

Splunk (SPLK) Earnings Report: Q3 2016 Conference Call Transcript

The following Splunk conference call took place on November 19, 2015, 04:30 PM ET. This is a transcript of that earnings call:

Company Participants

- Ken Tinsley; Splunk Inc.; Corporate Treasurer, VP of IR
- Godfrey Sullivan; Splunk Inc.; Non-Executive Chairman
- Doug Merritt; Splunk Inc.; President & CEO
- Dave Conte; Splunk Inc.; SVP, CFO

Other Participants

- Jim Suva; Citigroup; Analyst
- Philip Winslow; Credit Suisse; Analyst
- Brent Thill; UBS; Analyst
- Melissa Gorham; Morgan Stanley; Analyst
- Daniel Ives; FBR Capital Markets; Analyst
- Michael Turits; Raymond James; Analyst
- Ed Maguire; CLSA; Analyst
- Albert Chi; JPMorgan; Analyst
- Jason Valkemar; Robert W. Baird; Analyst
- Andrew Kisch; Barclays Capital; Analyst
- Kirk Materne; Evercore ISI; Analyst
- Matt Hedberg; RBC; Analyst
- Kash Rangan; BofA Merrill Lynch; Analyst
- Brian White; Drexel Hamilton; Analyst
- Steve Koenig; Wedbush Securities; Analyst
- Tim Klasell; Northland Securities; Analyst
- Greg McDowell; JMP Securities; Analyst

MANAGEMENT DISCUSSION SECTION

Operator:

Welcome to the Splunk Incorporated third-quarter financial results conference call.

(Operator Instructions)

As a reminder, today's conference call is being recorded.

I would now like to introduce your first speaker for today, Ken Tinsley, Corporate Treasurer and Vice President of Investor Relations. You have the floor, sir.

Ken Tinsley (Corporate Treasurer, VP of IR):

Thank you, Andrew. Good afternoon, everyone. Thank you for joining.

With me on the call today are Godfrey Sullivan, Doug Merritt, and Dave Conte. We issued two press

releases after the close of market today, and both are posted on our website. This conference call is being broadcast live via webcast, and following the call, an audio replay will be available on the website as well.

On this call, we will be making forward-looking statements including financial guidance and expectations for our fourth quarter and FY and FY. Transaction, product and services mix, planned investments, trends in momentum in our business including cloud business and impacts on our margins, and expectations regarding our executive transition. These statements reflect our best judgment based on factors currently known to us, and actual events or results may differ materially.

Please refer to documents we file with the SEC including the Forms -K filed today with today's press releases. Those documents contain risks and uncertainties and other factors that may cause actual results to differ from those contained in our forward-looking statements.

These forward-looking statements are being made as of today, and we disclaim any obligation to update or revise these statements. If this call is reviewed after today, the information presented during this call may not contain current or accurate information.

We will also discuss non-GAAP financial measures which are not prepared in accordance with generally accepted accounting principles. A reconciliation of GAAP and non-GAAP results is provided in the press release and on our website.

With that and for the last time, I would like to turn it over to Godfrey.

Godfrey Sullivan (Non-Executive Chairman):

Thanks, Ken. Greetings, everyone, and welcome to the call. We have several topics to cover today.

First and best are the cool stories about our customers. We also have great results and outlook to report - also, of course, an outcome of our customers. And, we also have the great pleasure to introduce the new CEO of Splunk.

Let's start where Splunk always begins, and that is in thanking our customers for their incredible and passionate support. I had the honorary position of acting as emcee for .conf, and this year was the best year ever. Customers including Target using Splunk to analyze data from automation equipment and robotics in their distribution centers to drive down supply chain costs. Or, BMW using Splunk to analyze manufacturing and energy data to resolve production issues and perform predictive maintenance.

Sonic Drive-In using Splunk to analyze data from over , point-of-sale devices across , retail locations to deliver consistent customer experience and detect gift card fraud. And, RBC Capital, who told the story of a -hour Splunk Hackathon and coming out with multiple new corporate apps that they immediately put into production.

Thanks again to our customers for their innovative use cases and their passionate support. Splunk is an amazing place to work, and I can speak for every employee in saying that our customers are our number one source of inspiration.

We will get to the Q results in a moment, but the second order of business is to announce our new CEO, Doug Merritt. Before I turn it over to Doug, I want to express my gratitude to our employees, customers, partners, and friends for your incredible friendship and support over the years. The last seven years have been the most fun and rewarding years of my professional career, and so announcing that I am retiring feels pretty strange.

In reality, I want to jump on an airplane and go see some customers. But, I have been doing that for

years, and it is finally that phase of life where I would like to spend more time with the family. All of you who are my age know what I'm talking about.

We've all run hard, too many marathons, weekend warriors, and a by job, and now we have some accelerated depreciation on the chassis. Better to have some fun now before the wheels fall completely off.

So, I've been working with the Board on a succession plan for some time now, and that's every CEO's responsibility. The Board has been involved and supportive, but I consider this my responsibility to prepare the Company for the next phase of growth. NFL history is littered with quarterbacks who stayed too long, and somewhere along the line, they forgot that this is a team sport.

When I recruited Doug to Splunk two years ago, it was with an eye to succession, and I'm delighted that we are all now ready for that successful transition. I'll be working with Doug through Q to ensure a smooth transition and then moving on to Non-Executive Chair.

So, now to your new CEO. Doug is a rare human, one who is smart, competitive, and creative. And yet, he is kind. He is compassionate, and always thoughtful of everyone around him.

He is also rare in having started his career as a programmer. I think it was Doug's C and COBOL -- .

Doug Merritt (President & CEO):

Even more detrimental, RPG.

Godfrey Sullivan (Non-Executive Chairman):

And, a little RPG thrown in, and then he rotated into -plus years sales and marketing. Then spent ten more years in development, product management and product marketing and six years as a CEO leading startup companies. He's uniquely qualified to lead a technical Company like Splunk, and I'm so happy to be able to pass the torch to someone I respect and trust.

At Splunk, he has done a great job of building our field organization and contributing to our success. I'm confident that Doug will do a great job as the next CEO for Splunk, and I look forward to being involved with the Company as Non-Exec Chair and to assist in any way possible. So, Doug, congrats on your promotion, and it's an honor to pass the torch to you.

Doug Merritt (President & CEO):

Thank you very much, Godfrey. Getting the opportunity to be mentored by you and learn from you has left an indelible mark. Of all the remarkable leaders in high-tech that I've had the privilege of working with and getting to know, you are truly the absolute best in the industry.

Thank you for being such an incredible role model and teacher in person for me. I couldn't be more grateful, and I'm truly thrilled that will be able to continue our relationship together with you as Non-Exec Chair.

So, on to our results. We had a great Q, and I want to thank our customers and partners for their enthusiastic support and our Splunk employees for their many contributions.

Total revenues came in at \$. million, up % over last year. And, I'm thrilled that we added over new customers to the Splunk family.

Godfrey mentioned some great customer stories from .conf. At the same time, our product teams made an impressive set of announcements including Splunk enterprise . with double the performance, lower TCO,

and advanced visualizations. Enterprise security . and our new Splunk user behavior analytics, or UBA, to better detect and respond throughout the lifecycle of a security attack. As well as updates to Splunk Light which is now available as a cloud service, and Hunk, or what might be more naturally described as Splunk analytics for Hadoop.

And, going back to our Splunk roots, which began by focusing on the IT ops and app delivery markets, we are very happy that we launched our IT service intelligence solution, or IT SI, which is focused specifically on those core markets. More than a dozen Splunk customers such as AdvancedMD and Vodafone have been running IT SI in production and are raving about how easy the solution is to install and configure. And how quickly they are able to improve service levels and customer satisfaction.

For example, AdvancedMD uses IT SI to monitor the health of their \$ billion claims flow process to ensure uptime and an improved customer experience. They reported seeing critical insights literally days after install. In Q, we had great customer wins in IT ops and app delivery including Getty Images, Zillow, Cisco , Intralinks, Independent Health, and NASDAQ.

As you know, our Q also lines up with the federal year-end so let me switch now to the highlights of our public sector performance. In October, we held our first government summit in DC where we had more than , attendees gather to share great use cases. Now, Splunk is helping government and educational organizations fulfill their missions.

For example, the US Citizenship and Immigration Service said that quote, Splunk is the cornerstone that glues a lot of our technologies together so we can get fast reaction time on our data. And, I quote the White House military office -- we use Splunk to be proactive, since enabling, it has been a total mindset shift. And finally, Arizona State's information security office relies on Splunk to keep the data of their , students secure, mitigate phishing and spam, and proactively identify payroll fraud. It was a truly great event, and I want to thank our customers for their enthusiasm and congratulate the Splunk public sector team on a great event.

We also had a really strong public sector quarter in terms of customer expansion. US Postal Service used Splunk originally to support IT operations. But, rapidly expanded with security when they were breached. Today in addition to security, they use Splunk for network management, big data analytics, and email monitoring. And, we had the Department of Energy, who signed an EAA with Splunk.

We also saw great momentum in state and local. Fairfax County, Virginia, a new Splunk customer, chose Splunk cloud and ES as their next-generation security analytics platform. The State of Arkansas IS department signed an EAA choosing Splunk as their statewide SIM, to ensure regulatory compliance and improve their security posture. And, the State of Maine purchased ES over legacy SIMS.

We had an impressive Q in our commercial segments as well, led once again by the Americas team, that also drove EAAs with multiple customers. Including Synchrony Financial, who signed an agreement for Splunk enterprise, ES, and IT services intelligence. And, Groupon , who expanded with an EAA to deliver improved user experience across channels through order monitoring, mobile usage, and behavior analysis, merchant performance and point-of-sale analytics.

We also had great customer wins by our international teams including Lloyds banking group, who adopted Splunk as their log analysis platform, based on superior functionality and a flexible, license deployment model. And, IKEA expanded this quarter and also spoke at our SplunkLive Stockholm about why they replaced a legacy SIM with Splunk enterprise and ES. The legacy SIM couldn't scale, could not serve thousands of users, or ingest all types of data.

IKEA also recognized the strength of Splunk as a platform to help with IT ops and business analytics by using Splunk to compare real-time sales to historical sales across regions. Other notable international

wins this quarter include Dubai Smart Government and NTT Docomo in Japan.

Moving on to security. Q was a record quarter where we sold more ES than in any other quarter in our history. We continue to strengthen our role as the nerve center for security. Here are some of our customer wins.

Jabil Circuit , which has been using Splunk for IT ops, has expanded use to security and added ES to quickly identify and prevent threats and protect the intellectual property of their customers. Norfolk Southern Corporation expanded their Splunk enterprise license and made their first purchase of ES for even deeper levels of threat detection. Norfolk Southern uses Splunk in their state-of-the-art security operations center as their SIM to ensure their business and IT infrastructure are protected at all times.

And, a large medical institution and longtime QRadar customer was targeted by sophisticated attackers who were in their environment longer than traditional SIM model retention allows. Splunk was called in to reconstruct the data to identify the root cause of the breach. Other notable customers for security include Amazon , Creative Artists Agency, Yodlee, and Northwestern Mutual.

Our IoT customer use cases continue to grow as well. Centerpoint Energy, a Fortune electric and natural gas utility, chose Splunk to monitor the applications and infrastructure underpinning their smart metering and smart grid. Similar to Target and BMW, which Godfrey mentioned earlier, Fruit of the Loom will be using Splunk to analyze data from manufacturing equipment and systems. Many customers are leveraging the Kepware industrial data Forwarder for Splunk for real-time monitoring and analytics of their industrial data.

Last but not least, cloud. Our Q results show continued acceleration in our cloud business with orders growing in triple digits year-over-year. Our customers are excited with the speed and ease of Splunk cloud. They are happy to focus their time and attention on analyzing the data to achieve their business results rather than procuring and deploying equipment.

One particular win I'm excited to call out is Progressive Insurance, a new customer that selected Splunk cloud for IT ops and business analytics. Splunk will be used to improve customer experience and gain deeper insight into operational trends. Customers want to know that their workloads are as reliable and secure in the cloud as they are in-premise. Splunk is there to help customers move to the cloud with confidence.

Transition to partners, I'd like to call out a few key partner endorsements. Let me start with Amazon web services, who at their recent user conference, reInvent, Splunk was again heavily featured. Our app for AWS was presented in the opening partner keynote, and Splunk was the only analytics partner in the AWS IoT announcement.

At reInvent, we also released a new version of the Splunk app for AWS which integrates with services such as cloud trail, config, and VPC flow logs. This enables customers to move to the cloud by giving them security and operational and economic visibility into their AWS environments. We also delivered new integrations with various AWS services to enable customers to gain analytics and visualization to services such as AWS lambda, IoT, and kinesis.

Finally as we continue to invest in our joint engagements, Teresa Carlson, Vice President of AWS worldwide public sector, spoke during the keynote at our recent gov summit. In describing the value of Splunk, Teresa said quote, Splunk is helping customers have confidence to move and grow their business with AWS. Thank you, Teresa. We couldn't agree more, and we look forward to afford to our continued successful partnership.

We also announced our strategic alliance with Booz Allen Hamilton this past quarter to create joint

solutions for cyber threat detection. In addition, Splunk will be utilized by Booz Allen's managed security service, cyber for site, to make the data it collects more actionable through security analytics. We will also jointly develop and host events where leaders are put in a simulated, incident response exercise to help them understand how to prepare for and how to respond to cyber incidents and threats. I personally sat through one of these exercises, and I've got to tell you, it was an incredibly powerful experience.

In summary, it was a fantastic quarter. I'm really proud of the entire Splunk team. Our core development teams keep delivering impressive innovation and functionality that was on full display at .conf .

The market groups are defining strategy, product direction, and building an enviable ecosystem for their solutions. Our cloud business is accelerating based on a clear strategy and great operational focus, and our superb field organization just keeps getting stronger and better at delivering customer success.

Again, thanks all of our customers and partners, and thanks to everybody works at Splunk and for a great, great quarter. Now, let me turn the call over to our CFO, Dave Conte.

Dave Conte (SVP, CFO):

All right. Thanks much.

First, Doug, many congratulations to you. Very happy to see you stepping in as the role of CEO.

And many congrats to you, Godfrey, on your retirement. Of course, as Chairman, I'll still get to mesmerize you with the numbers. Maybe you won't be on the audit committee, but regardless. Here we go.

Godfrey Sullivan (Non-Executive Chairman):

The thing I look forward to the most.

Dave Conte (SVP, CFO):

Here come the numbers. Q, as you've seen in the release, was our best ever driven by increasing adoption of our products and platform.

Third-quarter revenues were \$. million, a % increase over Q of last year. License revenues grew % year-over-year totaling \$. million.

In Q once again, more than % of our license bookings came from upsells to our customers. We recorded orders greater than \$,. We also saw license ASPs grow sharply to over \$, in the quarter compared to \$, to \$, historically. The jump in ASPs was attributed to the increased adoption by both existing and new customers who are deploying Splunk for a growing set of use cases.

Now on prior calls, I have mentioned that the ratable mix of bookings continues to vary substantially quarter-to-quarter. As a brief refresher, the key contributors to the ratable mix are term license contracts, Splunk cloud, and certain EAAs.

In Q, the ratable mix of bookings was % which is on the high end of our guided range. As I've said, the ratable mix can swing substantially quarter to quarter largely based on customer buying behavior and generally following seasonal patterns. We therefore take a longer range view of mix and previously had been expecting to be at the high end of our full-year range of % to %.

Considering year-to-date actual results plus current visibility for Q, we now expect full-year mix to land between % and % and expect it will remain at these levels on an annual basis over the longer term. As I mentioned, the mix can swing seasonally and fall outside this range for any individual quarter.

All right. Back to the results.

In Q, international revenues represented approximately % of the total, consistent with previous levels and comparable on a year-over-year basis. Our education and professional services represented % of revenues in Q.

With respect to margins, which are all non-GAAP, Q overall gross margin was %, consistent with last quarter and down slightly year-over-year. Reflecting the expansion of our cloud business as well as services around our core market solutions.

Outperformance on our top line translated to better-than-expected bottom line as well. Operating income was \$ million, representing a positive operating margin of .%. Q net income was \$ million, and EPS was \$. per share based on a fully diluted share count of . million shares.

Cash flow from operations was \$ million in the quarter, and free cash flow was \$ million. Overall, we ended the quarter with \$ million in total cash and investments.

Now, looking forward to the remainder of FY. We expect Q total revenues of between \$ million and \$ million with a % to % positive non-GAAP operating margin for the quarter. With our year-to-date performance and our Q outlook, full-year revenues will be approximately \$ million, up from our prior guidance of \$ million to \$ million.

As we continue to increase our investments in market groups, product teams, the field, and Splunk cloud, we maintain our expectation to generate positive non-GAAP operating margin of about % for the full year, consistent with last year's level and prior guidance. Since we expect to be profitable on a non-GAAP basis for Q and the full-year, for your EPS calculations, you should use a fully diluted share count of approximately million shares in Q.

I've said that our [fusion] margin targets include the impact of a gradual % to % increase in cost of services from our growing cloud business as well as higher professional services delivered around our core market group solutions. We remain committed to running the business on a positive operating cash flow basis overall. With our strong year-to-date performance, we now expect that full-year operating cash flow will be approximately % of updated full-year revenues. The compares to our prior guidance of %.

As I've mentioned before, FY is a higher than typical CapEx year as we expect the bulk of our San Francisco HQ buildout costs to be incurred this year. When combined with global facility expansions that match up with our growing employee base, we are on track to incur approximately \$ million in total CapEx this year. \$ million of which we've already recognized.

Looking past Q, I want to give you some insight in terms of how we are thinking about next year which is our FY. Currently, we expect total revenues of approximately \$ million next year with the seasonal trends closely following those of FY and FY.

As you know, since our IPO in April, industry analysts have increased the potential TAM for our products to about \$ billion -- something that we shared at .conf during analyst day. Given the early stage of the market and given our overall levels of growth, we will remain in investment mode as we continue to expand the product portfolio and our global field reach. We will continue to run the business with these investments in mind, and as a result, we expect that non-GAAP operating margin next year will be comparable with the current year levels.

As I mentioned at that analyst meeting, we recently signed a lease for our new South Bay office at Santana Row. The building is currently under construction, and we expect to take occupancy in late calendar . Obviously, this is going to require significant amount of cash investment in terms of completing

the building.

As such globally, we expect next year about \$ million to \$ million of total capital expenditures for the entire FY. Again, the bulk of which will be for that Santana Row buildout.

In closing, our team continues to execute on our mission to deliver exceptional value to our customers. Q was really solid, and I'm enthusiastic about our outlook for the rest of this year as well as FY.

Thanks much for your time, your interest, and I'm sure a lively Q&A session. With that, Operator, back to you.

QUESTIONS & ANSWERS

RETURN TO TOP

Operator:

(Operator Instructions)

Walter Pritchard, Citi.

Jim Suva (Analyst - Citigroup):

This is actually Jim on for Walter. Great quarter and congrats to both Godfrey and Doug here.

Doug Merritt (President & CEO):

Thank you.

Godfrey Sullivan (Non-Executive Chairman):

Thank you, Walter.

Jim Suva (Analyst - Citigroup):

How should we think about the normalized CapEx going forward beyond FY?

Dave Conte (SVP, CFO):

Normalize CapEx, sure. If you look back at CapEx prior to these HQ buildouts, we were running in the anywhere from \$ million to \$ million annually, and those were specifically tied to headcount addition costs. So, as we gain some critical mass in terms of size of the Company, we also have a greater capacity to hire so we think that we can add more employees next fiscal year and the year after then we have in the prior years. So, I would expect the CapEx to range in that -- call it, \$ million to \$ million range on a normalized basis.

Jim Suva (Analyst - Citigroup):

Got it. Thanks. And then, secondly, what partnerships are really driving business for you? It seems as though you talked about the Amazon one here, any other interesting tidbits?

Doug Merritt (President & CEO):

Yes, we are still in a heavy co-sell mode with all of our partners. I think we made some good progress as we've invested more specifically across the partner channel, but when we get a sense that we are able to have partners drive more and us participate less then we will absolutely build it into our outlook for you.

Jim Suva (Analyst - Citigroup):

Got it. Thanks.

Godfrey Sullivan (Non-Executive Chairman):

Thank you.

Operator:

(Operator Instructions)

Philip Winslow, Credit Suisse.

Philip Winslow (Analyst - Credit Suisse):

Thank you, and I'm just excited to be the first to say congratulations to Godfrey. I remember when we met at the first .conf over five years ago when you were doing less than \$ million in revenue and how exciting the story was then and just seeing what you have built this Company into. You deserve a rest so congratulations. (laughter)

Godfrey Sullivan (Non-Executive Chairman):

Thank you, Phil. Total gas. So much fun, and I appreciate all of your support over the years.

Philip Winslow (Analyst - Credit Suisse):

Of course, I know you weren't referring as a lifetime Bronco fan to Peyton Manning when you were talking about quarterbacks staying too long. If it was Dave making that comment, I know he would be talking about the Broncos, but actually going to break the Operator

Doug Merritt (President & CEO):

Thanks, Phil. So sales-front wise, I've been talking for a few of these earnings calls about a focused strategy within different countries to build critical mass. Where we have effective critical mass. Large numbers of people, referenceable accounts, good penetration within industries. US commercial, and I think increasingly public sector are great examples. We are seeing a continued drop in time to productivity. Those reps are coming up pretty quickly as you would guess because the environment helps them. The explicit focus over the past year and change has been, let's get that same critical mass internationally. And, overall, if I look globally, we are still probably about a year on average for representative to really be at full productive rates, but that's really representing the variants of thin countries versus medium countries versus thick. And, our goal, as we've said, is to keep piling investment into our top regions so we can get those benefits.

Dave Conte (SVP, CFO):

And then, Phil, your question was once we get through the atypical CapEx investments that we're making are there some corresponding OpEx amounts. And, we've built into our forecast and our outlook certainly for this year the remainder of this quarter and next year as we are thinking about it initially what it's going to cost us on the operating side to get the buildings online. Once they are there and we have a better sense in terms of the occupancy costs then we will roll that in, but most of that will get built into FY.

Philip Winslow (Analyst - Credit Suisse):

Got it. Thanks, and congrats again, Godfrey.

Godfrey Sullivan (Non-Executive Chairman):

Thanks.

Dave Conte (SVP, CFO):

Thanks, Phil.

Operator:

Brent Thill, UBS.

Brent Thill (Analyst - UBS):

Godfrey, you'll be deeply missed, but we're in great hands with Doug. So, I guess for Doug just on the new role, can you just talk a little bit about what we should expect from your perspective going in? Obviously, everything is working and going in the right direction, but maybe talk through just a couple of top priorities that you have going into your new role would be helpful.

Doug Merritt (President & CEO):

Absolutely. Thank you, Brent. One of the incredibly exciting things about Splunk as Dave mentioned in his remarks is the TAM that we are going after is big and seems to continue to get bigger. Even though we've been addressing the market effectively and just talked about a great quarter, we are still so incredibly early in that cycle. If we had a \$ billion or larger TAM and the guidance that we're providing we are still in the . percentage point, low single-digit percentage points of penetration of that TAM . So, for my focus, the number one most important thing as with any transition is to make sure that Q happens the way it is supposed to happen and we don't miss a beat with the field. I'm going to continue to manage the field leaders directly. We've got a really strong team, and I'm confident -- we are all confident that we will keep our eye on that incredibly important goal. Outside of that, ensuring that we keep the growth pedal down to exploit that TAM , keep driving our product portfolio the way we have into the different adjacent markets, and keep driving Splunk as a data fabric platform. I think one of the advantages that I've had is I've been here for . years and have definitely had a lot of time with the rest of the executive team and the overall Splunk team to make sure that the formula that Godfrey has led and will continue to lead as an executive chairman with his influence has been executed so effectively and making sure that we keep that in mind and keep guiding towards growth I think is going to be key.

Brent Thill (Analyst - UBS):

Thank you.

Operator:

Keith Weiss, Morgan Stanley .

Melissa Gorham (Analyst - Morgan Stanley):

This is Melissa Gorham. I'm calling in for Keith. Best of luck to you, Godfrey, and echo everyone else to say that you will be missed.

Godfrey Sullivan (Non-Executive Chairman):

Thank you.

Melissa Gorham (Analyst - Morgan Stanley):

Just a question on Splunk cloud. It seems like you are still continuing to see very good traction there. Just wondering if you are doing anything to incentivize your sales force to sell that solution? Or, are they largely neutral to selling Splunk cloud versus Splunk enterprise? And then, in terms of where you're seeing traction, is it largely garnering new users? Or, does it allow you to further penetrate within your existing customer base?

Doug Merritt (President & CEO):

Thanks, Melissa. This is Doug. I will take that. We are trying to keep it neutral right now. One of the strengths of Splunk, I think, is no matter with the infrastructural landscape is of a customer -- heavily on-prem, heavily a cloud or any type of hybrid, our product can follow that configuration and it's important to follow that configuration because we're going to need to be close to that data source. Making sure that the reps approach the customer straight from the very beginning on how do we serve your needs best without pushing one way or the other is where we are trying to keep that comp plan in their focus.

With that said, I think the growth in cloud has been a very balanced growth. We see some new customers like Progressive Insurance I had talked about earlier in the remarks as well as expansion of existing customers who might be having some type of hybrid model or even some customers that are moving their entire set of workloads over to cloud, and it's pretty much across the board also as far as smaller SMB accounts all the way to some of the larger accounts that we have announced in the past. It's following suit with what we are seeing with Splunk across the board.

Dave Conte (SVP, CFO):

This is Dave. It's interesting as our cloud business gains momentum and a certain level of scale and maturity, the pattern that we have experienced with existing customers -- again, over % of license bookings coming in upsells. Many of our cloud customers have followed that pattern as well and have increased their workloads in Splunk cloud. So, there's a replication, if you will, or a similar customer experience in terms of how they put more data into Splunk, get more value, and then look for more opportunities to put more data into Splunk. That's exciting for sure.

Doug Merritt (President & CEO):

I'll take two more seconds on this hybrid approach because we talk about that a lot and some other companies can use that term. What is truly amazing about Splunk is, it doesn't matter where each component sits. You can be running searches on data both on-prem and in cloud, private clouds, public clouds. The data can be indexed in any portion and sent anywhere else so it really is a ubiquitous approach which from what I can tell so far in the industry is it makes us in a category of one.

Operator:

Daniel Ives, FBR.

Daniel Ives (Analyst - FBR Capital Markets):

Thanks. Godfrey, a year from now are you going to be a scratch golfer? (laughter) Is that the new goal?

Godfrey Sullivan (Non-Executive Chairman):

I am so far away from being a scratch golfer. That will not be one of my goals.

Daniel Ives (Analyst - FBR Capital Markets):

Okay. Thank you.

Dave Conte (SVP, CFO):

Godfrey always shoots under but he plays .

Daniel Ives (Analyst - FBR Capital Markets):

And, the ball from the woods magically ends up in the fairway. You are going to be missed. It has been a great trip. My question is on the security -- the intersection of security and big data -- as big of a role you guys have played. What inning are we in terms of on that security data analytics market opportunities? Obviously, it has been a key part of your success, but how do you view that going to ?

Doug Merritt (President & CEO):

There's two aspects -- there's multiple aspects that I keep looking at as far as where we on the trajectory of going after our TAM . And, one of them is within a given customer that is using us for security analytics or for another use case, how many of these source types that should go into Splunk to provide that comprehensive, end-to-end visibility are actually mapped into Splunk? Even within some of our better customers, there still is more progress that we can make on giving them that true visibility. I'm making sure that all firewall logs, all IDS IPS logs, end-user security logs are fed in. OS and database logs, so I think that we are still relatively early. That whole term of security analytics is a relatively new term in the security landscape, and in many of the customer accounts that I go into and that my reps go into -- we're still evolving that viewpoint of why we are different than a traditional SIM, why did we get dragged into this market in the first place because we're more of this data fabric. We've made really good progress there, but it's a long game still in front of us.

Daniel Ives (Analyst - FBR Capital Markets):

Congrats, Doug.

Doug Merritt (President & CEO):

Thanks, Dan.

Dave Conte (SVP, CFO):

Thanks, Daniel.

Operator:

Michael Turits, Raymond James.

Michael Turits (Analyst - Raymond James):

I'll follow-up on Daniel's question on security. You have given us a sense of what percentage security has been of total revenues in the quarter. Can you update us on that? And also, on both the competitive picture there. What you are seeing competitively? Any changes, anybody new in security analytics? And, of course, it has been a question of the quarter, is there any change in the overall strength of security spending?

Dave Conte (SVP, CFO):

Sure. Hey, Michael, it's Conte. Q, security was about % of the business so that has been pretty consistent in terms of it had been %, % a couple of years ago. We advanced our offerings in terms of the ES solution. Of course, we I think wisely created our market groups, and Haiyan joined the crew and adding that subject matter expertise really gave us a different position at the table. Over the last number of quarters,

we have seen security go from what was again a couple of years ago %, % to consistently % of the business. We saw that again in Q.

Doug Merritt (President & CEO):

On the competitive front, Michael, I said that I haven't seen any major shift. If I go back to what is so unique about Splunk and why have we emerged as such a successful security vendor. Godfrey has talked on every earnings call I've ever listened to about schema on read instead of schema on right, and why that is so important in many use cases and in security, in particular, it is actually critical. That schema on read allows us to ask any question of the data that we want to ask at the moment of asking without having to have gone through the pain of manicuring and massaging and cleansing that data like traditional solutions have driven. Our core differentiator still remains. Security is such a volatile, always progressing, always evolving marketplace, and we've got a core architecture and then set of products with enterprising security and now with the user behavioral analytics product that takes advantage of that flexibility. We are still generally competing with partnering with flash competing with the SIM vendors. Feeding data into, grabbing data from, or in some cases if it is a brand-new buy looking at us versus them.

Godfrey Sullivan (Non-Executive Chairman):

I will even pile on here. I think the nature of the question is there has been a lot of chatter in the marketplace about whether security of topped out or started to decline in some way or that sort of thing. We had a great quarter in security, and I believe that we have an unusual opportunity going forward that's not just limited to SIM or limited to threat detection or limited to some of the point solution aspects for exactly the reason that Doug pointed out which is the ability to get lots of different types of data and analyze it in almost any way that delivers both forensics, security, investigation, user behavior, insider fraud. The number of use cases we can get because of the number of data sources I think puts us in a little different position than some of the concern that was in the marketplace earlier this month around other earnings reports and the like. We are hugely bullish about the security opportunity.

Michael Turits (Analyst - Raymond James):

Great. Thank you.

Doug Merritt (President & CEO):

Thanks, Michael.

Dave Conte (SVP, CFO):

Thanks, Michael.

Operator:

Ed Maguire, CLSA.

Ed Maguire (Analyst - CLSA):

Good afternoon. Godfrey, I know when you started at Splunk you wanted to have fun, and it's great to see you managing the transition so well on a high note. Best wishes to you. I'm sure you're going to continue to have a lot of fun.

Godfrey Sullivan (Non-Executive Chairman):

Thanks very much. I appreciate that.

Ed Maguire (Analyst - CLSA):

I had a question about the role the applications are playing in the growth of ASPs. And, really the question here -- you had alluded to a much broader range of use cases that your customers are using the technology for, but also you're able to charge now for IT SI and enterprise security which seem to be tracking well. How do you balance the breadth of how your customers are using the products with the focus that's involved with engineering and going to market with more specific solutions? And, do you actually see this higher ISP level continuing at least for the near term?

Doug Merritt (President & CEO):

Thanks, Ed. When I look at the apps, I think there are many benefits to them. One is we can charge for them, but the core is it helps illustrate the time to value of Splunk beautifully for customers. You can give them the platform and let them hunt around and figure out the value they are going to get, or you can give them a platform with enterprise security on top or with IT SI or with UBA and they get immediate ah-hah moments and then can still use the platform to hunt around. I think a bit of the performance that we are seeing is faster time to value in some cases because those apps have faster close cycles. But, the core is you start with use case A and you quickly see B and C. You jump in a different [buying] center get additional use cases and the enterprise orientation of the platform comes out. That is really, I think, the predominant trend that I have been seeing as far as some of the ASP increases or some of these deeper customer relationships as they started with security and moved to IT ops and app delivery and then realized there is some business analytics and IoT. Or, they may have started ITOA and done a different journey. But, I think the EAA formats that we rolled out at the beginning of the year are starting to get a little bit more traction in the market, and that in combination with some of these apps is I think a very nice beneficial piece.

Ed Maguire (Analyst - CLSA):

Great. Thank you.

Doug Merritt (President & CEO):

Thanks, Ed.

Operator:

Mark Murphy, JPMorgan .

Albert Chi (Analyst - JPMorgan):

Thank you. This is actually Albert Chi on for Mark Murphy, and congratulations on a great quarter and the news. You mentioned several EAA enterprise adoption agreement wins on the call. Could you comment on how many EAAs you closed during the quarter, and how did that compare with the prior quarters? And also, when do you think that could become a larger headwind -- or, sorry, a tailwind if it hasn't been already?

Dave Conte (SVP, CFO):

Hey, this is Dave. Again, as Doug mentioned, we rolled the program out March , and while we are certainly happy with the EAA transactions that we've recorded, they're still a fraction of the overall transaction velocity, and overall transaction volume continues to grow for us. It's that customers are looking at us in terms of a standard platform, and as a result, you are seeing it in those ASPs. In terms of it being of a headwind or tailwind, again, the absolute number of them is so small that in terms of the overall size of the business, I think we are going to need to get some more miles in the rearview mirror

before we can evaluate whether or not there's some type of contribution coming from those guys.

For those of you that were at analyst day, I had shown some examples of a customer lifecycle, and it's really important to understand that just because we have an EAA program available, the customer in terms of their maturity with our product -- how many disparate use cases have they deployed across how many different departments. Ultimately, the value of standardization across the platform is correlation of all your data sources. So, I had a couple customer examples in the PowerPoint, and it's anywhere from four years to six years of steady adoption in these individual use cases or departments that leads to the maturity that you need to see in an account to where you would say yes, they are ripe for an EAA-type transaction. I think that's a really important contributor in terms of how many do you think we are going to do over a period of time.

Albert Chi (Analyst - JPMorgan):

Thanks. So, can I say that less than % to % of your license business at this point?

Dave Conte (SVP, CFO):

In terms of transaction volume, certainly.

Albert Chi (Analyst - JPMorgan):

Got it. Thank you.

Dave Conte (SVP, CFO):

You got it.

Doug Merritt (President & CEO):

Thanks.

Operator:

Steve Ashley, Robert Baird.

Jason Valkemar (Analyst - Robert W. Baird):

This is Jason [Valkemar] sitting in for Steve. Thanks for taking my question. I wanted to get an update on Splunk Light? It has been out for about six or seven months now. Just curious what the early response has been? And, is it primarily attracting new users from mostly smaller companies -- mostly SMBs?

Doug Merritt (President & CEO):

It is a very exciting product. I think Splunk, again like I was talking about earlier as far as on-prem, cloud, hybrid, we are trying to be present in as many different places as a customer could possibly look at to then take advantage of Splunk. I think Light has definitely opened up more of the smaller departmental and SMB market that wants possibly a simpler product, different price point, et cetera. We are definitely seeing volumes increase. Interestingly, it has been pretty strong in the education sector, which makes sense given the smaller IT staffs, but still a lot of demands that educational institutions have. The whole point was let's make sure that we continue to make Splunk available to multiple different types of customers, and we're seeing that traction with Splunk Light.

Jason Valkemar (Analyst - Robert W. Baird):

Great. Thanks.

Godfrey Sullivan (Non-Executive Chairman):

Thank you.

Dave Conte (SVP, CFO):

You got it.

Operator:

Raimo Lenschow, Barclays.

Andrew Kisch (Analyst - Barclays Capital):

Hi, this is Andrew Kisch on for Raimo. My congrats again to both Godfrey and Doug and on the quarter. Doug, could you update us on how many quota reps you have now? And, now that the head of sales is running the show, do you have any changes in store for how either with pricing or with the structure of the sales org that you could share with us?

Doug Merritt (President & CEO):

Sure. We finished the quarter at as far as direct, individual quota carriers. Obviously, the overall sales org that supports them is larger with presales and overlay of sales and the business value consulting group and the other contributors. As far as changes, I think that that . years of time with the team -- that Splunk is a unique Company with some unique models, and it has been really good learning experience to get the chance to be accountable for that revenue and go to every corner of the globe and see every type of customer to really understand what makes Splunk special. I am absolutely thrilled about the TAM and the growth opportunities. I think we've been effective in driving investment into the field so that we can keep that expansion going at the rate that we need to hit our growth numbers, and I don't see any change in the approaches that we've been taking as far as going after the growth in the market.

Andrew Kisch (Analyst - Barclays Capital):

Great, and congrats again.

Doug Merritt (President & CEO):

Thank you.

Operator:

Kirk Materne, Evercore ISI.

Kirk Materne (Analyst - Evercore ISI):

I'll echo my congrats to both Godfrey and Doug. Doug, I wanted to ask you about the Booz Allen relationship, and you mentioned earlier that you're still doing a lot of co-selling right now. You have such a unique business that offers so much value to your customers once they understand what to do with it. But, one of the things that probably hasn't evolved as quickly is a partner channel around that which could maybe open up the top of the funnel and bring more -- take that new customers a quarter up to . . . Does the Booz relationship open that partnering channel up to you a little bit, and I guess how do you see that evolving as we head into calendar ? Thanks.

Doug Merritt (President & CEO):

Absolutely, Kirk. I will divide that into two aspects of the answer. The Booz Allen relation or our

relationships with Verizon or Accenture or AWS or Cisco or other key strategic partners really helps on handing introductions into accounts and pointed introductions. At Booz Allen, it is going to be all around either drop-ins on some type of breach or mediation or insight into cyber security threats. So, I think that that and other relationships in that security space will help us with better chief information security officers -- CISO-type approaches. Those are great, and we've got some co-selling relationships with some of those organizations. AWS and our reps are hand-in-hand with many of these different accounts, but being able to hand over the end-to-end sale to any of those strategic alliance partners is -- we will work on it. It will be nice to get there.

The second piece is the channel. First-tier distributors like Arrow and second-tier ISVs and VARs, and that's really where we've been working to get them to be able to carry the ball end to end. We have instances of that in the field right now. I need those instances to go up because when that happens our reps can go focus on these six opportunities. The channel can go focus on these other X opportunities, and we can divide and conquer and be successful within the market. And, that was more of what I was talking about -- what I meant with the co-sell is still the major motion with that channel, and we're working hard to get to a leverage sell where they are carrying the ball.

Kirk Materne (Analyst - Evercore ISI):

Thanks very much, and congrats on a great quarter.

Doug Merritt (President & CEO):

Thank you, Kirk.

Dave Conte (SVP, CFO):

Thank you.

Operator:

Matt Hedberg, RBC Capital Markets.

Matt Hedberg (Analyst - RBC):

Thanks for taking my question. Two quick ones. First one, Doug, would you expect to eventually hire a replacement for Head of Field Ops maybe as we get into next year? And then, for Dave, obviously you commented on flat margins next year. Is it safe to assume that cash flow as a percentage of revenue next year? Should that be similar to what we have seen this year? Or, could that, in fact, tick up a little bit? Thanks.

Doug Merritt (President & CEO):

Thanks, Matt. Yes. Absolutely, looking at pulling in a replacement. We will open a search right away now that the news is out, and we have got a lot of very talented folks within our field organization. I'm excited to see what the opportunities are as far as those folks as well as what is out there externally. My Q focus though is that we've got people in seats, they are doing their job, let's keep that motion going at the same time that we look for who the right long-term leader is for that field ops or for the field leadership role. It may turn out to be more than one role.

Dave Conte (SVP, CFO):

This is Dave. As it relates to margin, we've given our preliminary point of view about revenue, and as you might expect, we are right in the midst of all of the heavy lifting around next year's plan so some directional thoughts around the margin is what I intended in terms of what we've given. When we get to

the end of the year, of course, we will get more specific around what you can expect from us not only in terms of margin expansion, but also cash flow as a percentage of revenue. At that time, I'll look to give you some guidance in terms of what FY looks like.

Matt Hedberg (Analyst - RBC):

Got it. Thanks.

Dave Conte (SVP, CFO):

All right.

Doug Merritt (President & CEO):

Thanks, Matt.

Operator:

Kash Rangan, Bank of America .

Kash Rangan (Analyst - BofA Merrill Lynch):

Godfrey, I hope to see you at a [unicorn], and Doug you already have a unicorn so congrats to both of you.

Godfrey Sullivan (Non-Executive Chairman):

Thank you.

Kash Rangan (Analyst - BofA Merrill Lynch):

Unicorns are much better than golf.

Godfrey Sullivan (Non-Executive Chairman):

The thing is when I play golf I get a view of the course that nobody else has ever seen.

Kash Rangan (Analyst - BofA Merrill Lynch):

My question is on the competitive landscape. Doug, you mentioned at the analyst day that you actually sleep quite well, but I wanted to just understand in this quarter what were the major changes you saw with respect to Amazon as a competitor? Sumo Logic, Elasticsearch? Trend-wise any improvement? Win rate? The competition falling off would be useful. And, secondly, Doug, one for you. What would you attribute the license upside to? Was it one or two large transactions? And also, when we look at your mix of business coming from ratable, is it fair to say that -- or let me ask this. If all of your business had just been license and no subscription, what would your business have grown by this quarter? (laughter) Thank you. I have to ask that mesmerizing question.

Doug Merritt (President & CEO):

You do. I know you do. Let me take the competitive, and then I'll hand over the ratable and mix to Dave. On the competitive front, I really have not seen any notable changes in the marketplace. First of all, AWS is not a competitor. We are not in competitive situations with AWS. Amazon is a customer of Splunk, one of the customers we talked about in the early remarks, and I think the synergies between the two companies right now are strong. It is an evolving landscape.

AWS has got to serve their constituency. You never know what is going to happen, but we're the only

monitoring partner with a blueprint for [land that] AWS reinvent. After the reinvent show, AWS posted their own blog on the benefits of kinesis combined with Splunk where they actually said, this powerful combination lets you quickly capture, analyze, transform and visualize streams of data without needing the right complex code using Amazon kinesis client libraries. I think there is great synergies with us and AWS and we will continue to work aggressively to make sure they stay as synergies.

And then for the rest of the competitive front, Elastic remains something that is popping up in our accounts. You can't stop freeware and open source from being downloaded. Where we have dropped into accounts and had a discussion with the account, we had the whole build versus buy workshops, I was talking about at the analyst day. Our win rate is ridiculous. The overblown costs of something like Elastic become incredibly apparent. We just build out for the use cases and then look at the development time, the hardware costs, the operational costs, and it literally is a X to X and in some cases increase. What looks like free is not free, and Godfrey has focused on us a bunch of different times. I think the competitive landscape remains the same, and we've got to fight everyday to take that big TAM , but we are up for the fight.

Dave Conte (SVP, CFO):

Hi Kash, this is Dave. As it relates to license, we had really nice execution globally in terms of all the sales teams closing transactions with Fortune companies at meaningful amounts, and that's what you see in the ASPs. The license performance, the ASP performance and of course, the overall growth metrics are reflective of, I think a collective effort. And as Doug mentioned in his prepared remarks, of course with September being said year-end we had a very nice quarter in the public sector of the Americas, were just terrific in terms of breadth and diversity across different industry verticals across all of the regions, and similarly, internationally. The quality and diversity of the customers who are looking to extract value from their data with Splunk is just -- the momentum is terrific.

And your last, and your favorite question, of course, is with the mix, what would growth be? Again, I have agreed with you philosophically that if mix was lower, then growth rates would be higher. But we build in, again, assumptions around mix, although it is the most difficult component of our model to predict, and we build that into the outlook that we give. I think we're certainly really pleased with the results, and it was a super strong order. And were going to do the best we can to keep updating you guys on how we think mix -- again, how does mix stabilize over time? I'd like to say we've gotten to a level of stability (technical difficulty) annual %, but only experience will prove that to be true.

Kash Rangan (Analyst - BofA Merrill Lynch):

I will keep asking the mesmerizing questions.

Dave Conte (SVP, CFO):

Fair enough.

Doug Merritt (President & CEO):

Good question, Kash.

Operator:

Brian White, Drexel.

Brian White (Analyst - Drexel Hamilton):

Congrats, Doug and Godfrey. I don't want to leave out David and Ken, so congrats on a new boss tonight.

Dave Conte (SVP, CFO):

My wife won't agree with that, but I will.

Brian White (Analyst - Drexel Hamilton):

My question is around ASP here. This is a pretty substantial uptick sequentially. I think last quarter you said \$,, you said \$, this quarter. You've always put it in a range of \$, \$,, so I just want to be clear. This is a trend we should expect to continue into FY? Is there an anomaly with ASPs this quarter? That is my first question. Second question is just around cross-selling. You've got this expanding portfolio, and I'm just wondering if you're able to cross sell a lot of these new products that you've been coming out with. Any metrics around that would be great. Thank you.

Dave Conte (SVP, CFO):

Sure. I definitely would not characterize this as a trend. It's the single quarter where we've hit historically high and notably higher than any other quarter in terms of ASPs. Importantly, as we look across the population of transactions, as I'd mentioned to Kash, we just did so many high-quality transactions where customers were really looking to adopt the platform, that it's reflective of the ASPs. Now, if that continues into the fourth quarter and then when we start looking at our outlook specifically for the first quarter and we believe that the trend in ASPs is upticked, then we will give you that update at that time. But a single quarter is not enough yet for me to declare that a trend.

Brian White (Analyst - Drexel Hamilton):

Okay. (Multiple speakers)

Doug Merritt (President & CEO):

On the cross-selling piece, watching IT SI get launched was awesome, because that obviously was our core market, the whole IT ops and app --development app deployment marketplace. And I think it really has reinvigorated that market. You put out an application that uplevels the game on top of the platform. And we saw last quarter as we released IT SI and people started focusing on that IT ops use case is a little bit of a uptick, and the use case purchasing for the platform within that buying center. And I'm watching that happen. Fed obviously is a pretty security-heavy group right now, and I'm watching a lot of their security use cases start there. And then as we show them some of that IT SI or partner applications as well, they drag -- they've already got % of data they need or % of the data they need, and they can get immediate value with small additions of data in one of these applications. I do think it helps, and it certainly helps with the Splunk as a data fabric platform that messages well.

Brian White (Analyst - Drexel Hamilton):

Okay. Again, congrats, guys. Great job.

Doug Merritt (President & CEO):

Thanks, Brent. Appreciate it.

Operator:

Steve Koenig, Wedbush Securities.

Steve Koenig (Analyst - Wedbush Securities):

Hi, gentlemen, thanks for squeezing me in.

Doug Merritt (President & CEO):

Hi, Steve.

Steve Koenig (Analyst - Wedbush Securities):

Godfrey it's a little hard to believe that I won't be following you at any more companies. I'll believe it when I see it, how's that?

Godfrey Sullivan (Non-Executive Chairman):

All right. Thanks very much for your kind words. I appreciate that.

Steve Koenig (Analyst - Wedbush Securities):

Well, thank you, Godfrey, and Doug, congrats you as well.

Doug Merritt (President & CEO):

Thank you, Steven.

Steve Koenig (Analyst - Wedbush Securities):

I wanted to ask you guys, a little similar to Kash's question, on bookings, you don't give bookings metrics, so we can only guess at the math. But you obviously are very rock solid on licenses, and that's despite the variability in the recurring mix of bookings. Maybe Dave, if you can elaborate a little bit on, what is it that allows you to achieve that consistency on licenses, even though bookings is moving around? Is it conservatism in the guidance, or do you have levers you can pull in terms of how you direct -- in sense of field, or are there other factors I'm not thinking about?

Dave Conte (SVP, CFO):

Well, I'd like to say it's been consistent, but in reality, the guidance around the mix has been a metric I have updated now five times since we've gone public -plus years ago. And even with that guidance, we've fallen outside of the range probably just as many times as we haven't. Ultimately, the quality of execution is in that the field continues to deliver, and deliver in a meaningful way. So, with a robust portfolio of transactions, that flows through to the income statement. There have been quarters where the mix has been all over the board, and there's been geography deltas between income statement and balance sheet, and some folks and their models have had confusion there. It's like, well, we like your revenue beat, but where's the deferred? If we had beat less on revenue, then we would have more deferred, right? Those go together.

But again, I think the fundamental, or the foundation, for our ability to continue to deliver, I think enviable results, is grounded in unbelievable execution in the field. Of course, that is coupled with great execution in the products groups, because -- I think it was probably two years ago, Godfrey and I, we started talking about from single product to multiproduct, and focused on adoption. So, the product teams in the market groups providing these solutions to customers, coupled with terrific execution, that's how we are succeeding. Customers love the product. And that's why from an investment perspective, and we've talked about it now a couple of times, when you look at the TAM, we had early it is. It's all about ensuring that we have the appropriate amount of coverage so that we can go reach the customers and that we deliver the appropriate amount of technology that continues to lead them down the value prop. So, that's where we are focused.

Now, if you think back to analyst day, we tried to give some color in terms of the relationship between what you can calculate from the face of the financial statements, which is a billings number, and what

revenue we recognize. And that has been pretty consistent relationship over the last, is it, what, three years? So, we are staring at that and say, boy, is that something that -- is that coincidental, or is that something that we would build our own model around to help us solve the ratable mix question? But I think it is a decent proxy to look at, with some variability, as you would expect, in terms of, how do I try to fit in the geography question between income statement and balance sheet? Check out that relationship, we are doing the same thing on our side. We get to the end of the year and if we think it's meaningful, then we will give some more color on it.

Steve Koenig (Analyst - Wedbush Securities):

Alright, sounds good. Congrats, you guys. Thanks again

Dave Conte (SVP, CFO):

Thank you.

Doug Merritt (President & CEO):

Thank you, Steve.

Operator:

Tim Klasell, Northland Securities.

Tim Klasell (Analyst - Northland Securities):

Hey, I'll throw my congratulations all around to you guys as well. I have a little different question. We've been talking a lot about the apps, the security apps and the IT ops, but you have a pretty active developer community. Are you beginning to see some of the apps, I would say leak out of the IT department where maybe business analysts or what have you, who aren't really core developers, beginning to use the product fairly consistently? Probably developed by their IT department, but again, moving out?

Doug Merritt (President & CEO):

Yes, for sure, and that's something -- I think every earnings call, Godfrey has always told two or three fun stories that are more business analytics-oriented, or in some cases, IoT. And Tim, I would agree with you. The bulk of those are apps or frameworks delivered by IT for line of business, but there are cases. There's a massive semiconductor organization where their engineering team actually uses Splunk natively because they are parsing through massive amounts of CAD/CAM data, floor machine data to try to figure out, are there anomalies or discrepancies, either in the design of future chips or the current chips. I think we've got a more technical end user base, then we still have got a really good UI for them. And we recently brought on Snehal Antani as our CTO, and the guy who's helping to drive the strategy for business analytics and IoT to do what we have done in security and ITOA there. Let's watch our customers, let's spend lots of the time with those customers. They've been really good at leading us to the next step of repetitive high value use cases, and figure out what wrappers can we put around the products so that third-party developers, internal IT shops, or even better, individual end users can start to get value of Splunk as well.

Tim Klasell (Analyst - Northland Securities):

Okay, good, and is that meaningful revenues right now, or are they just interesting use cases and it's going to take a few years to grow?

Doug Merritt (President & CEO):

I think that non-ITOA, nonsecurity segment has always been in between, from what I've -- %-ish to %-ish.

Dave Conte (SVP, CFO):

It has been % or less in aggregate across analytics, IoT, industrial. I think that's as much a factor of the high level of growth that we've experienced in security in our core markets as it is for those folks not growing. But as Doug mentioned, in terms of having a tailored solution that we put into the field that is specific to a highly repeatable use case in those markets, we have not identified that at this point. Our customers are using the platform in thousands of different use cases that fit into those categories. And the work that Snehal and the rest of us are doing is to say, okay, how do we help customers with a tailored solution on top similar to IT SI that is a refeedable data extraction and value prop that we would then put it into GTM team?

Doug Merritt (President & CEO):

My only reservation about those numbers that we've been giving out is that those are the initial buy designations when the deal is first done. But the expectations, I feel like we're failing if that initial buy doesn't quickly transform into additional use cases and new data sources. So, that's a squishy number. And as Dave said, there are thousands of apps and uses and customers. On this call we talked about Lloyds, Progressive, CenterPoint, Fruit of the Loom, BMW, Target, as a handful of those who are using us for everything from robotics instrumentation to customer intimacy and understanding on mobile apps and websites.

Operator:

Thank you. Greg McDowell, JMP Securities.

Greg McDowell (Analyst - JMP Securities):

Great, thank you very much, and I'm honored to ask the last question. Godfrey, I think history is going to judge you as one of the truly iconic Silicon Valley CEOs. And to that end, I was hoping we could maybe spend a minute bringing it to a higher level and maybe asking you to maybe reflect on your journey at Splunk and even to this day, what you think investors most misunderstand about the Splunk story. And I guess the second part of my question is your parting advice to Doug and the Management team on maintaining the culture over at Splunk, a culture of innovation and execution and how the team can maintain what you started over there. Thanks.

Godfrey Sullivan (Non-Executive Chairman):

Well, thanks for that question. I could go for a while on these topics. First of all, I enjoy the compliment, because our younger daughter still thinks I am a dork, so that I would be remembered some of the way is actually quite encouraging. When I think back on the journey of Splunk, the thing that's been consistent throughout all those years has been the culture that's disruptive, innovation, irreverent, nonconformist culture built around trying to do things a new way. It showed up in the products to begin, but now it has showed up in every part of the way we maintain our relationship with our customers and the way we try to deliver value. I still look at Splunk from early days and say we are one of the rare companies that just gave customers software and said, use it and prove value to yourself. And when you're happy, you let us know and we'll be happy to participate with you. And I think to a great degree, customers still appreciate the fact that Splunk has one of the most customer-oriented and customer-friendly approaches to the market of any software company that's ever lived. And I think we'll have that as a highlight for years to come.

So, it's been a true honor to be a part of this place. I don't know that you lead as much as you party with

it. You have to be able to hang with Splunk. It's not quite the normal leader-led company as much as it is the tribe that leads it and everybody else is a part. But anyway, that's awesome, and my advice to Doug, well, I've been giving him advice for two years now, so I'm not sure he needs anymore of my advice. I think he comes pretty mission ready for the job. The best part of internal succession is you have already learned all the products, you've learned the customers, you know the culture. He's been out on the road nonstop the last couple of years. I don't know how many customers you've met with so far and how many engineering meetings you've been in and how many QVRs. But I think his eminently ready for the job. And the nicest part about it is I don't have to actually do much in terms of coaching, because we have working together effectively for a long time now.

I'm just thrilled to see the Company where it is. I think the future is brighter than the past. Our use case is continually expanded, our customers continuing to be advocates for us. It is a wonderful and remarkable place to be, and I just think that now is a great time for a transition while business is great and velocity is good, and I think Doug is exactly the right person to take us to the next chapter. Thank you for that question.

Greg McDowell (Analyst - JMP Securities):

Thank you.

Operator:

Thank you. That is all the time that we have for questions today, so I would like to turn the call back over to management for closing remarks.

Godfrey Sullivan (Non-Executive Chairman):

I will take this last opportunity to do one more wrapup, which is just to say I am so, so proud of the team, and I'm proud of everybody in the Company. The employees here have done a remarkable job of building software and delivering customer success, and it is still what we do. Thank you for all your support. Doug, congratulations on the promotion, Dave, Ken, the whole gang, congratulations to all of you, and let's rock. This party is just getting started. Thank you.

Doug Merritt (President & CEO):

Yes sir, Mr. Chairman.

Godfrey Sullivan (Non-Executive Chairman):

Thanks very much.

Operator:

Ladies and gentlemen, thank you for again your participation in today's conference. This now concludes the program

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