Salesforce (CRM) Earnings Report: Q3 2016 Conference Call Transcript

The following Salesforce conference call took place on November 18, 2015, 05:00 PM ET. This is a transcript of that earnings call:

Company Participants

- John Cummings; Salesforce; IR
- Marc Benioff; Salesforce; CEO
- Keith Block; Salesforce; President, Vice Chairman
- Mark Hawkins; Salesforce; CFO

Other Participants

- Philip Winslow; Credit Suisse; Analyst
- Brent Thill; UBS; Analyst
- Kash Rangan; Merrill Lynch; Analyst
- Mark Murphy; JPMorgan; Analyst
- Keith Weiss; Morgan Stanley; Analyst

MANAGEMENT DISCUSSION SECTION

Operator:

At this time, I'd like to welcome everyone to the Salesforce fiscal third-quarter 2016 earnings conference call.

(Operator Instructions)

I'd like to turn the call over to our host to Mr. John Cummings, Vice President of Investor Relations.

Sir, you may begin your conference.

John Cummings (IR):

Thanks so much, Operator. Good afternoon, everyone. Thanks for joining us for our fiscal third-quarter 2016 results conference call.

Our third-quarter results press release, SEC filings and a replay of today's call can be found on our Investor Relations website at www.salesforce.com/investor. We will also post the highlights of today's call on twitter at the handle @Salesforce_IR.

With me today is Marc Benioff, Chief Executive Officer; Keith Block, President and Vice Chairman; and Mark Hawkins, Chief Financial Officer. Marc, Keith and Mark will share will share a few prepared remarks and then we'll open the call for questions.

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. We may also reference certain unreleased services or features not yet available. We cannot guarantee the timing or availability of these services or features, so recommend that customers listening today make purchase decisions based on services and features currently available.

Some of our comments today may also 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 our 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 Benioff (CEO):

Thank you, John. And before I start -- we start and go into the call, which of course we'll go through our results, we want to let everybody know that our thoughts and prayers are with everyone in Paris, with all of our employees and all of our customers who've been going through such a horrible situation.

And we have also been just especially shaken by our customers who have lost employees in this horrible tragedy. We are so sorry, and our thoughts and prayers are with everyone in Paris.

Now I want to go through our third-quarter results and give you an update on how we're doing. Also joining me on the call is Keith Block who's in New York City, who just finished the World Tour there. And we watched this morning with his team. Keith are you there? Can you hear us?

Keith Block (President, Vice Chairman):

I am. I am absolutely here, Marc.

Marc Benioff (CEO):

Fantastic. All right. Well, Mark Hawkins is also with us, our Chief Financial Officer. And the three of us are really thrilled to be with you today to talk about another outstanding growth quarter for Salesforce. Now, you can see from these results we are on pace to deliver well over $6 billion -- $6.6 billion this year, which is faster than any other enterprise software company in history.

And I am thrilled to share with you that we are expecting to deliver more than $8 billion in revenue, or $8.1 billion in revenue at the high end of our range for next year. That is amazing. And we could not be more excited about the results in the third quarter. We could nor be more excited about coming into the fourth quarter. And we could not be more excited about the potential for next year. You can see that we have something in sight which we have been talking about now for several years, which is our $10 billion year.

Of course Salesforce, as you can see, will be the fourth largest software company in the world next year. But you can see that we will be one of the only software companies ever to reach $10 billion in revenue. And as we become number four we have number three in our sights. We certainly (technical difficulties) that goal as well quite wholeheartedly.

Now as many of you are predicting, Salesforce will be indeed the fourth largest enterprise software company in the world next year behind only Microsoft, Oracle, and SAP. And we're really making a difference to our customers and the industry. It's a tribute to our employees, almost 20,000 of these employees who are similarly focused on one thing, our customer success.

I'd like to give you some specifics on the results for the third quarter. Revenue for the third quarter rose to more than $1.7 billion, which was up 27% in constant currency from a year ago. That is absolutely, I think, the best performance that I have seen in the top 10 enterprise software companies, and Salesforce continues to be the fast-growing of the top 10 enterprise software companies.

And we're really excited with our -- that 27% number. Deferred revenue grew to more than $2.8 billion, or up 30% in constant currency from a year ago. Pretty incredible at our size and scale to see that achievement, and the dollar value of booked business on and off the balance sheet is now more than $9.5 billion. That, again, is setting us up very well for next year and the future.

As we deliver on this outstanding top-line growth, we also delivered 221 basis points of year-over-year non-GAAP operating margin improvement. As you know, while we are absolutely committed to being the fastest growing enterprise software company and delivering these phenomenal top-line numbers, we are also deeply committed to continuing to increase our profitability. And the results this year are evidence of that.

Let's be clear. Salesforce is the only software company selling billions of dollars of CRM. And we are at the center of what every company is going through. It's digital transformation, it's what every company wants to be in the 21st century.

During the quarter I want to tell you I met with hundreds of CEOs around the world, and I will tell you when meeting with CEOs they're not that interested in talking about, honestly, about the cloud or about social or mobile. They want to talk about their customers. And they want to talk about their top line. And they want to talk about how they're going to grow that top line. And this is really, really exciting thing that's going on, which is the customer revolution.

We're really talking about connecting with -- talking about -- talking with our customers about [how to] connect customers in a whole new way, accelerate their growth, creating these one-to-one customer journeys, running their businesses from their phone, and making smarter and more predictive decisions. And I'll say One of the customers is us.

At the end of this quarter it blew me away, I was using Salesforce1, which has almost, I think, 1 million users, active users, on it now. And my IT department here at Salesforce has built several new apps which got automatically installed on my phone, because I'm using Salesforce1. And I'm using this incredible sales forecasting app where I'm just basically touching on the photograph of all of our sales leaders around the world, kind of navigating through our pipelines and through our forecasts. And it was amazing, just to be able to run my business from my phone and have that kind of connectivity with my customers. I think that today, more than ever, connecting with customers like that is absolutely essential. Because as a CEO, I can tell you it puts you on the pulse of your business and what's really going on.

I think that that was definitely evident for everyone who attended Dreamforce. If you came to Dreamforce, you saw the biggest software conference ever. You also saw not just a huge amount of customers, but we really rolled out incredible innovations, which is enabling my own personal experience with Salesforce product, but for hundred of thousands of Salesforce customers who are using these incredible new products like our new Lightning platform, which is amazing. You have the ability to build an application and run it on any device, on a phone, on a tablet, on a PC. It transcends operating systems, it transcends devices.

And we have rebuilt our sales and service and our core community products and all of our core platforms on this amazing new Lightning platform. And when it shows up, it is done nothing like I've ever seen, which is gives you this incredible modern experience in a mobile environment. And then of course we also added SalesforceIQ to bring machine intelligence to that. We introduced our ISC cloud to bring it into the Internet of Things. And that you can transform that Internet of Things into an Internet of Customers.

Of course, we also have our analytics cloud with our new Wave apps. And there's just so much more. I'll tell you that walking around Dreamforce, I was blown away also with our ecosystem and the hundreds and hundreds of companies who have built on this platform and who have made so much happen. But I guess what I'm most proud of is that during Dreamforce we also held the largest book drive ever, collecting over 1 million books for schools. We also raised over $10 million for the UCSF Children's Hospitals in San Francisco Oakland. And I will tell you that I want to thank all of our partners and our customers for helping us to achieve those numbers. They are just really, really awesome.

I will tell you, it's been an exciting few months here at Salesforce. And I would say that nothing is more indicative of how Salesforce is delivering customer success than how this Lightning platform is being adopted. In the third quarter we delivered more than 259 billion transactions, which was up 63% from a year ago. That is 4.1 transaction every single business day. No other customer platform comes close to that level of usage. And while our transactions continue to skyrocket and our customer success continues to skyrocket, we committed also to reducing our carbon footprint.

The environment is a key stakeholder for us. And we continue to show how the multi-tenant cloud platform is 98% more efficient than on-premise software. And we're helping our customers avoid emitting more than 1 million tons of carbon each year through our unique architecture of cloud computing. We have to do more. And we have made significant commitments to achieve net zero carbon emissions by 2050. And over the next several weeks in Paris at the Top 21 conference, we'll be making more announcements on how Salesforce is focused on the environment.

As you're about to hear now from Keith, we're working with some of these great customers to deliver fantastic results to accelerate their digital transformation. And I guess there was no more stronger evidence point in the analyst community than Partners' 2016 CIO agenda, which I'm sure a lot of you follow, as I do. They found that Salesforce is rated as the number one accelerator by the majority of respondents and received the highest digital acceleration score. Out of 30 vendors, Salesforce was at the top. Gartner did an amazing job in the CIO Agenda report. If you haven't had a chance to look at that, I would.

Anyway, let's hear from Keith. He's had a huge day already in New York. He is still -- I can see him on the monitor here. So he's still there, which is good. And Keith, tell us how did New York go today?

Keith Block (President, Vice Chairman):

We had a great -- thanks Marc. We had a great day in New York with over 8000 people registered. It was a terrific event and well received. The customers were very, very excited about our messaging.

Marc Benioff (CEO):

Keith, I think everyone on the call would love to talk to you now about how your experience was in the field. We obviously had a great Dreamforce. We saw more customers this year. I know you and I this year have been in front of more CEOs and CIOs, I think, ever in our entire career. And everyone wants to talk about how to transform the customer experience.

I don't know a company today that isn't reviewing how to transform their customer experience and how do not get, I guess, a lot of them say they don't want to get Uberized out of the world. But some of them, I think -- or don't want get Postmated out of the world, because I just ordered my lunch on Postmates here in San Francisco. Maybe you can tell me your experience there in New York.

Keith Block (President, Vice Chairman):

All right. Thanks, Marc. I appreciate it. It's great to be here, and obviously thanks to everyone for joining the call. As Marc had indicated, this was a terrific third quarter. One that I would characterize, I think we all would characterize, as one of the most memorable and exciting quarters that we have had here at

Salesforce. We heard it today, and we continue to hear it. The message from our customers is very clear. And while many of our competitors are struggling, quite frankly, to catch up to the cloud, Salesforce is taking customers and partners forward into the Age of the Customer.

We are squarely in this Age of the Customer. Marc and I just talked about this, but I had the opportunity to kick off our Salesforce World Tour here in New York. Again, over 8000 people registered for this event. People wanted to hear, both customers and prospects, about companies like American Express and Mattel and Western Union and an awful lot of customers through a variety of industries about how they are reinventing their futures and leveraging Salesforce. As I speak to the top customers around the world, and Marc is exactly right. Many of them are CEOs, which is terrific. There is a constant theme that keeps coming through here, and that is that we are clearly in this Age of the Customer and the time of cutting your way to prosperity is over.

When you think about it, the agenda for every CEO in the world is growth. The reason why CEOs are coming to us is because they see Salesforce as that catalyst for growth. We're also, quite frankly, a catalyst for customer success. Whether it's a company of all shapes and sizes, whether it's a business model that's B2B or B2C, large company or a small company, regardless of the industry, these CEOs are really looking at us now to be their trusted advisor and really help them to find their new customer strategies, their digital strategies, their engagement models, and really new ways to transform into a customer company. And that's just becomes super, super important to them.

All of this has translated into some the most exciting deals that we've done in our industry. We had another huge quarter of fantastic wins. In fact, the total number of our large transactions in Q3 was up significantly compared to last year in terms of value. Our relationships are becoming bigger. They're becoming broader. They're becoming more strategic and deeper. We're now working with some of the worlds greatest brands. And this is a far different roster of companies that we have historically work with.

A big part of that success, quite frankly, has been our industry strategy. We've talked about this on many calls. This is about our ability to speak the language of customers and to understand their business problems and drive a level of innovation and a point of view. It's become a regular part of how we engage with customers of all sizes, from the smallest to the largest of enterprises. It's really proving out in our results.

I'll give you a few examples. Certainly there's a company that we've all heard of called General Motors. They have 125 million cars on the road. They have a significant vision for the connected vehicle. And in Q3 they selected Salesforce to connect drivers, the cars, merchants and retailers to bring a connected vision, a great experience to life.

With a push of a button, drivers are going to be able to instantly connect with the OnStar advisor and retailers and merchants. And it doesn't matter where they are. And they're going to get real-time information. This is an example of a company, GM, that is really embracing the opportunity around the Internet of Things. We're really excited about working with them.

We're entering the holiday season, as we all know. We're seeing a lot of traction in retail. And I'm thrilled that we closed the largest marketing cloud deal in the Company's history with a very large retailer in Q3. They're taking things to the next level by personalizing the shopper experience across every single channel.

We're going to be at the core of their omni-channel consumer engagement strategy. And they will be able to create a very personalized and predicted one-to-one relationship with customers at every single touchpoint, which is really compelling. They're also going to be able to anticipate what the next step is and what the next action is and what customers might need and relevant suggestions at exactly the right moment. We were very excited about that new partnership.

Another great win was with Aecon. If you're familiar with Aecon, they designed and build and finance and operate some of the largest and most iconic infrastructure projects around the globe, including here in New York, the World Trade Center, and the Tokyo 2020 Olympic Stadium, which we're very excited about, as are they. They have nearly 100,000 employees in more than 150 companies -- excuse me, countries. And we are all thrilled that Aecon has decided to move their entire company to our platform.

In financial services, which is certainly a key focus area for us, we have expanded our relationship with American Express, one of the great brands in the industry, a company that has been delivering world-class service for more than 160 years. In the quarter, American Express selected Salesforce to bring their sales and marketing and product teams all together to collaborate and to coordinate so that they can further transform their customer experiences for their business payments. Super excited about that new relationship.

What's interesting about that deal is that AMEX and so many others continue to use our Ignite process to really reconceptualize their futures. And this is a very unique solution-selling approach that's all about the art of the possible. We have increased our Ignites tenfold in the past few years. It is a standard part of our motion. It is one of the best investments, quite frankly, that we have made. And it's having a significant impact with our customers. In fact, one of the leading high-tech manufacturing companies in the world also engaged with us in the quarter and in Ignite. That resulted in a significant eight-figure deal, which we're very, very excited about.

Right before Dreamforce, I think as we all know, we introduced our first vertical-specific product line with the health cloud and the financial services cloud. We're very excited about the growth opportunity for these clouds. The interest has been very strong. We're excited about their future. And these products are really translating our incredible core technology into the language of the customer, which is part of our industry strategy. We're cultivating an excellent ecosystem of partners for all of these solutions. We're excited about that as well.

International continue to be a cornerstone of our growth strategy. In the quarter we expanded our a relationship with a company called AB InBev. They've been in the press a lot recently. They are one of the world's top five consumer product companies. They've standardized their collaboration with us globally. And that is after a successful relationship and start in Europe. And now they're going to reinforce their consumer-centric digital approach and innovation efforts, leveraging our products as well. So we're excited about that. And AB InBev joined AVB and Barclays and Glaxo Smith Kline, Telefonica, Virgin Media and so many great leading companies in Europe, again who selected Salesforce in Q3.

In Asia Pac we continue with our strength. We closed deals with Australian Post and Syntel, Commonwealth Bank of Australia, Toyota, and the list goes on there. I really couldn't be more thrilled about the success we're seeing internationally. We've been -- continue to invest in our selling capacity, our service capacity, our data centers, our offices, our partners, all to drive growth and to make our customers successful.

Another area where we continue to make progress, quite frankly, is with our partners in our ecosystem. I'm very proud of the results we're seeing with regional and global systems integrators. Our partner certifications in the quarter, they were up more than 40% from a year ago, which is outstanding. With all of our global SIs growing at an even faster rate, this is a great indicator that the most important consulting partners and firms in the world are betting their business and their customers' business on Salesforce.

We have firms like Accenture and Deloitte and PWC and Capgemini, they're all increasing their

Salesforce practices. They are walking arm in arm into the C-suite with Salesforce. In addition, our app cloud continues to be the platform of choice for innovation by our ISVs. And a great example of where our industry strategy works hand in glove with our ecosystem strategy, a firm named Accenture, we're all familiar with, selected Salesforce as a partner to transform the front office of consumer goods companies around the world. So they will be bringing their Accenture CAD solution onto the Salesforce app exchange, which is a great endorsement of our platform and critical to our joint industry strategy.

In closing, I want to say thank you to all of our customers and thank you to all of our partners for their trust in us and their confidence in us. And I'd also like to thank our incredible employees for their outstanding execution in the quarter, and this unrelentless dedication to customer success. Right now we're firing on all cylinders [through] our investment in the industries, our partner ecosystem, our international regions, it's all paying off. We have excellent momentum coming out of Dreamforce. And really, Marc, based on what I saw in New York this morning, we are very well positioned for a very strong finish to FY16 and we're looking forward to a historic start close this year. So (multiple speakers)

Marc Benioff (CEO):

Keith, I'll tell you. Keith, we could not be more proud of you and your sales team. Congratulations. It's so exciting. We really appreciate everything that you are doing. And Keith, I will tell you, I walked the Sales Cloud keynote after your keynote today. And Accenture was the speaker with Sarah Varney during the Sales Cloud keynote.

What was really interesting, they talked about how not only are they doing this incredible partnership, building products on our platform to sell to their customers, but that they have rolled out 25,000 users internally. And their speaker today in New York on the video I watched talked about how what he learned with Salesforce is that the key to success is to be bold and go fast, and just do whatever you can and it just much, much faster than any other platform he had ever worked with.

Keith, what are you hearing from Accenture? Why are they having such a great success internally, and now becoming this incredible reseller partner?

Keith Block (President, Vice Chairman):

It's interesting. I had dinner -- before the event today, last night we had a dinner with 40 of our greatest customers and prospects. I sat next to the CEO of Accenture North America. We had an excellent dialogue about the partnership and the relationship. And Accenture is a culture that embraces transformation. And so they appreciate the level of transformation. They know what their customers are looking for.

And because of that, they want to partner with a company like Salesforce who understands growth, understands transformation. It's a very good linkage between the two firms. That's what we're seeing in the marketplace. And that's why Accenture was happy to establish that a partnership in the consumer package goods space. That's why Accenture is our number one partner. And that's why they continue to evangelize a great message that we have to our joint customers.

Marc Benioff (CEO):

It has been impressive to see Accenture definitely jump into cloud computing, into social, mobile and IOT faster than any of the other system integrators. Even though they are the largest, they move the fastest. And now to see them deploy internally and also build these solutions on the platform is so exciting. Congratulations on that as well, Keith. And let's go over to Mark Hawkins and hear about the numbers. Mark?

Mark Hawkins (CFO):

Fantastic. Thank you, Marc. We delivered another great quarter with consistent execution and balanced growth across all of our products and geographies. Results this quarter set us up for a strong finish in FY16, as discussed, and another solid year in FY17. Third-quarter revenue was $1.71 billion, up 24% in dollars and 27% in constant currency. Foreign exchange continued to impact revenue, with a year-over-year headwind of $40 million and sequential headwind of $6 million. We continue to see strong year-over-year constant currency growth in all of our geographies, with the Americas growing 27%, EMEA growing 28% and Asia Pac growing 25%.

Each of our clouds delivered outstanding year-over-year growth on a dollar basis, with Sales Cloud growing 10%, Service Cloud growing 30%, App Cloud and other growing 40%, and Marketing Cloud growing 29%. Dollar attrition for the third quarter, excluding Marketing Cloud, was approximately 9%.

From a bottom-line perspective we delivered another quarter of improving profitability. In fact, we've now increased our year-over-year non-GAAP operating margin for the sixth consecutive quarter, Up 221 basis points over Q3 of last year. Our Q3 non-GAAP EPS was $0.21. Non-GAAP EPS includes approximately $0.01 from our lower than anticipated non-GAAP tax rate, which I will discuss more in a moment.

Our great top-line and bottom-line performance in Q3 drove another solid quarter of cash generation, with operating cash flow of $118 million. This was slightly down year over year about 4%, while operating cash flow year to date was up 37% compared to the same period over last year. That's now up to $1.2 billion year to date, which is very exciting.

Marc, it took us 15 years to get to $1 billion in cash flow. And we did in the first two quarters, and now we're topping it. We're really excited about that. For the full year we continue to anticipate operating cash flow in the growth of 24% to 25%, consistent with our prior guidance and our revenue growth operating margin framework.

Third-quarter free cash flow, defined as operating cash flow less CapEx, was $38 million, down 23% over the last year. Again year-to-date free cash flow was $937 million, up 47% over the first nine months of the last year. Looking at billed deferred revenue, we delivered growth of 28% year over year.

Excluding an FX headwind of $41 million, different revenue grew 30% over last year. On a sequential basis, deferred revenue was impacted by an FX headwind of $7 million. In the quarter 79% of the value of all subscription- and support-related invoices were issued with annual terms compared to 73% in Q3 of last year. This is a bit higher than anticipated, and translated into approximately 2 percentage points of deferred revenue growth in the quarter.

Moving onto guidance. With our great performance in the third quarter, we are raising our full-year revenue guidance by $25 million. We now anticipate revenue to be $6.64 billion to $6.65 billion for 24% growth year over year. The guidance continues to include an FX headwind of approximately $175 million. We're also raising our full-year non-GAAP EPS to $0.74 to $0.75, or $0.03 at the high end of the range, which is approximately $0.02 as a result of our outperformance and about $0.01 as a result of our lower full-year non-GAAP tax rate.

Let me take a minute to discuss our non-GAAP tax rate. We are adjusting our projected full year non-GAAP tax rate to 35.5% in light of a recent Altera tax opinion. You may recall that we began to compute and used a fixed long-term non-GAAP tax rate during FY15. As we said, we would reevaluate this rate annually and/or as the situation rises where we need to reevaluate that. That is exactly the case as it relates to Altera. And that's just the situation why we need to true that up. We'll continue to reevaluate that and give you updates as we need to.

For Q4 our full-year guidance implies revenue growth of approximately $1.782 billion to $1.792 billion, non-GAAP EPS of $0.18 to $0.19, and billed deferred revenue growth of approximately 23% to 24%. As you heard from Marc, we are pleased to be initiating fiscal revenue guidance of approximately $8 billion to $8.1 billion for year-over-year growth of 20% to 22%. In fact, FY17 feels very similar to last year, as we continue to deliver strong growth at scale. We will provide additional details about our outlook for FY17 on our fourth-quarter call in February.

To close, we had a strong third quarter and we are well positioned for a great finish to FY16 and to deliver another solid year in FY17. Thanks to all of our employees for continuing to deliver these outstanding results. With that, I'd like to open up the call for questions.

QUESTIONS & ANSWERS

Operator:

(Operator Instructions). Philip Winslow, Credit Suisse.

Philip Winslow (Analyst - Credit Suisse):

Thanks guys and congrats on another fabulous quarter both on the topline and balance sheet and margin. I have a question on Service Cloud. Obviously the revenue there which is lagging a bit continue to grow phenomenally and no sign of sort of deceleration there.

If it continues at this pace you can almost see within a couple of years service cloud overtaking Sales Cloud. The question is what are the dynamics that are going on there?

How do compare them to the Sales Cloud when it was at this point of its life cycle? And then are you displacing more legacy vendors? Is it net new is replacing (custom) developed software? How should we think about Service Cloud?

Marc Benioff (CEO):

I think the way to think about Service Cloud is first and foremost these are megamarkets. Sales, service, marketing, analytics. These are all multibillion-dollar markets. We actually call them internally swimmers. We call them swimmers in their lanes. And we look at these products each going down their own lane and yes you are right. Service is performing incredibly well but so is sales and so is analytics and so is community. So as our platform. So is marketing. We have many, many, many high-performing swimmers. We don't just look at it that way by the way. We not only see that. We see it by geography which -- and we also look at it in verticals.

In each of the strategic areas that we've made these big bets we continue to see very high performance. And customer service and support if you have read [bartners] most recent customer engagement Magic Quadrant is the Salesforce is number one.

We've displaced Oracle. We've displaced SAP. These were traditionally the theaters and that the Gartner's Magic Quadrant and so we're not only out the number one in that Magic Quadrant on sales, which we have been for a few years, but now we're number one in the Magic Quadrant for service which means we actually have the best products possible.

Our customers just have phenomenal success. We have great examples of customers who have tens of thousands of users deployed on this product. We have examples of customers who have tens of users - hundreds of users. What's unusual about our Service Cloud is you could be a very small company or you can be a massive company and you can use our Service Cloud.

And when you look at requirements for customers to provide extended customer service especially in regards to areas like the Internet of things, when our core customer like Cisco or Phillips or even Coca-Cola are more connected to their customer than ever before, the first point of access with those customers is customer service.

So they better have their customer service act together if they are going to drive the customer revolution. So of course we continued to do well in all of our core product but also customer service is a critical part of our portfolio.

Philip Winslow (Analyst - Credit Suisse):

Thanks guys and congrats again.

Marc Benioff (CEO):

Keith do want to add anything to that?

Keith Block (President, Vice Chairman):

Mark you are spot on. At the end of the day we are performing well across all of our clouds and certainly as we talk about service a lot of companies in a variety of industries differentiate themselves with service.

And when you think of this age of the customer where there are billions of connected devices and connected things, and you think about what service can do in terms of the business model, leveraging IOT and analytics is very, very powerful in terms of disruption in differentiation and changing business models. That's really the level of dialogue we're having with many, many companies. It's very exciting.

Operator:

Keith Weiss, Morgan Stanley.

Keith Weiss (Analyst - Morgan Stanley):

I wanted to ask a little bit about the platform business in two directions. You saw a little bit of acceleration in that business and marketing talked about some of the internal reasons for that.

We also see an acceleration in some of the other big platforms out there like Amazon Web Services and Azure [bo dam] has seen accelerating growth. I wanted your view on it. Are we seeing something of a broader industry trend of really an acceleration in the move toward those cloud-based platforms and the de facto standard of where we are going to develop applications?

I wanted your view on that and two similarly do see Amazon Web Services and Azure increasingly as competitors for that platform business for you guys?

Marc Benioff (CEO):

Yes that's a great question. Let me address that. There is no doubt we are at a tipping point in cloud platform. And companies who have been cloud deniers like SAP and Oracle are paying a horrible price in single-digit and negative growth because companies are not buying their products because they are not modern and they are not built in this kind of modern architecture.

When you look at the cloud opportunities, there is different opportunities. One opportunity is at the applications layer where we dominate in sales and service and marketing. Where we have these multi-multiple billion-dollar cloud kind of underway which I talked about in the last question.

The next layer down which is declarative and programmatic application developed deployment, especially in rapid application development and deployment, this is an area where we also have incredible success. Gartner calls this APAS application platform as a service. You look at our product like our app cloud and Salesforce1 lightning, Hiroko, this is an that's very strategic to us because our core applications are built with our platform which gives our customers basically the plasticity necessary to kind of take our applications apart and put them back together. This is area that is very important to us.

The next layer down is the kind of what we traditionally call infrastructure-as-a-service. Amazon Web Services which we are a huge customer of Amazon Web Services. Amazon is also a huge customer of Salesforce. And we use Amazon Web Services to build our products.

For example Hiroko is one most successful platforms on Amazon Web Services and has been incredible success for salesforce.com and also demonstrates the power of Amazon platform. Sales force also has been working with Microsoft on how we're going to be using Azure as part of our product line as well. We're very excited about Microsoft. We also have a great relationship with Microsoft. We've talked about that. And I think Azure is terrific and Google by the way is a huge customer of salesforce. We use Google platform very extensively and salesforce as well.

And I will tell you something that is critical to the operations of our company and Amazon Microsoft and Google is cloud platform. We're very modern company in ho we deployed IT internally. That's given us the flex ability to grow. We tutor and mentor other CIOs and industry leaders and show them what we have done to build a modern company using this highly flexible IT infrastructure but it's because we're doing all three of these layers.

One, very flexible dynamic highly innovative and three releases a year applications at the top.

In the middle, rapid application development and deployment of apps like I was talking about new apps appearing on my phone instantly from my IT department. In that APAS area and also infrastructure as a service ware we partner with Amazon and partner with Microsoft and we partner with Google.

Those are our three core strategic partners in infrastructure-as-a-service. And that is the modern IT infrastructure. And today and of course what do we all run it on? We don't run it on our laptops. But we run it on our phones. That is the power of the modern age. This gives you the level of speed in IT. It gives you much lower total cost of ownership. And it gives you a rate of innovation because you're not waiting three or four years for new release. You're waiting three or four months and sometimes three or four days before you are getting incredible new features and functionality.

And so yes we are at a tipping point. You can see that in the results of Amazon. You can see in the results of Microsoft. You can see the results of Google and you can see the results of Salesforce. And for companies who denied that this ship is happening, for companies who have fooled customer to the afraid of this shift, and for companies who have tried to stop the shift, look at where they are today it's quite a good example of Clayton Christiansen's theories regarding the innovators dilemma.

Operator:

(Operator Instructions). Brent Thill, UBS.

Brent Thill (Analyst - UBS):

Good afternoon. A question for Keith. On the industry strategy you mentioned that's providing very nice tailwind for you in the field. You mentioned the retail case. I'm curious if you could talk about some of the other verticals that you are starting to see open up given all the hard work that you've been laying in many of the other vertical segments.

Marc Benioff (CEO):

Yes no problem. Happy to field that question. Across the board if you look at the wins in this quarter, we had some terrific experiences with financial services, obviously with American Express and automotive, with general motors, consumer package goods, and ABM (MBEV) and (MATTEL).

So financial services is very strong. Healthcare and life sciences is very strong. Retail is really picking up. CPG is really picking up. Manufacturing has always been a strength for the company. But we continue to do very, very well. I alluded to that deal that we closed earlier.

So it really has become a situation where and no surprise customers want to speak to us and we should be speaking to them in their language. That is the whole idea behind the industry strategy. It starts with that. It starts with the messaging and creation of the solution.

It also moves into making sure the organized carefully and we've done that very carefully over the last two and half years in physical organization with a focus on vertical markets. And then the third is to start delivering product which we announced again just before Dreamforce around health cloud and financial services cloud.

It's really a three-pronged industry strategy. It is resonating with our customers. They want more of it. They certainly don't want less of it. And we already had a very compelling differentiated solution. But when you also add this layer on it with the industry messaging and going to market by industry also adding to this product set, it becomes super compelling and customers really, really like what we're doing.

Operator:

Kash Rangan, Merrill Lynch.

Kash Rangan (Analyst - Merrill Lynch):

Thank you very much. Great results. Mark, one question for you. When you look at the company from a billion dollars to $5 billion service cloud really led that engine of growth. As you look to expand the business for up about 50% to $10 million revenue company, what are the lead engines here.

Obviously, service and sales as big as they are, they cannot [continue] to grow as rapidly. So are we going to see other engines come to the forefront in order to help you increase your business by 50% be it analytics or platform or verticals? And one for you Mark Hawkins is the renewal business becomes larger and larger what kind of impact does it have on your margins? Thank you very much.

Marc Benioff (CEO):

I think this is a great question, Kash, and something that Keith and Mark and I are talking about with Alex [Day] as well almost every single day because we are working on our FY17 budget.

When you look at the great success of a lot of these core products want to continue to fuel them. Certainly Service Cloud is amazing. Marketing Cloud obviously is also amazing. And Sales Cloud of course has achieved a level of revenue that we never could have anticipated and continues to grow.

We have other, as I said, swimmers in their lanes doing very, very well. Now in addition to those core products, especially with that [kit to] Marketing Cloud and it's outstanding performance especially since we acquired exact target an integrated that very deeply into the company, I think also you have to look at what Keith has done with public sector which is very exciting for us.

And is a huge opportunity for our company. Of course the verticals where we're continuing to build some new products including our wealth management products we've announced in our health products and other applications categories that we see. And I will also have to say ISVs. So ISVs remain powerful growth channel as well.

If we have any problems with salesforce is that we have a huge amount to invest next year but we can't just peanut butter and give everybody something. We have to make some bets and to invest in some these winners that I'm talking about we have had some phenomenal results as well.

Mark Hawkins (CFO):

Okay. One of the things that I want to jump in on on that point is the second aspect of the question which was around renewals. We saw there from a margins Kash. I'll be happy to address that.

The first we always think about obviously is customer success and want to make sure that happens. And that really promotes renewals and we love the attrition rate Kash been happening. You tracked the company for a long, long time and you watched that come down now into the approximately 9% range. That really helps us.

And so as we think about margins going forward as it relates to renewals, one of the things I would almost level it up and say all of our unit economics suggest that we can hit the mid-30s in terms of our operating margins over the long-term at which were revenue growth rates.

And part of that is because we're taking good care of the customer, part of that is because we keep the attrition rate low, and part of that is we continue to get scaled the unit economics that we can see today. So Kash, I think the long and short of it is, as that renewal business continues to grow, our number one priority is to take care of the customer and number two is we will fulfill the operating margin in the mid-30s long, long-term.

Operator:

Mark Murphy, JPMorgan.

Mark Murphy (Analyst - JPMorgan):

Thank you. Congrats on the strong results. My question is for Marc Benioff. [Neil Busree] recently said that if the first 10 years was about cloud, the next 10 years is going to be about data and analytics.

He commented that there won't be any difference between the transaction systems and analytical systems. So I was wondering first off Marc what do you think of that statement? And how far do want to push the boundaries of data science at SalesForce?

In other words, do think you would have more of a focus on analytics to support sales service and marketing or are you thinking of very broadly pushing into machine learning or predictive behavior, behavioral unstructured data, massive data volumes per Internet of things. And really becoming a hub for essentially any kind of data?

Marc Benioff (CEO):

Here's how I look at which is, Neil is a close friend of mine and I just got a text and while we were on the call here. I look at it differently and I will tell you why. I think the next 10 years is the age of the customer.

I don't think it's the age of data science or the age of machine intelligence or the age of cognitive, or the edge of mobility, or the age of social, or the age of cloud or whatever. Because all of those things are going to be important in the next 10 years.

All of those things the cloud, social, mobile, data science, deep learning, MLP, machine intelligence, on and on, those are table stakes. Those are table stakes. What are you going to do with that technology? Who's not using those technologies?

Phillips is using that technology. GE is using technology. Apple is using that technology. Cisco is using that technology. Coca-Cola, Unilever they're all using it.

Look, the next 10 years for these companies will be about the customer. What are they doing to build a world-class customer experience? How do they transform from being product companies to customer experience companies?

And as millennials takeover in these enterprises, they're going to be much more focused on experiences. That is going to be the transformational lever for growth with these companies. And I think that if we get to into any one particular technology or if I was to all of a sudden wave the flag like I used to do 15 or 16 years ago for cloud, that would be a huge mistake for our company because the number one thing, most important thing to this company is the customer.

There was a really good discussion between Ginni Rometty who is the CEO of IBM and John Stumpf who's the CEO of Wells Fargo Bank, at a conference that I was just at put on by Fortune Magazine here in San Francisco.

And I'm sure that the transcript is available online. But you will see that when she's discussing her strategy is to become the cognitive company. And when he is discussing his strategy, is to become the customer company. And I think that we do have to decide what kind of companies are going to be.

I'm going with customer company. I want to be a customer company like John Stumpf does. He's all about the customer and maintaining the integrity and the fidelity of the customer relationship and I want to help him do that. And yes, will cognitive help him do that? Yes. Will cloud help him do that? Yes. It's doing it. Is mobile? Yes. Social? Yes. IOT? Yes. All of these things.

But let's keep our eye on the ball which there is a transformational force that is [wafting] it's way through all of these companies and every company is afraid they're going to be Uberized out of the world. And they see it happening and to the financial services it could be IBM.

Every company is worried about -- look at the decline of IBM over the last decade. Technology is shaking every company at its roots. So that's why the companies that will be the most successful are the ones who are most connected to the customer because the customers are the ones who guide us into the future. They are the ones with the true vision of where we have to go. I'm going with customer on this one.

Operator:

[Carl Kierstev], Deutsche Bank.

Unidentified Participant:

Thank you. First off, Mark, I love the interview format with you and keep -- please do that again. It makes the call pretty entertaining.

I've got two questions for Mark Hawkins. Mark, at Dreamforce on the analyst day you talked a little bit about the renewal activity skewing a little bit more fourth quarter. And I wanted to just check to make sure you're as confident that that will happen as you were a few months ago.

And then secondly you talked about the mix of annual invoicing hitting 79%. That to me as well felt a little high and I thought maybe you could explain why it did and if that rate of increase is likely to continue. Thank you.

Marc Benioff (CEO):

I'm happy to do both. And good to talk to you. Let's talk about the second question first and then we will go back to the renewals. I would say the first thing is that we are pleased. We have been on a path to increase our invoices annual from FY12. We've been on a steady path of continuous improvement and we report out when we make progress and last quarter we can do to make progress.

As you noted, year on year, we went from 74% of our invoices being annual to 79%. And so that is just good progress, good execution. We're pleased to see it. It works well for lots and lots of different reasons.

And that added, it is as I called out about roughly 2 points of growth to deferred revenue year on year. But I think we have continued runway on this in the sense that the more enterprise business we get, the more natural it is for people to go to the annual terms that were looking for. So I wouldn't expect any sharp turns.

I think about this as a steady progression with, yes, more runway in the future. Keep think about the gap as moderate and that's what we're intending and I think it's a good execution. That's number one.

Number two, in terms of renewals and one of things for everybody on the call is reminder we just talked about the quantum of our renewals if you think about when they show up in Q4 is when they show up the most. We think about the historical patterns of our business. And in fact that is what we expect and that is all comprehended in our guidance which we feel really good about both for Q4 the strong finish and also as we point into next year. Obviously hitting something worth $8 billion to $8.1 billion on topline revenue how we feel really good about for the company to continue to grow and execute at this scale. Those are my answers on both points.

Operator:

There are no more questions at this time.

John Cummings (IR):

Great. Thanks so much, Ashley. Thank you so much for joining us. I'm sorry that we couldn't get to all of your questions. If you have any follow-up for us, you can reach out to us at investor@salesforce.com.

And if you missed the World Tour in New York today, you will have multiple other opportunities will be in Tokyo and Los Angeles in December and Minneapolis, Atlanta, Houston, Dallas and Seattle. And so if you'd like to hear some of these great transformational stories and how Salesforce is changing customer experiences you can tune into that. Otherwise we look forward to giving you an update on our progress in Q4 in February.

Operator:

This concludes today's conference call. You may now disconnect.