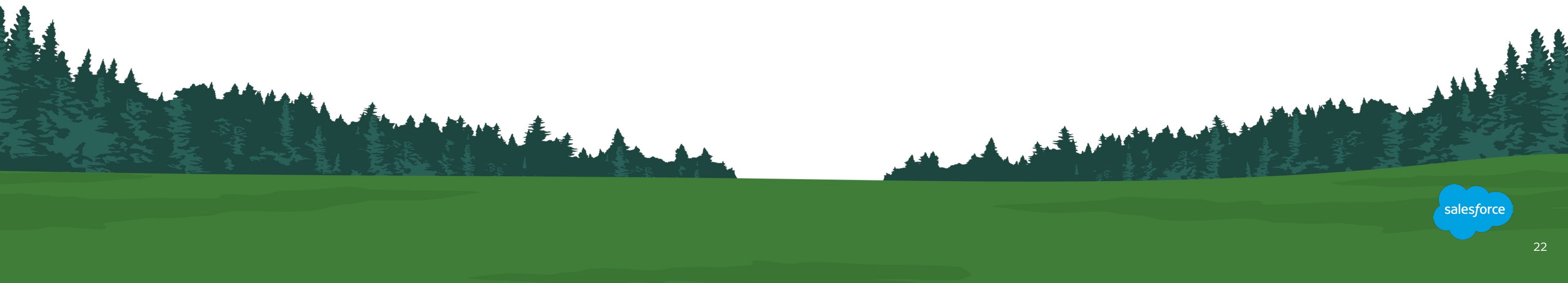


# Appendix



# Seasonality of Financial Metrics

Deferred Revenue and Operating Cash Flow



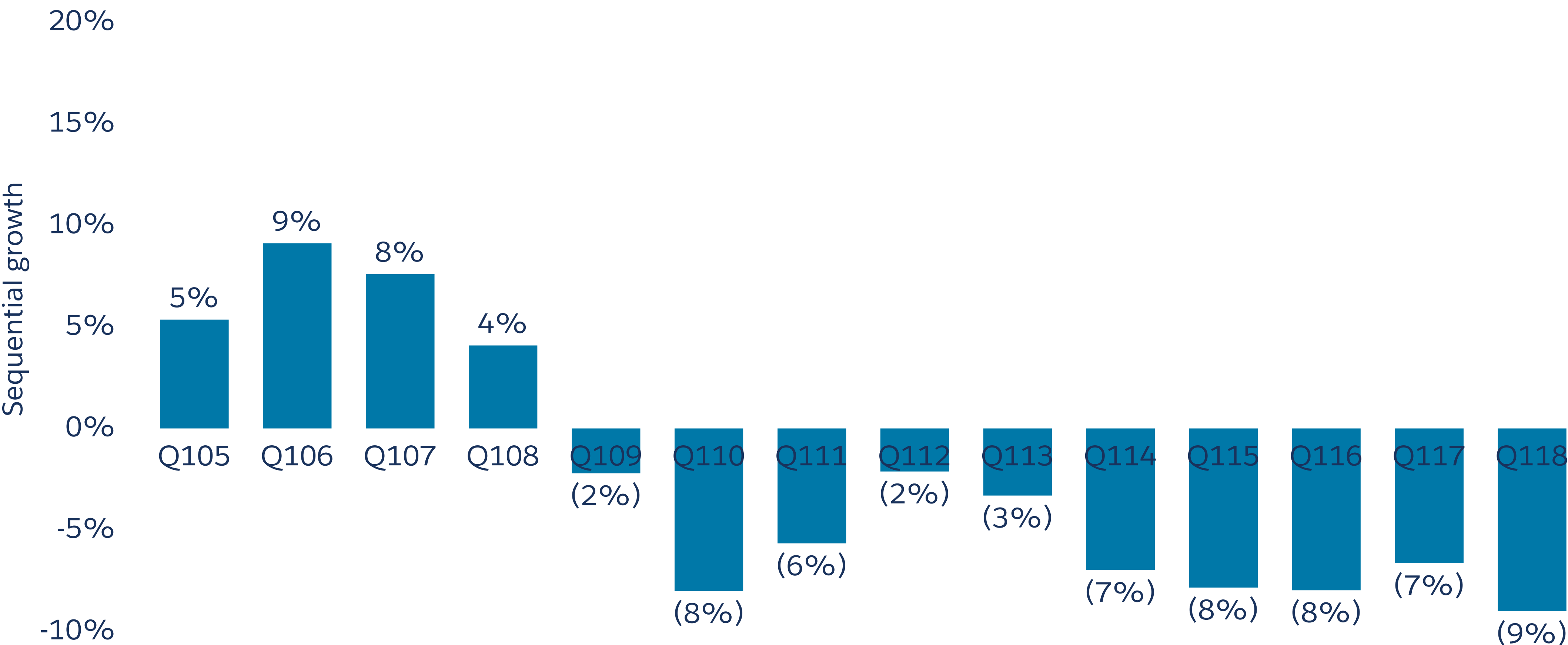
# Seasonal Nature of Deferred Revenue and Operating Cash Flow

## Quarterly metric seasonality evolving

- Deferred revenue primarily consists of billings to customers for our subscription service and we generally invoice our customers in annual cycles.
- We typically issue renewal invoices in advance of the renewal service period, and depending on timing, the initial invoice for the subscription and services contract and the subsequent renewal invoice may occur in different quarters. This may result in an increase in deferred revenue.
- There is a disproportionate weighting towards annual billings in the fourth quarter, primarily as a result of large enterprise account buying patterns. Our fourth quarter has historically been our strongest quarter for new business and renewals. The year on year compounding effect of this seasonality in both billing patterns and overall new and renewal business causes the value of invoices that we generate in the fourth quarter for both new business and renewals to increase as a proportion of our total annual billings.
- Given the year on year compounding effect of this seasonality, the quarterly sequential changes in Deferred Revenue and Operating Cash Flow have historically become more pronounced.
  - As it relates to Deferred Revenue, the sequential change from our third quarter to our fourth quarter has historically increased. The sequential change in our first three quarters has historically decreased.
  - As it relates to Operating Cash Flow, our first quarter and, increasingly, our fourth quarter are our largest collections and operating cash flow quarters. Our second quarter and third quarter are seasonally smaller in regards to collections and operating cash flow.

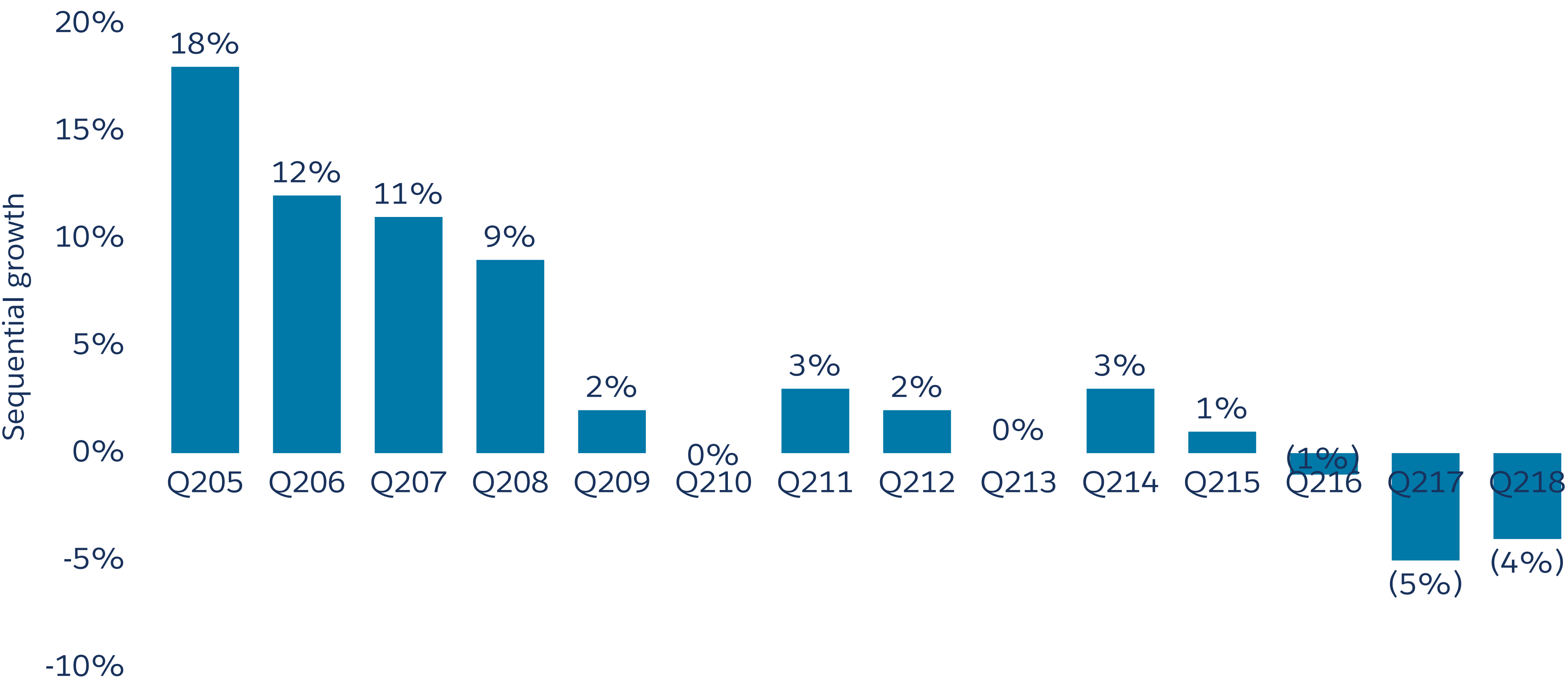
# Q1 Deferred Revenue Sequential Change

Q1 seasonality evolving



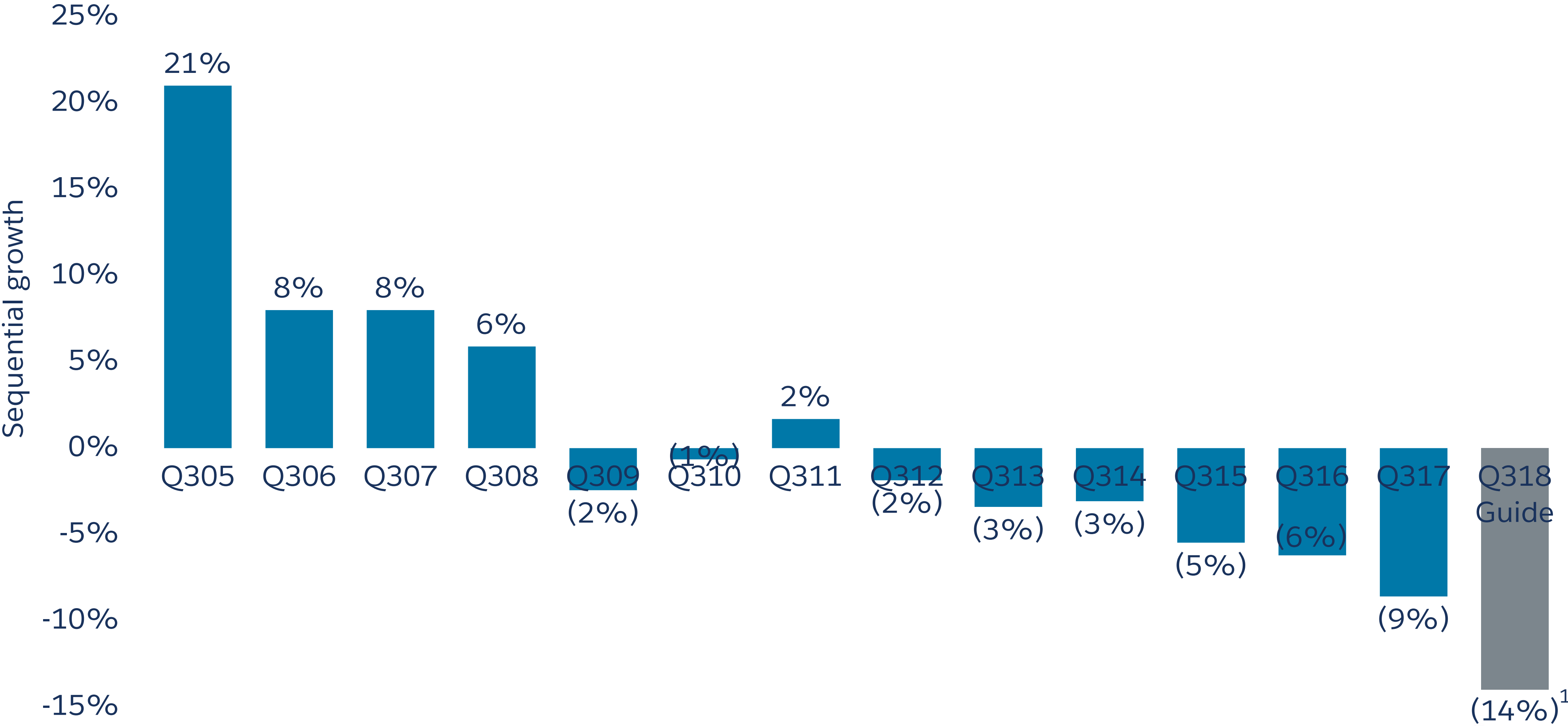
# Q2 Deferred Revenue Sequential Change

Q2 seasonality evolving



# Q3 Deferred Revenue Sequential Change

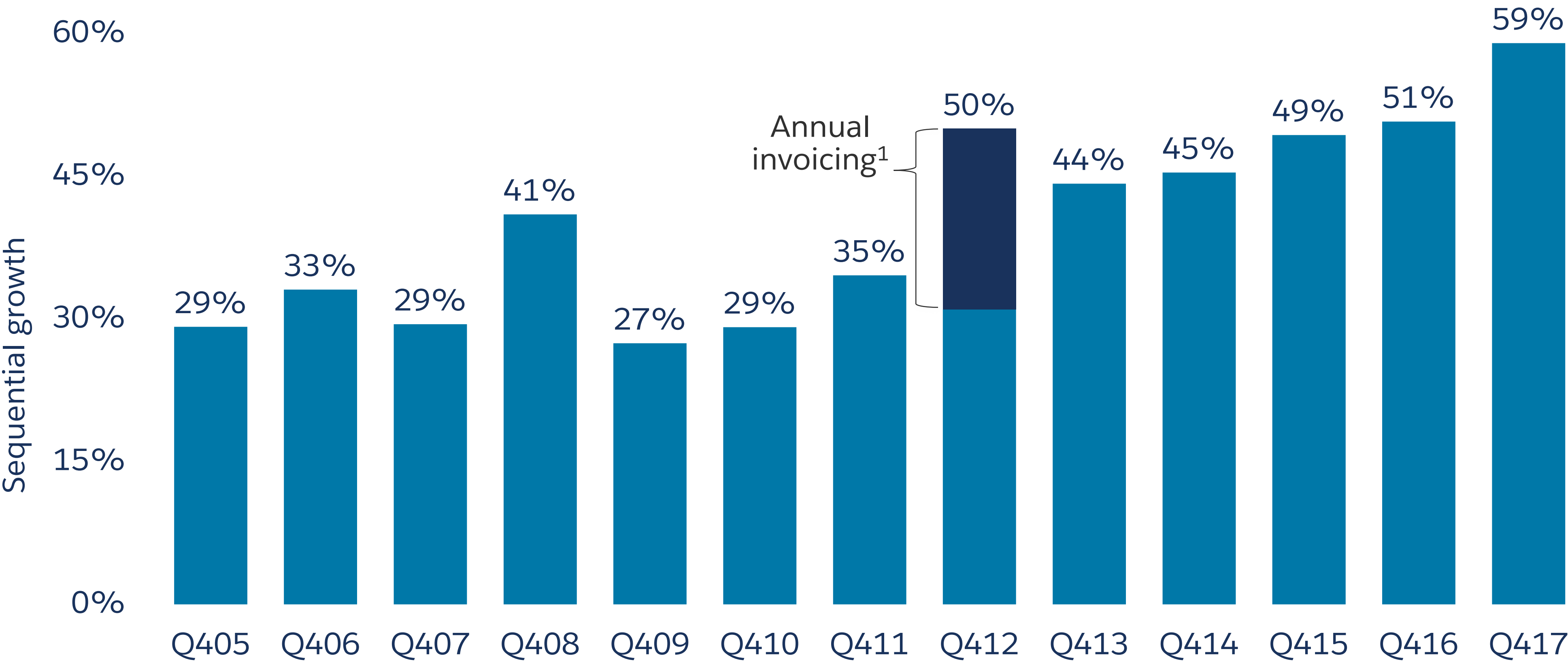
Q3 seasonality evolving



<sup>1</sup>Calculated based on the mid-range of the guidance provided August 22, 2017.

# Q4 Deferred Revenue Sequential Change

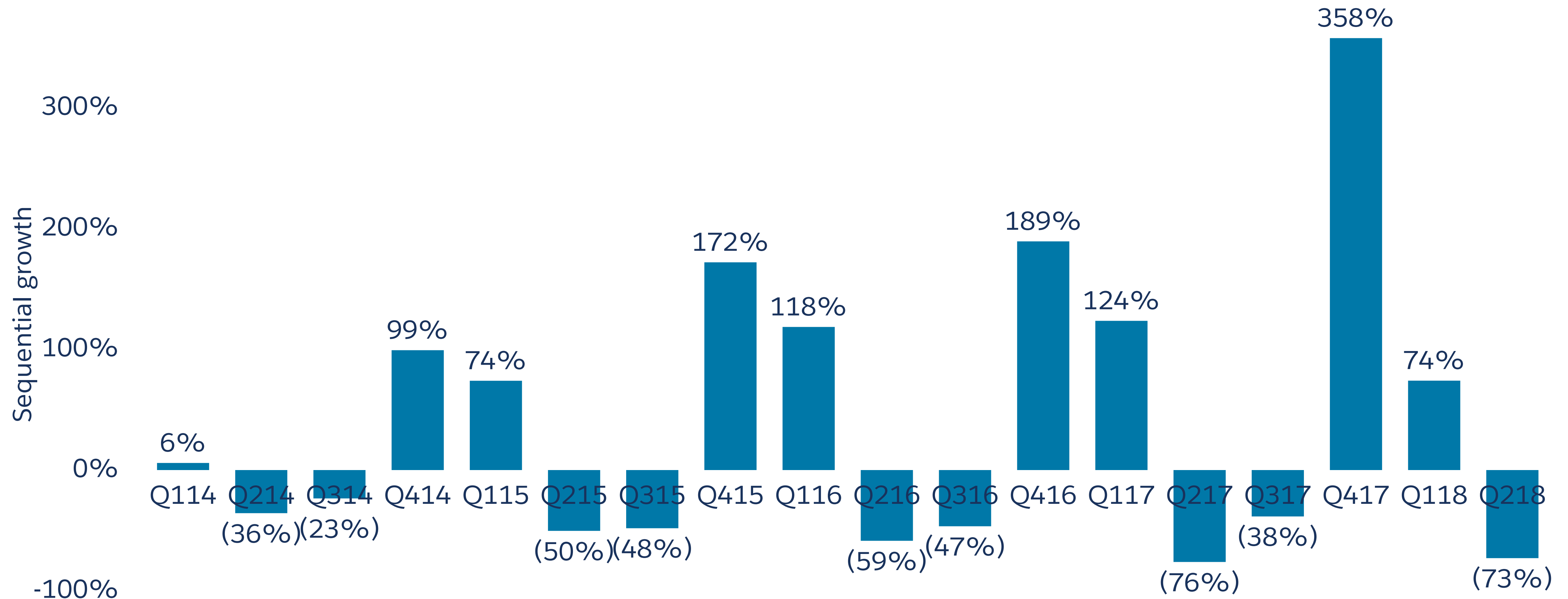
Q4 seasonality evolving



<sup>1</sup>Company implemented annual invoicing policy and benefitted from a multi-year invoice.

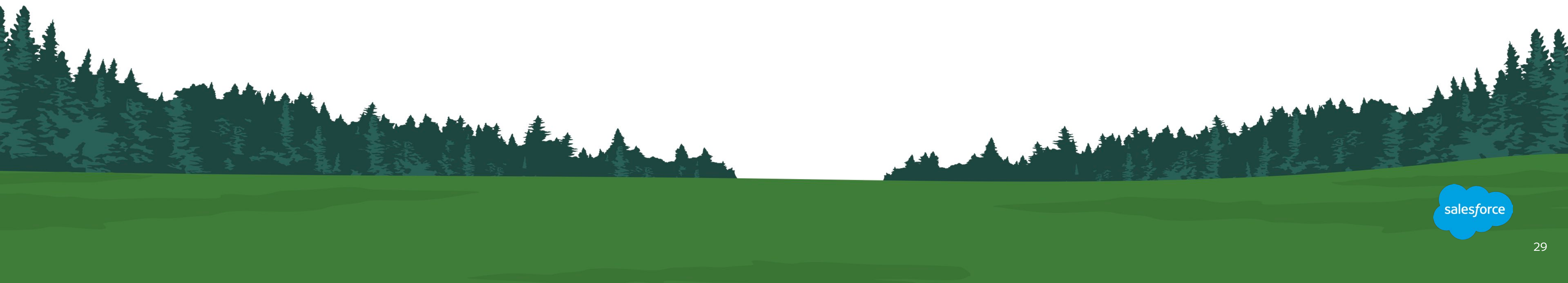
# Operating Cash Flow Sequential Change

OCF seasonality evolving



All numbers presented have been adjusted for the Company's adoption of Accounting Standards Update No. 2016-09, "Improvements to Employee Share-Based Payment Accounting (Topic 718)," which the Company adopted at the start of fiscal 2017.

# Non-GAAP Financial Measures and GAAP to Non-GAAP Financial Reconciliation



# Non-GAAP Financial Measures

This presentation includes information about non-GAAP diluted earnings per share, non-GAAP income from operations, non-GAAP free cash flow, and constant currency revenue and deferred revenue growth rates (collectively the “non-GAAP financial measures”). These non-GAAP financial measures are measurements of financial performance that are not prepared in accordance with U.S. generally accepted accounting principles and computational methods may differ from those used by other companies. Non-GAAP financial measures are not meant to be considered in isolation or as a substitute for comparable GAAP measures and should be read only in conjunction with the company’s consolidated financial statements prepared in accordance with GAAP. Management uses both GAAP and non-GAAP measures when planning, monitoring, and evaluating the company’s performance.

The primary purpose of using non-GAAP measures is to provide supplemental information that may prove useful to investors and to enable investors to evaluate the company’s results in the same way management does. Management believes that supplementing GAAP disclosure with non-GAAP disclosure provides investors with a more complete view of the company’s operational performance and allows for meaningful period-to-period comparisons and analysis of trends in the company’s business. Further, to the extent that other companies use similar methods in calculating non-GAAP measures, the provision of supplemental non-GAAP information can allow for a comparison of the company’s relative performance against other companies that also report non-GAAP operating results.

Non-GAAP diluted earnings per share excludes the impact of the following items: stock-based compensation, amortization of acquisition-related intangibles, amortization of acquired leases, the net amortization of debt discount on the company’s convertible senior notes, gains/losses on conversions of the company’s convertible senior notes, gains/losses on sales of land and building improvements, gains/losses on company-initiated acquisitions of entities in which the company held an equity investment, and termination of office leases, as well as income tax adjustments. These items are excluded because the decisions which gave rise to these items were not made to increase revenue in a particular period, but were made for the company’s long-term benefit over multiple periods.

Non-GAAP income from operations excludes the impact of the following items: stock-based compensation, amortization of acquisition-related intangibles, and termination of office leases. Refer to the next slide for GAAP to non-GAAP reconciliations of income for operations for the periods presented in this presentation.

The company defines the non-GAAP measure free cash flow as GAAP net cash provided by operating activities, less capital expenditures. For this purpose, capital expenditures does not include our strategic investments, nor does it include any costs or activities related to our purchase of 50 Fremont land and building, and constructed costs related to this building - leased facilities. Refer to the next slide for a reconciliation of GAAP net cash provided by operating activities to free cash flow for the periods presented in this presentation.

Constant currency information is provided as a framework for assessing how our underlying business performed excluding the effect of foreign currency rate fluctuations. To present this information, current and comparative prior period results for entities reporting in currencies other than United States dollars are converted into United States dollars at the weighted average exchange rate for the quarter being compared to for growth rate calculations presented, rather than the actual exchange rates in effect during that period. To present deferred revenue on a constant currency basis, we convert the deferred revenue balances in local currencies in previous comparable periods using the United States dollar currency exchange rate as of the most recent balance sheet date.

# GAAP to Non-GAAP Financial Reconciliation

(in thousands)

| Non-GAAP income from operations       | Three Months Ended July 31, |            |            |            |
|---------------------------------------|-----------------------------|------------|------------|------------|
|                                       | 2017                        | 2016       | 2015       | 2014       |
| GAAP income (loss) from operations    | 50,793                      | 32,551     | 19,824     | (33,434)   |
| Plus:                                 |                             |            |            |            |
| Amortization of purchased intangibles | 74,046                      | 48,695     | 39,841     | 35,919     |
| Stock-based expense                   | 256,485                     | 182,310    | 147,779    | 142,411    |
| Non-GAAP income from operations       | \$ 381,324                  | \$ 263,556 | \$ 207,444 | \$ 144,896 |

| Non-GAAP diluted earnings per share                            | Three Months Ended July 31, |         |
|----------------------------------------------------------------|-----------------------------|---------|
|                                                                | 2017                        | 2016    |
| GAAP diluted net income (loss) per share                       | \$ 0.02                     | \$ 0.33 |
| Plus:                                                          |                             |         |
| Amortization of purchased intangibles                          | 0.10                        | 0.07    |
| Amortization of acquired lease intangible                      | 0.00                        | 0.00    |
| Stock-based expense                                            | 0.35                        | 0.26    |
| Amortization of debt discount, net                             | 0.01                        | 0.01    |
| Less:                                                          |                             |         |
| Gains from acquisitions of strategic investments               | 0.00                        | 0.00    |
| Income tax effects and adjustments                             | (0.15)                      | (0.43)  |
| Non-GAAP diluted earnings per share                            | \$ 0.33                     | \$ 0.24 |
| Shares used in computing Non-GAAP diluted net income per share | 729,386                     | 695,968 |

(in thousands)

| Free cash flow analysis, a non-GAAP measure    | Three Months Ended July 31, |            |            |            |
|------------------------------------------------|-----------------------------|------------|------------|------------|
|                                                | 2017                        | 2016       | 2015       | 2014       |
| Operating cash flow                            |                             |            |            |            |
| GAAP net cash provided by operating activities | 331,269                     | 250,678    | 304,278    | 239,078    |
| Less:                                          |                             |            |            |            |
| Capital expenditures                           | (128,388)                   | (96,030)   | (64,883)   | (71,576)   |
| Free cash flow                                 | \$ 202,881                  | \$ 154,648 | \$ 239,395 | \$ 167,502 |