

Salesforce, Inc. NYSE:CRM

FQ1 2025 Earnings Call Transcripts

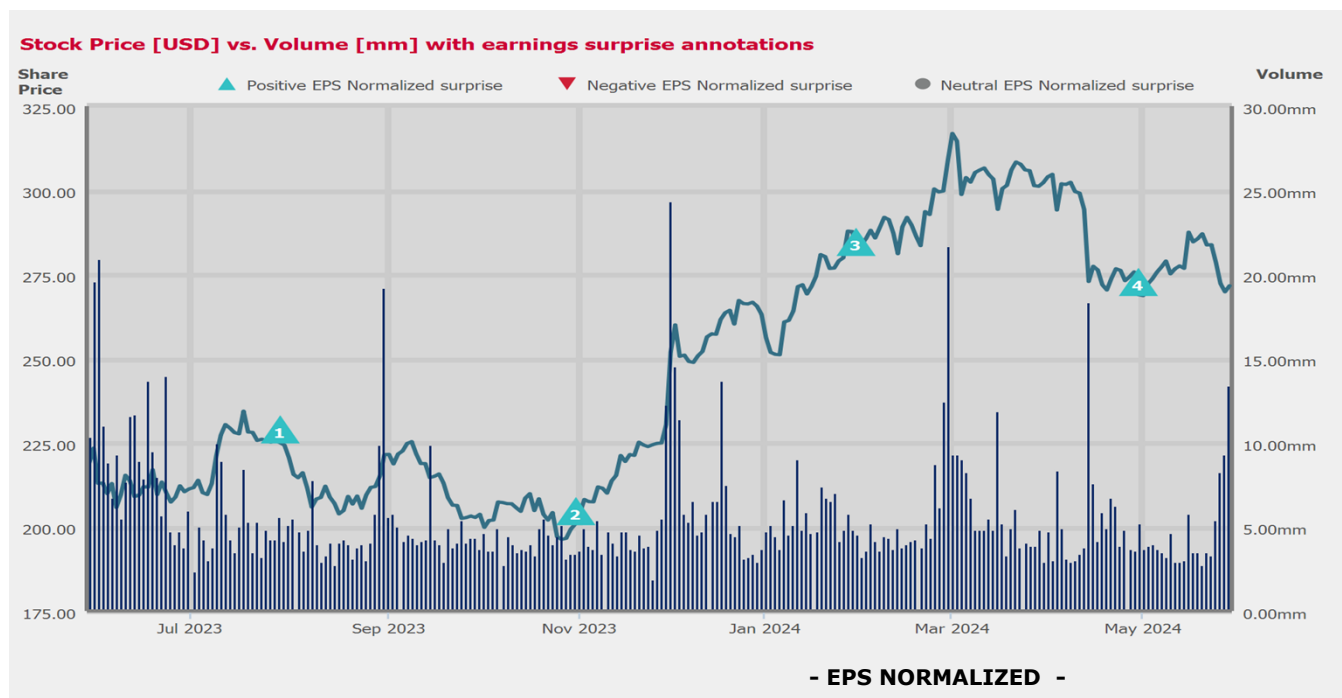
Wednesday, May 29, 2024 9:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2025-			-FQ2 2025-	-FY 2025-	-FY 2026-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS	GUIDANCE
EPS Normalized	2.37	2.44	▲ 2.95	2.38	9.75	11.11	-
Revenue (mm)	9146.38	9133.00	▼ (0.15 %)	9273.83	38008.53	41947.17	50000.00

Currency: USD

Consensus as of May-29-2024 9:56 PM GMT



	CONSENSUS	ACTUAL	SURPRISE
FQ2 2024	1.90	2.12	▲ 11.58 %
FQ3 2024	2.06	2.11	▲ 2.43 %
FQ4 2024	2.27	2.29	▲ 0.88 %
FQ1 2025	2.37	2.44	▲ 2.95 %

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Call Participants

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Presentation

Operator

Welcome to Salesforce's Fiscal 2025 First Quarter Results Conference Call. [Operator Instructions]

I would now like to hand the conference over to your speaker, Mike Spencer, Executive Vice President of Finance and Strategy and Investor Relations. Sir, you may begin.

Michael Spencer

Executive Vice President of Investor Relations

Thanks, and good afternoon. Thanks for joining us today on our fiscal 2025 first quarter results conference call. Our press release, SEC filings and a replay of today's call can be found on our website.

Joining me on the call today is Marc Benioff, Chair and CEO; Amy Weaver, President and Chief Financial Officer; and Brian Millham, President and Chief Operating Officer.

As a reminder, our commentary today will include non-GAAP measures. Reconciliations of our GAAP and non-GAAP results and guidance can be found in our earnings materials and press release.

Some of our comments today may contain forward-looking statements that are subject to risks, uncertainties and assumptions, which could change. Should any of these risks materialize or should our assumptions prove to be incorrect, actual company results could differ materially from these forward-looking statements. A description of these risks, uncertainties and assumptions and other factors that could affect our financial results is included in our SEC filings including our most recent report on Forms 10-K, 10-Q and any other SEC filings. Except as required by law, we do not undertake any responsibility to update these forward-looking statements.

And with that, let me hand the call over to Marc.

Marc R. Benioff

Co-Founder, Chairman & CEO

All right. Thanks so much, Mike. I'm really excited for the call today because there's two things that I've really been looking forward to talking about. First is our incredible financial transformation, as you can see from the numbers today, and the second is the incredible work that's happening with artificial intelligence.

Look, first of all, in Q1, we delivered \$9.13 billion in revenue, up 11% year-over-year in both nominal and constant currency. Subscription support revenue grew at 12% year-over-year and 13% in constant currency.

And for the 11th year in a row, Salesforce is still ranked the #1 provider worldwide by market share based on the latest IDC software tracker. I mean that really gets to a core part of our technology transformation that I'm going to get to, which is the transformation to AI. And because we are the #1 CRM provider. We're now managing more than 250 petabytes of data for our customers. This is going to be absolutely critical as they move into artificial intelligence.

And now also, let's turn to our financial guidance. For fiscal year '25, we're maintaining our revenue guidance of \$37.7 billion to \$38 billion, growth of 8% to 9% year-over-year, and we now expect fiscal year '25 subscription and support revenue growth to be approximately 10% year-over-year in constant currency. As you can see from our results, we remain committed to profitable growth at scale, and I would also say, incredible cash flow and continue to expect fiscal year '25 non-GAAP operating margin of 32.5%, a 200 basis point improvement year-over-year.

I'm extremely proud of our team's focus and determination to deliver this world-class financial results, including this cash flow and profitability in the quarter. And Brian and Amy will discuss Q1 performance in much greater detail.

As I said, I couldn't be more excited about the opportunity ahead for Salesforce not only with these incredible financial results but in the incredible transformations that we're leading with our customers in artificial intelligence. Every company in the world, across every industry, is being transformed by AI in the next few years. And when you look at the power of AI, you realize the models and the UI are not the critical success factors. It's not critical where the enterprise will transform. There are thousands of these models, some open source and some close source models, some built with billions, some with just a few dollars, most of these will not survive. They're just commodities now, and it's not where the intelligence lies. And they don't know anything about a company's customer relationships.

Each day, hundreds of petabytes of data are created that AI models can use for training and generating output. But the one thing that every enterprise needs to make AI work is their customer data as well as the metadata that describes the data, which provides the attributes and contacts the AI models need to generate accurate, relevant output. And customer data and metadata are the new gold for these enterprises. And Salesforce now manages, as I mentioned, 250 petabytes of this precious material.

We have one of the most and largest repositories of front-office enterprise data and metadata in the world. And every day, more companies are adopting Salesforce as their front office, bringing all their structured and unstructured data into our platform. Nearly half of our top 50 wins in the quarter included 6 or more of our clouds. That really speaks to the comprehensive nature of our strategy. It's incredible. And many of these customers have a central business and customer data that exists outside of Salesforce that's trapped in thousands of apps and silos. It's disconnected.

That's why we're seeing this incredible momentum with our Data Cloud, our fastest-growing organic, and our next billion-dollar cloud. It's the first step to becoming an AI enterprise. Data Cloud gives every company a single source of truth and you can securely power AI insights and actions across the entire Customer 360.

Now let me tell you why I'm excited about Data Cloud and why it's transforming our customers and how it's preparing them for this next generation of artificial intelligence. Data Cloud was included in 25% of our \$1 million-plus deals in the quarter. We added more than 1,000 Data Cloud customers for the second quarter in a row. 8 trillion records were ingested in the Data Cloud in the quarter, up 42% year-over-year, and we processed 2 quadrillion records. That's a 217% increase compared to last year.

Over 1 trillion activations drove customer engagement, which is a 33% increase year-over-year. This incredible growth of data in our system and the level of transactions that we're able to deliver not just in the core system but especially in data cloud is preparing our customers for this next generation of AI.

And last month, we created a Zero Copy Partner Network with partners, including Amazon, Databricks, Google, IBM, Microsoft and Snowflake, so customers can access this live data from anywhere in Data Cloud without copying or moving it. It's the engine of our future growth, and this is the engine of our future artificial intelligence growth as well.

As you know, for years, we've delivered predictive AI across all our clouds with Einstein. Einstein is generating hundreds of billions of predictions per day, trillions per week. Now we're working with thousands of customers to power generative AI use cases with our Einstein Copilot, our Prompt Builder, our Einstein Studio, all of which went live in the first quarter, and we've closed hundreds of Copilot deals since this incredible technology has gone GA. And in just the last few months, we're seeing Einstein Copilot develop higher levels of capability. We are absolutely delighted and could not be more excited about the success that we're seeing with our customers with this great new capability.

Saks, a leader in the luxury fashion market, part of Hudson's Bay, went all-in on Salesforce in the quarter. CEO Marc Metrick is using AI to create more personal experiences for every customer touch point across their company. And with our Einstein 1 Platform in Data Cloud, Saks can unify and activate all its customer data to power trusted AI.

Another great story is FedEx, a company that we all know, bringing together previously siloed information. It's the leader in getting packages delivered quickly. And of course, how are we going to now deliver a more productive, more efficient and more profitable FedEx? The Salesforce data and app and AI

capabilities generate expense savings. This is the core efficiency while growing and accelerating top line revenue. This is the effectiveness that we're delivering for FedEx. This efficiency includes next best action for sellers, automated lead nurturing, Slack for workflow management, opportunity scoring, a virtual assistant, AI on unstructured data for delivering content to sales and customer service.

And when we think about effectiveness, we see our Journey Builder delivering hyper personalization, integrating customer experiences across service, sales, marketing, the ability to tailor and deliver customer experiences based on a Customer 360 view.

When we look at these incredible next generation of capability we've delivered at FedEx, gone now are these days of static business rules that leave customers dissatisfied, asking, "Do they not know that I'm a valued customer of FedEx?" Now FedEx has not only the power of the Customer 360 but the power of AI to unlock so much more commercial potential by conducting an orchestra of commercial functions that never played well together before.

You have a significant opportunity now with Salesforce and this incredible platform that sellers can convince companies to transform all of their incredible capabilities to deliver another level profitability. I think stories like that are driving our company forward, and it's all driven by the power of artificial intelligence.

Another story I'm really excited about in the quarter is Air India, transformed with data and AI. If you don't know about Air India, they're an incredible airline who's acquired multiple airlines to create this amazing platform for India's growth. And with Data Cloud, Air India is unifying Data Cloud across loyalty, reservations, flight systems and data warehouses. They have a single source of truth to handle more than 550,000 service cases each month. And now with Einstein, we're automatically classifying and summarizing cases and sending that to the right agent who'd recommend the next steps and upgrading in high-value passenger experiences. Even when things happen like a flight delay, our system is able to immediately intervene and provide the right capability to the right customer at the right time.

All of that frees up agents to deliver more personal service and create more personal relationships, a more profitable, a more productive, a more efficient Air India, a company that's using AI to completely transform their capability.

We are looking forward to talk to you more in this call about these incredible transformations, the financial transformation that we've gone through with these incredible cash flow and margin numbers and this incredible artificial intelligence transformation.

And now over to Brian.

Brian Millham
President & COO

Thanks, Marc, and thanks to all of you for joining us today. I also want to thank the team for their hard work this quarter. As Marc said, we're incredibly well positioned for this AI transformation. We're the #1 AI CRM innovating at a pace I've not seen in my entire career. I could not be more excited about the opportunity ahead.

We're seeing good demand as AI technology rapidly evolves and customers recognize the value of transforming into AI enterprises. CEOs and CIOs are excited about the opportunity with data and AI and how it can impact their front-office operations.

We continue to focus on our growth levers of multi-cloud deals, international expansion, industry solutions, the Salesforce ecosystem and, of course, the data and AI innovations across all of our clouds.

Now let me briefly address the buying environment. We continue to see the measured buying behavior similar to what we experienced over the past 2 years and with the exception of Q4 where we saw stronger bookings. The momentum we saw in Q4 moderated in Q1 and we saw elongated deal cycles, deal compression and high levels of budget scrutiny.

In addition, in Q1, as part of our ongoing transformation, we made some intentional changes in our go-to-market organization to drive long-term productivity and create better customer experiences, which also played a role in the softer bookings performance. At the same time, we are seeing strong momentum in various parts of our business, particularly Data Cloud and industries. And we continue to drive our core growth levers. Multi-cloud deals, again, were a highlight for us in the quarter with 6 of our top 10 deals, including 6 or more clouds, showing the depth and relevance of our portfolio.

Let me give you just one example of a company that is using Salesforce across the entire front office. CrowdStrike, a leading cybersecurity company and a longtime customer of Salesforce added Data Cloud, Marketing Cloud, Commerce Cloud, Revenue Cloud and MuleSoft in the quarter. CrowdStrike already relied on Einstein 1 sales and service and Slack, and now they'll use Data Cloud to pull together new and trapped data from data lakes to build a 360-degree view of their customers, helping them align sales and marketing efforts to drive growth.

They're also leveraging MuleSoft with incredible results. MuleSoft has helped CrowdStrike accelerate project delivery by 30% and decrease maintenance costs by 20%. Salesforce is now the backbone of CrowdStrike driving every aspect of CrowdStrike's operation and limiting the reliance on complex siloed third-party applications.

As Marc said, we're seeing impressive growth in our Data Cloud business. In the quarter, 25% of our deals over \$1 million included Data Cloud. It's obviously an important growth lever for us as it brings all of our clouds to life and makes them all better.

And we continue to see momentum in Einstein AI with wins at Turtle Bay Resort, Autodesk and Langley Federal Credit Union as companies transform into AI enterprises.

One example is Siemens. Siemens lacked a centralized destination for customers to easily choose the right products and buy on demand. To simplify the buying experience for customers, Siemens worked with Salesforce to develop and launch its Accelerator Marketplace, an AI-powered digital marketplace built on Einstein 1 Commerce, providing AI-generated product pages, smart recommendations and self-service ordering. And they did it all in just 6 months.

And obviously, AI is not just for our customers. As part of our own transformation, we continue to adopt AI inside Salesforce. Under the leadership of our Chief People Officer Nathalie Scardino and our Chief Information Officer Juan Perez, we've integrated Einstein right into Slack, helping our employees schedule, plan and summarize meetings and answer employee questions. Einstein has already answered nearly 370,000 employee queries in a single quarter. In our engineering organization, our developers now save more than 20,000 hours of coding each month through the use of our AI tools. These innovations are helping us drive continued efficiencies across the business and accelerate our product road maps.

We have great momentum with Slack, which again was included in nearly half of our top 50 deals in the quarter. We also launched Slack AI in February, an amazing innovation that provides recap, summaries and personalized search right within Slack. I personally have been using it every day to get caught up on the conversations happening in every channel. And we've seen great traction with our customers with this product, and our customers have summarized over 28 million Slack messages since its launch in February.

Rocket Mortgage added Slack AI in the quarter to help its employees save time and close loans faster. They've also leveraged external Slack channels to collaborate with partners more effectively and efficiently. (sic) [This statistic was inadvertently attributed to Rocket Mortgage.]

On the international front, we had a solid quarter. In Lat Am, we had great wins at Cielo and Grupo DPSP; in EMEA, great wins at IHG Hotels & Resorts and John Lewis partnership; and in APAC, Atlassian and Bank of Philippines Islands were wins in the quarter. We saw particular strength in our Japan business, with wins at Seibu Prince Hotels worldwide and Hitachi.

Industries was another growth lever for us in the quarter. Half of our top 10 (sic) [top 100] deals included one of our industry cloud. A great example in the quarter was Paychex, a digital HR leader. By leveraging Financial Service Cloud and Data Cloud, Paychex is able to unify their data, delivering better insights and creating a single view of each customer. And using Einstein 1 sales and service, Paychex will

be able to proactively manage insurance renewals, which means agents can proactively reach out and surface renewal opportunities during any touch point with the customer, 30, 60 or 90 days in advance, driving an increased rate of renewals.

And in the public sector, the city of Los Angeles chose Salesforce to modernize how the city's 4 million residents request city services using its MyLA311 system. The city will use government cloud and other Salesforce solutions to integrate AI assistance into MyLA311 and modernize its own constituent-facing services, giving residents more self-service options and improving service reliability and responsiveness.

Our partner ecosystem also continues to be a growth lever for us. I'm especially excited about our deep partnership with Amazon as a growth driver as we move forward into Q2 and beyond with Salesforce products now available on the AWS marketplace. Joint customers are able to expedite their deployments through faster buying and billing experiences and flexible budgeting options.

In closing, I want to echo Marc in acknowledging the hard work of the team, our continued success has been made possible by our amazing employees, customers, partners and trailblazers.

And with that, I will now pass it off to Amy.

Amy E. Weaver
President & CFO

Great. Thanks, Brian. Q1 represents another quarter of continued discipline and transformation across the business. I am very proud of all of our employees for their continued dedication and hard work. Now let's go straight to the results.

For the first quarter, revenue was \$9.13 billion, up 11% year-over-year in nominal and constant currency. The result was at the lower end of our guided range due to continuing pressures on professional services, some license revenue volatility and the continued measured buying environment.

Subscription and support revenue grew 12% year-over-year in nominal and 13% in constant currency. As mentioned on our last call, this included a tailwind from the timing of license revenue in MuleSoft and Tableau related to Q4 deals and a 1 point benefit from the leap year.

From a geographic perspective, in Q1, Americas revenue grew 11%, EMEA grew 10% or 9% in constant currency, and APAC grew 14% or 21% in constant currency. We saw strong new business growth in Japan, India and Canada, while the U.S., parts of Lat Am and EMEA were constrained.

From an industry perspective, in Q1, public sector and financial services both performed well, while high tech and retail and consumer goods were more constrained. Our new offerings for small and medium businesses, Starter and Pro Suite, which are ready-to-use, simplified solutions, with AI built in, are building momentum. In Q1, we added another 2,300 new logos to these products. Since Starter's launch last year, we've seen customers upgrade to our recently launched Pro Suite and even to our Enterprise and Unlimited editions.

Q1 revenue attrition ended the quarter at around 8%, in line with recent quarters. I'm also very pleased that our non-GAAP operating margin again finished strong at 32.1%, up 450 basis points year-over-year. And our profitable growth trajectory continues to drive strong cash flow generation.

Q1 operating cash flow was \$6.25 billion, up 39% year-over-year. Q1 free cash flow was \$6.1 billion, up 43% year-over-year. Cash flow did benefit modestly from the timing of cash tax payments. Now to put this cash flow performance in context, we have more than tripled the cash we generated just 4 years ago.

Turning to remaining performance obligation, RPO, which represents all future revenue under contract. We ended Q1 at \$53.9 billion, up 15% year-over-year. Current remaining performance obligation, or CRPO, ended at \$26.4 billion, up 10% year-over-year in nominal. Now this includes a \$200 million FX headwind, which results in more than 10% year-over-year growth in constant currency. CRPO growth was primarily driven by resilience in our core products. However, as Brian mentioned, we did continue to experience measured buying behavior, which is reflected in the moderated Q1 bookings.

On capital return, we were incredibly proud to pay out our first ever quarterly dividend of \$0.40 per share for a total of \$388 million. And altogether in Q1, we returned more than \$2.5 billion in the form of share repurchases and dividends. This brings our total cash return since the inception of our capital return program to more than \$14 billion. We remain committed to continued capital return and anticipate declaring our quarterly dividend next month, subject to Board approval.

Now let's turn to guidance, starting with full fiscal year '25. A few items to note. First, on the buying environment, we are assuming that the conditions we saw in Q1 continue throughout our fiscal year. On FX, our revenue guidance continues to incorporate a \$100 million FX headwind year-over-year or about a 30 basis points impact. We also continue to expect our professional services business to be a headwind to revenue, with deal compression and customers delaying or slowing projects. However, we also continue to see strong demand for data cloud and multi-cloud adoption. We're seeing benefits from recent pricing and packaging changes, and we're seeing strong industries adoption. These factors are also included in our guide.

As a result, on revenue, we are maintaining our guidance range of between \$37.7 billion to \$38 billion, growth of 8% to 9% year-over-year. We now expect subscription and support revenue growth to be approximately 10% year-over-year in constant currency. And we expect attrition to remain generally consistent at slightly above 8% for the full year. As a reminder, starting in fiscal '25, we include Slack invoice in the metric, which we expect to create a modest headwind.

Now turning to profitability and cash flow. On margins, we continue to expect fiscal year '25 non-GAAP operating margin of 32.5%, representing a 200 basis point improvement year-over-year, following the significant increase last year. This incorporates intentional investments in targeted growth opportunities, notably AI, data and our core businesses.

Stock-based compensation is now expected to be just above 8% as a percent of revenue. The modest increase from our prior guidance is primarily a result of lower voluntary employee attrition in Q1 than in recent years. As a result, for fiscal year '25, GAAP operating margin guidance is expected to be approximately 20%, representing 550 basis points of improvement year-over-year. We expect fiscal year '25 GAAP diluted EPS of \$6.04 to \$6.12. Non-GAAP diluted EPS is expected to be \$9.86 to \$9.94.

As a result of our continued margin expansion, we are delivering world-class cash flow, and we continue to expect fiscal year '25 operating cash flow growth to be approximately 21% to 24%, inclusive of cash tax payment headwinds. We also continue to expect CapEx for the fiscal year to be slightly below 2% of revenue. This results in free cash flow growth of approximately 23% to 26% for the fiscal year.

Now to guidance for Q2. On revenue, we expect \$9.2 billion to \$9.25 billion, up 7% to 8% year-over-year in nominal and approximately 8% in constant currency. CRPO growth for Q2 is expected to be 9% year-over-year in nominal, including a \$200 million FX headwind, resulting in 10% constant currency growth. This includes ongoing headwinds from professional services. For Q2, we expect GAAP EPS of \$1.31 to \$1.33 and non-GAAP EPS of \$2.34 to \$2.36.

In closing, I want to emphasize that I am incredibly proud of the company's commitment to disciplined, strategic investments and continued productivity gains to drive strong margin expansion and cash flow growth at scale. And of course, I want to thank our employees and our shareholders for their continued support.

Now Mike, let's open up the call for questions.

Michael Spencer

Executive Vice President of Investor Relations

Thanks, Amy, and thanks, everyone, for joining. [Operator Instructions] And with that, Rob, we will take the first question.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Keith Weiss from Morgan Stanley.

Keith Weiss

Morgan Stanley, Research Division

I appreciate all the detail on sort of the growth drivers and what you guys are excited about in the business. But the quarter did come in below your expectations for CRPO growth, and we all look at that as a forward indicator, but you're not taking down the full year revenue guidance. So I was hoping you could help us get comfortable on why that's not leaving risk on the table and why you guys feel comfortable that original fiscal year '25 guide is still appropriate. Like, why not take it down and make it more conservative and ensure that we can get back to beat and raise quarters on a go-forward basis?

Amy E. Weaver

President & CFO

Great. Keith, thanks for the question. I'll take that one. Let me start by saying that there are many factors we have to consider within our guidance. And all in, based on what we're seeing at this time, we continue to believe that we will be within the range we guided. .

Now any guide, that is a balancing act. And as Brian called out, we are continuing to see this measured buying behavior. It's really been very consistent for the last 2 full years at this point with the possible exception of Q4 where we did see stronger bookings. And you can see the impact of that environment on our Q1 numbers. There's no question about that.

ProServ also continues to see more and more pressure as customers are really just looking for shorter duration projects. However, this is really balanced by the demand that we are seeing in our products, and that remains strong. We continue to see good demand on multi-cloud adoption. We're seeing benefits from pricing and packaging changes that we have rolled out over the past year. We're seeing very healthy adoption around our industries projects.

I also should point out that our attrition rate remains very healthy. Customers are continuing to rely on Salesforce to run their businesses, and they'll continue to do that. So when I step back and really take a holistic view of the full year. We do feel confident that we will be within our guidance range.

Marc R. Benioff

Co-Founder, Chairman & CEO

I'd like to add, I really continue to focus on, exactly like Amy says, this incredible transformation that we've seen with the financials. And obviously, we're delivering some numbers this quarter that were beyond our imagination just a few quarters ago. .

Another point of optimism is not just what Amy said but also we see this incredible transformation happening with our customers. And we all know the AI transformation is many transformations. It's a transformation of how we're interacting with software. It's also a transformation of these algorithms, what we call these models that the AI is built on, and it's a transformation of the data that's used by whether it's consumers or enterprises to deliver this incredible next level of intelligence. But for enterprises, we know that this customer data and this metadata is really the new gold for these enterprises, and it's a huge driver of growth for our business.

We all saw the report from McKinsey, 75% of the value of Gen AI use cases is in the front office. And everybody knows Salesforce is the leader in front-office software. That's our fundamental premise for our growth going forward. We're already managing 250 petabytes of data and metadata that's going to be used to generate this incredible level of intelligence and artificial intelligence capability to deliver for our customers a level of productivity and profitability they've just never been able to see before.

And at the heart of that is going to be our Data Cloud. And we've seen this Data Cloud, well, we've seen this deliver for our customers an incredible level of capability in just the short period that we've made it available. It's already included in 25% of our \$1 million-plus deals, as I mentioned, and more than 1,000 Data Cloud customers in the second quarter again. That's our second quarter row.

When we look at a quarter where we see huge growth of a new product, it really sets us up for continued delivery of growth of that incredible technology. But what's the cool thing about Data Cloud is it's connected to every single one of our clouds. So it's making our Sales Cloud better, our Service Cloud better, our Marketing Cloud, our Commerce Cloud. Every aspect of Salesforce is better now with this incredible new technology.

Another key part of it is, as I mentioned, 8 trillion records were ingested into Data Cloud in the first quarter, that was up 42% year-over-year; and 2 quadrillion records were processed, that's up 217% year-over-year; and over 1 trillion activations driving customer engagement, up 33% year-over-year. All of that means that we're preparing to our customers for a level of data capability that's going to give them this next capability of artificial intelligence. And last month, we created the Zero Copy Partner Network with Amazon, Databricks, Google, IBM, Microsoft and Snowflake that federates our Data Cloud with all these amazing data sources.

Look, we really are focused on two things in our company. One is this incredible financial transformation that we've all gone through with you in the last year. The second one is this incredible transformation to artificial intelligence, which is going to be based on data. I don't think any company is more well positioned for the future of artificial intelligence and also delivering the kind of metrics that our stakeholders are going to want in Salesforce.

Operator

Our next question comes from the line of Brad Sills from Bank of America.

Bradley Hartwell Sills

BofA Securities, Research Division

I appreciate the commentary on the impact from the tough macro. We're certainly seeing that across the group. Brian, you mentioned also perhaps some impact here from go-to-market changes, which is, I guess, shouldn't be a big surprise given all that's going on at Salesforce right now. I wonder if you could just articulate a little bit on that. What are those changes? Is this the kind of situation where it's just some short-term impact that could benefit the sales productivity over the longer term?

Brian Millham

President & COO

Yes, Brad, thanks for the question. And you're exactly right. These are changes that we typically make in the first quarter. It's the most obvious time to make those changes when you start out a new year. These changes are actually intended to be productivity drivers for the future. Absolutely right, we want to get aligned behind our go-to-market strategy around buyer to make sure that we're aligned to support our customer scale, that we can really support our multi-cloud strategy going forward to ensure our customers know exactly what we can do to support them across our entire product portfolio. And some of the changes that we made were exactly for that reason, how do we ensure that we are aligned behind that strategy to ensure we can go faster in Q2, Q3 and Q4. So you're absolutely right, the changes, while impactful in Q1 are short term, and we expect to see productivity gains from them going forward.

Operator

Your next question comes from the line of Brent Thill from Jefferies.

Brent John Thill

Jefferies LLC, Research Division

Just from a geographic perspective, Europe looked like it was a little weaker, I'm curious if that's where you saw the pronounced weakness in EMEA. Or was this pretty consistent across most of the geographic regions?

Brian Millham
President & COO

Yes, EMEA was weaker in the quarter. Frankly, feeling some of the measured buying environment. Most pronouncedly, actually felt it also in the Americas. But there are other pockets around the world that were very strong. Canada was a strong region for us in the quarter. I mentioned our Japan business really accelerated in the quarter, really outstanding performance from our Japan business. So the big businesses are going to feel the impact, obviously, of the measured buying environment. In the Americas, more exposure to technology, which I think we all know has been a tough industry over the last several quarters. SMB and other areas, the transactional business, these are the areas where we're going to feel some of those headwinds in the business. So spot-on, EMEA and America sort of feeling the impacts of the measured environments.

Operator

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

Kirk Materne
Evercore ISI Institutional Equities, Research Division

Maybe for Marc or Brian. But I was just kind of curious, when we think about this measured buying environment, is there any sort of crowding effect around AI that's impacting software in your view, meaning when you think about all these companies starting to gear up for this next platform shift, was it just the uncertainty of what they're going to spend on over the next 6 to 12 months, holding them back perhaps on what their normal sort of pace of spending might be with you all or other enterprise software companies? I know it's sort of an ongoing question, wondering if you all could weigh in.

Marc R. Benioff
Co-Founder, Chairman & CEO

Well, let me give you my swing at exactly where we are, and then I'm going to turn it over to Brian to fill in the detail. I think when you look back over the last 4 years, Salesforce entered the pandemic in 2020, that's 4 years ago almost exactly, about half the size that we're at now. We've doubled our company at scale from \$20 billion to approximately \$40 billion. That's how I look at it in my mind. You can fill in the exact numbers. And over that period of time, we saw an incredible surge in the demand and buying environment and in the sales environment, especially during the pandemic.

As we entered the post-pandemic reality, we saw companies who had acquired so much software in that time looked to actually rationalize it, ingest it, integrate it, install it, update it. I mean it's just a massive amount of software that was put in. And so every enterprise software company kind of has adjusted during end of this post-pandemic environment. So when you look at all of these companies, especially as you saw them report in the last 30 days, they're all basically saying that same thing in different ways.

When you take AI, that has to be our growth driver for future capabilities for these companies. AI, when we look at these companies and the stories that we told on the call, whether it's FedEx or Air India or CrowdStrike or Paychex or any of the huge deals that we did in the quarter, what we're seeing is not only the installation and integration and implementation of the platforms that we've sold in the last 4 years but the layering in of this new capability, which is delivering for these companies a kind of a capability that we weren't able to forecast 4 years ago.

I told you the story of FedEx, like when we talk to their top executives about what they've delivered, or you take an incredible company like State Farms with kind of automated 60 million policyholders, thousands of agents, they're just able to deliver at a level of capability. And I said it before, but profitability, employee augmentation, better customer relationships, much higher margins, these are

financial metrics that we're able to deliver into these implementations. That's on top of where we were 4 years ago.

And the point I was trying to make here earlier, and I'll keep making, which is, the most important thing Salesforce is doing is not just continuing to automate every customer touch point. This is obviously critical and why we've been able to consume this 250 petabytes of information, but the second key point is we've rebuilt the way that we are delivering a foundation of data for our customers. Why is that so important? Because as we have now re-architected all of our apps and all of our capabilities to fuel and fund this Data Cloud, it means that, for our customers going forward, they're going to be able to take this Data Cloud and leverage that into their future capability and growth and especially profitability and productivity.

And that is where our whole company and I think our whole industry is eventually going to go. Not every company is as well positioned, as you know, for this artificial intelligence capability of Salesforce is because they just don't have the data. They may say they have this capability or that capability, this user interface, that model, that whatever, all of these things are quite fungible and are expiring quickly as the technology rapidly moves forward. But the piece that will not expire is the data. The data is the permanent key aspect that, as we've said, even in our core marketing, it's the gold for our customers and their ability to deliver our next capability in their own enterprises.

And Brian, I'll turn it over to you.

Brian Millham

President & COO

Yes. Thanks, Marc. And all those things are absolutely true. Marc said earlier, 75% of gen AI, benefits will come from the front office. And we're really feeling that right now in our demand we're seeing from our customers and the pipelines that we're creating out there, solid performance on pipe gen. I do think customers are getting their data estate in order as a precursor to leveraging AI capabilities, and we're seeing that with the growth of Data Cloud right now, customers really wanting to bring together many data sources so they can leverage AI in the flow of work and our capabilities. So I think it's actually a step process for many of our customers. Let's get our data in order and then let's layer in the AI to really drive the productivity gains that we expect. And so that's really what we're seeing in the market right now, Kirk.

Operator

Your next question comes from the line of Karl Keirstead from UBS.

Karl Emil Keirstead

UBS Investment Bank, Research Division

Maybe I'll switch subjects. So Marc and Amy, there was some concern in your shareholder base in March and April around media reports related to M&A. I know you can't comment on those reports, not expecting that, but wondering if you could comment on your M&A framework, whether there has been any change to it at all, I think might be helpful.

Marc R. Benioff

Co-Founder, Chairman & CEO

Yes. No, I'd love to talk about that, and I think it's extremely important. I mean Salesforce has a long history of innovation, organic innovation like we've seen today with Data Cloud. Everyone, I'm sure, is extremely impressed with the growth of that product. But also inorganic innovation, and a lot of our customer touch points, whether it's our commerce platform or our marketing platform and their integration platform, are inorganic innovation, products that we acquired, many of them at a multi-hundred million dollar revenue level, that are at the multibillion-dollar revenue level.

Some of the largest, most important software companies in the market today are actually companies that we acquired at much smaller levels. And all of you know Salesforce's story and how we put all of that together. And of course, I've mentioned we're re-architecting almost every single one of those products and quite successfully and redeploying them to our customers into a single integrated data fabric to provide the power of future artificial intelligence. Now when we look at all of that combined, we always are

looking at what is the next level of innovation. And so we're going to be looking at products organically. But yes, we will continue to look at products inorganically.

But as we've committed to you, if we're looking at a large-scale acquisition, we're going to make sure that it is not dilutive to our customers, that it's accretive, that it has the right metrics. And we're also going to be quick to walk away from things that we are not totally confident in or that we don't have the trust with whatever company that we're looking at. So we have operated inside that framework. We continue to acquire companies. We just acquired an amazing new company called Spiff, which is part of our Salesforce automation platform. It's an amazing capability.

I mean Salesforce, as you know, is the #1 SFA platform in the world. That SFA platform got a lot better this quarter with the capabilities now that it's deeply integrated into Data Cloud, which gives SFA customers the next step of growth with our SFA platform but also it has an incredible new level of artificial intelligence and generative AI capabilities now built into the Sales Cloud. And in addition, it also has compensation capabilities through Spiff, and that's through inorganic, and that was acquired through our new M&A framework, for example. And as we go forward, we're going to continue to look at those opportunities.

And look, we're not going to shy away from M&A for any one particular reason if it's within our framework. But if it's outside of our framework, we're going to be extremely cautious. And let me have Amy reiterate what the attributes of that framework are and how we look at M&A because I don't think any company has been more successful with M&A than Salesforce has been. I mean that's how we've built our Customer 360 and have this incredible, incredible platform that we're able to automate these amazing companies with what we've gone through.

But as we go forward, we know that we need to slightly adjust that so that we can continue to deliver to you these amazing financial metrics that you see, like you see this amazing cash flow number and margin number that we've seen rarely before in the software industry. Maybe only a couple of companies have ever delivered cash flow at this level, and I think it's higher than most of the great consumer companies like Coke and Starbucks and all of that. Like, these numbers are pretty epic in that area. But we know we continue to deliver cash flow and margin numbers at this level. We're also going to have to continue to keep our eye on the M&A framework.

So Amy, let's talk about that.

Amy E. Weaver
President & CFO

Great. Thanks, Marc. Let me back it up a little bit to talk about our capital allocation strategy overall. And it's really very simple. We are going to continue to expand our free cash flow margin as we scale. We are going to invest in innovation. As Marc said, that is organic and it can be inorganic, if it matches our principles and our goals. And we're going to return cash to shareholders, and we're doing that now both through our share repurchase program and our dividend program.

Now on the inorganic perspective, as you brought up, we're always going to be opportunistic. M&A has been an incredible part of our past. I'm sure at the right time, it will be part of our future. But it's got to fit into the framework that we have been outlining for the last few days. We're going to have to have a time line to value accretion. We're going to need to prioritize our use of the balance sheet, and it's got to be a best-in-class asset. And when all that comes together, that's what we'll be focused on.

In the meantime, I really want to talk about our goal, we are trying to optimize shareholder value. At the end of the day, that's the single most important element. And we're doing that by focusing on delivering very strong free cash flow per share. We're doing this by our focus on profitable growth and by very carefully managing our dilution. When you bring that together, I am very confident in our long-term free cash flow per share opportunity and very confident about our capital allocation strategy overall.

Operator

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

Raimo Lenschow*Barclays Bank PLC, Research Division*

Obviously, this quarter was impacted on the booking side. Maybe a question for Brian and Amy here. If you think about the two factors you pointed out, one is the economy, one is on the sales changes at the beginning of the year, on the economy side, like we've been talking about a tough selling environment for a while now, has it gotten worse from what you've seen? Or are the issues this quarter more coming from the sales reorg?

Brian Millham*President & COO*

Raimo, thanks for the question. Appreciate it. Hard to parse apart what the two impacts were in our first quarter, no doubt about it. We did have some changes that I outlined in the quarter as we set ourselves up for productivity in FY '25. The economy question, I think, is one that we feel like it's similar to what we felt in the first half of last year. The same measured buying environment that we experienced in the first half is sort of what felt like the same in Q1. We came off a Q4 that was very solid, very, very strong performance. In retrospect, in hindsight, we may have been in a similar environment but executed very well as a sales team in that fourth quarter. So hard to really parse apart these things.

But when you look at some of the transactions that we saw in Q1, we saw compression on many deals that we ultimately ended up getting done, but they got smaller when we ultimately closed them. We saw a couple of deals push out of the quarter as people delayed decisions that we thought would actually happen in our first quarter. And this no-decision issue is coming up more frequently than we anticipated. So hard to really parse those two things apart. But when you combine them both in a particular quarter, it can have an impact of lower bookings, and that's what we felt in our first quarter.

Marc R. Benioff*Co-Founder, Chairman & CEO*

Yes. I think I'd also like to add, and I'll just give you a little color on the narrative inside our company. When we look at operating inside this environment, which we've been now going through for a couple of years, and we look at, hey, how do we continue to deliver these strong ACV numbers but also how do we continue to deliver the overall strong financial metrics, at the same time, it's important that we're delivering this high level of customer success to prepare for our future growth, it's really along three lines.

And those three lines, first of all, is we are just having to start every quarter with much higher pipelines. We look at these pipeline multiples as much higher than we've traditionally had to start with, and this is really critical in managing our distribution organization and overall success in the quarter. And where traditionally, we might have to start our pipelines at 2x, now our message to our distribution leaders is, hey, if you're going to start out your pipeline in the quarter, you better start out at 3x. And this is also our message to our peers as well, to evaluate the pipeline much more aggressively than ever before. That means a much deeper inspection of the pipeline but holding it at a much higher level. That is evidence of this environment. And if you would ask any leader in this company how many times they've heard from me or from Brian that they better started at a 3x pipeline because that is the world that we're in today.

The second attribute that's incredibly important for all of our leaders in our company or throughout our industry is you might need a much higher level of enablement. What that means is so many people have come into our industry in the last 5 or even 10 years, a lot of them just need the level of training capability, especially as we move into this new area of artificial intelligence, generative AI, data, the kind of capabilities that we're talking about when we explain to people how models work, how UIs work, how data frameworks work and how it works in regards to our software and our platforms and our architectures, that is requiring a level of training that is incredibly important. And when we're talking about companies at scale like Salesforce who have very significant numbers of salespeople, I'm not going to go into all of the details of how it's organized and how many we have, but just know that, that requires a very high level of enablement, and that's the second key attribute, managing this framework in this environment.

And the third is a level of stability. Now when you enter the first quarter of any fiscal year, there always is going to be a desire of every sales organization to slightly shift, slightly adjust their strategy and their organization to reflect the demand for the fiscal year. You start the fiscal year writing your business plan, thinking about how you're going to execute, and then you have to look at how much disruption are you able to tolerate in the quarter. Because if you over shift, if you do too much, you will end up with more volatility in the quarter in the ACV than you like. Now it may result in a better fourth quarter. A good example is last year where we saw, okay, in the first quarter, we might not have achieved exactly everything we wanted because we had too much disruption, but by the fourth quarter, we over delivered. So there is a level of balance that has to be achieved in regards to stability and disruption.

And those three attributes, having 3x pipelines, having much higher levels of enablement and having much higher levels of stability, that is the key to managing in this environment in this part of the industry right now. And when I talk to my peers and other major enterprise software companies, that is what I'm really emphasizing to them. And for all of them, of course, it's good if they're using our products because our products are really the key to making all of that happen because we're able to deliver for these companies all of those things that they need to have that level of success as well.

Operator

Your next question comes from the line of Kash Rangan from Goldman Sachs.

Kasthuri Gopalan Rangan

Goldman Sachs Group, Inc., Research Division

I'm actually looking at the Salesforce Tower from my office here. And I'm thinking about the past. Marc, you've been through all these cycles before. Maybe it's just cyclical, maybe high interest rates, causing economic uncertainty, maybe it's as simple as that. Or maybe it's structural. And if it's structural, maybe there's an architectural change going on. Marc, you drove the last big architectural change from distributed computing to internet computing. How confident you are that this generative AI, which is causing an upheaval in that whole tech stack, is not something to take lightly?

And what are the things that the company is preparing, if it's not just cyclical or maybe the structural change that's going on, what are the things that you are doing to the company to bulletproof? Because typically, incumbents miss big transitions, right? You and I have seen that. We've all seen that. What are the things you're doing to ensure that you're bulletproof in that regard that you're absolutely ready architecturally for the next cycle?

Marc R. Benioff

Co-Founder, Chairman & CEO

Well, I'd like to make a couple of comments on that. I think that, number one, it's been pretty magical to use OpenAI over the last year, especially in the last release, when I'm really talking to it. And when I think about the incredible engineering effort that OpenAI has done, it's pretty awesome. They've built a great UI. I love talking to the software. They have really strong algorithms or what we call Models, especially their new one, which is their 4o Model. And then they stole data from lots of companies like Time, Dow Jones, New York Times, Reddit.

Now they're all making good, doing agreements with all of us, saying, "We're sorry," and paying for it. And they took that data, they normalized it, they delivered a comprehensive data set that they train their model on. And all of us understand that that's what they did, right? They have the great UI, they have this amazing model and then they have the data. And then we've seen a lot of fast followers with the models. It could be open source models like Llama 3. It could be some proprietary models like Gemini from Google and others. Now there's thousands and thousands of these models. And if you look on Hugging Face, everybody is a fast follower. And 6 months later, everybody is where everybody else was 6 months ago. And the data, well, a lot of these companies are all thinking they can rip off all this data, too, and they're all having to pay that price. Okay, that's the consumer world.

The enterprise world is a little different, right? We have great user interfaces, great apps, all kinds of great technology that our users are using, the millions and millions of users. Then we have the same models, in

many cases, or maybe we've written some of our own models with our engineers. But then the third piece is the data. And that data is a little bit different. Because in the enterprise, how do you put together these large, fully normalized data sets to deliver this incredible capability, and that is where the magic is going to be. Because for all companies, including ours and others, who want to deploy generative AI internally, it's not going to be Times Magazine that's going to give you the intelligence, it's going to be our customer data and your transaction history and how you're how your company operates in your workflow and your metadata.

And that idea that we can deliver another level of productivity for companies using that architecture is absolutely in front of us. But that idea that we have to do it with the right architecture, that also is in front of us. And I think that while we can say it's a different kind of architecture, it's still the same idea that we need a great UI, we need models, but we're going to need very highly normalized and federated data. And that data needs to be stored somewhere, and it needs to come from somewhere. And that is going to be something that's going to continue in perpetuity over time as these models and UIs are quite fungible. And we'll be using different models and different UIs over the years, but we'll be using the same deep data sources. And I think that is why, when I look at what Salesforce is doing, this is going to be critical for our customers.

Now you may see great new UIs like Agents and you may see great new UIs like you see what we've deployed with Slack. Brian was talking about how he's changed how he uses Slack with our new Slack AI or what we've done with SFA this quarter, service this quarter with the incredible new generative capabilities. But this idea that the data is going to be more important for companies than ever, having deeply normalized federated data sources, and when I look at the success we've had with so many of these companies, I mentioned State Farm briefly, we've become their fundamental data architecture. That is not where we were with that company even 4 years ago.

Now they look at us as the fundamental framework for their future. And as they want to deploy agents or as they want to deploy new user interfaces or achieve more productivity, the data that they have in Salesforce and the ability to manage and share, keep that data reliable, available and scalable, the way that we do updates that we don't bring down our system, do an upgrade and an update like a lot of vendors still do, those kind of capabilities, that will be more important than ever. And I think that, that is going to be a huge driver for our growth going forward and provide the foundation for this future and what the future of the enterprise is going to look like. And I think it's a little bit different than in the consumer model.

Operator

Your final question comes from the line of Mark Murphy from JPMorgan.

Mark Ronald Murphy

JPMorgan Chase & Co, Research Division

Marc, you mentioned that there's a transformation of how we interact with software that's happening. And I'm curious if you sense any temporary pause as customers may be trying to digest the new innovations, the new pricing mechanisms. It includes consumption pricing. And perhaps there's going to be a pause that refreshes down the road as they ultimately gain comfort and start to move forward with the Einstein Copilots and all the other innovations that require a little bit of a different architecture, a different thought process.

Marc R. Benioff

Co-Founder, Chairman & CEO

Well, I think it's a very key question, which is Salesforce is managing many different kinds of pricing models. Obviously, like our Data Cloud is a consumption product. We've seen a clear path out to over \$1 billion in revenue with that product. It uses consumption pricing. We look at our core SFA product, which is a product doing, I don't know, approximately \$8 billion a year or Service Cloud doing approximately \$8 billion a year. These are per user prices.

But when you buy Salesforce now and you're buying our products, you might be buying a new product that we have called UE+. And that's a product that we just introduced a few months ago. Now why is that exciting? Because UE+ is a hybrid pricing model that includes per user pricing and consumption pricing. It delivers for our customers the ability to deploy all the architectures that I articulated on the call today but to do it in an incredibly competitive price point.

And when we look at the very large customers that are deploying Salesforce, standardizing on our platform to deliver this kind of capability for the future, as we retrain our salespeople to be able to have the narrative that I have on the call today, this idea that we can deliver basically not only the #1 AI CRM, we see these incredible growth in our pipelines, as I mentioned, not only the kind of the next-generation price points and products like with UE+, but we have to deliver it with a level of customer success through our partners and the implementations at scale and also with the culture that Salesforce is known for. Those are really the five elements that we are really taking into consideration as we're moving forward.

We think that we have the right mix, and we're spending a lot of time talking to our customers very, very closely. Don't think that there aren't a lot of people walking into these companies saying, "Hey, you can do this. You can do that. You can do these other things". We've seen a lot of that in the last 6 to 12 months, and then it turns out that you can't. "Hey, I can make this happen. I can make that happen. I can pull a rabbit out of the hat in the enterprise for you by doing this, that and the other thing," and then it doesn't actually happen. And then what it turns out is you got to do a lot of the hard work to make this AI happen, and that starts with building highly normalized, large-scale, federated, highly available data sources. And then building on top of that the kind of capabilities to deliver it to our customers.

I think a common story is, "Hey, oh, yes, I am a provider of a data lake or a data capability. And just by going to that, I'm going to be able to provide all your AI." But then it turns out that no one in the enterprise actually uses that product. There is no UI that's commonly accessed. That's why I'm so excited that Salesforce has Sales Cloud and Service Cloud and Tableau and Slack and all of our amazing products that have these huge numbers of users that use these products every single day in a trusted, scalable way and then connecting that into this new capability. That's where the magic is going to happen.

By the time we get to Dreamforce, and for those of you who maybe were at our Connections Conference or our last World Tour in New York or even TrailheadDX, we haven't heard gasps in the audience when we demoed the products in, I think, maybe ever. Like, some of the new technologies incredible we're able to deliver for our customers, and I think that it's going to be extremely exciting going forward, and it will be delivered with a variety of new business models and pricing models. But at the end of the day, we're going to have to be a trusted partner to these customers delivering this AI at scale.

Michael Spencer

Executive Vice President of Investor Relations

Great. We want to thank everyone for joining the call today, and we look forward to seeing everyone over the coming weeks.

Operator

This concludes today's conference call. Thank you for your participation. You may now disconnect.

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