Salesforce.com (CRM)

Information Technology – Application Software

Investment Thesis

We recommend a HOLD rating on salesforce.com as the company is trading well above relative valuations. We also have concerns that growth may slow faster than expected as companies raced to digitize their operations during the pandemic. This rapid transition may have pulled forward some demand leading to a slowdown in sales. The stock price of salesforce.com has fallen more than 40% from its highs and future growth rates have slowed to 3.5%.4

Risks of Thesis

- With a P/E of 157.2x, the stock price is expecting rapid growth which is unlikely as companies slow due to demand being pulled forward.1
- Relative valuation, and dividend discount models indicate that Salesforce is overvalued compared to its peers and future free cash flows.
- Businesses are likely to slow capital expenditures due to interest rate hikes, wage expense increases, and the ongoing uncertainty regarding Russia and Ukraine.

Drivers to Thesis

- The stock price has pulled back nearly 40% which can partially be attributed to an overarching technology selloff.3
- Management has stated that demand was not pulled forward during Covid and increased guidance for fiscal year 2023 revenues by $100 million.7
- The Enterprise Software market is projected to grow 8.5% in 2022 as businesses transition their operations to the cloud and invest more in software to keep up with competitors.13

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Company Description

Salesforce.com designs and manages cloud-based software applications. It operates through two major business segments: Subscription & Support and Professional Services & Other. It specializes in customer relationship management, marketing automation, digital commerce, and community management. Salesforce.com generates over 65% of revenues from the United States with 70% coming from the Enterprise Management division and 30% from its Design and Engineering business. It was founded in 1999 and is headquartered in San Francisco, CA.
COMPANY DESCRIPTION

Salesforce.com is a cloud-based services provider primarily engaging in business-to-business transactions. Salesforce was originally founded in 1999 and has been a pioneer in transforming companies to digital operations and connecting businesses to their customers. It is headquartered in San Francisco, CA with 56,600 employees worldwide. Salesforce earns over 70% of total revenue from their Customer Relationship Management software which is the inspiration for their ticker symbol CRM. The other 30% of revenues are derived from the Software Development business. It operates in the Application Software industry and has two main sources of revenues: Subscription & Support and Professional Services & Other. The Subscription & Support division can be broken into five business segments: Platform & Other, Services, Sales, Data, and Marketing & Commerce.

Salesforce has seen tremendous growth over the last five years with an average annual growth rate of 43.6%. We are forecasting a growth rate of 38.6% for the Platform segment as Tableau is fully integrated. Eventually, we do expect this segment’s growth rates will taper down to a continuing value.1,7

Services

The Service business segment is Salesforce’s second-largest source of revenue accounting for 25% of total revenues in 2021. It allows Salesforce’s customers to connect with their customers via phone, apps, or other digital channels. This segment also provides a field service solution that helps companies connect agents, dispatchers, and mobile employees through one centralized platform. This segment has had annual growth over the last five years of 24.2% but these rates have been declining. We project Services to have a growth rate of 24.2% over the next year driven by the fact that companies are having trouble staffing customer services positions and which is leading to higher investments in customer relations systems.1,7

Sales

The Sales business segment helps automate processes such as billing, forecasting, delivering quotes, and monitoring leads. Salesforce customers also use the Sales offerings to store data and gain insights through analytics and relationship intelligence. Currently, the Sales business segment accounts for 24% of total revenues and has had an average growth rate over the last five years of 14.0%. We project that these growth rates stay relatively constant but eventually taper down to a continuous growth rate. We are forecasting a 13.5% growth rate for 2022.1,7

Marketing & Commerce

Marketing & Commerce can be sub-divided into three sections, the first being Marketing. Marketing services allow companies to optimize their customer interactions across email, mobile, social, web, and other connected products. The second section is Commerce which helps the customer experience by creating personalized shopping experiences. These tailored experiences increase customer engagement and most importantly, revenues. The last section is Experience which allows companies to engage with audiences via sites, forums, and apps. The Marketing & Commerce business segment has grown 37.0% on
average over the last five years and currently accounts for 15% of total revenues. However, growth rates have been trending down which is why we forecast a growth rate of 22.6% over the next year. With new consumer privacy laws limiting what data can be collected about customers, we expect this segment to struggle in producing new and innovative products.1,7

**Professional Services & Other**

Professional Services & Other is the smallest business segment accounting for only 6% of total revenues in 2021. This segment consists of architects and innovative program teams who act as advisors and develop customizable digital transformations for customers. The segment also offers courses to help customers master product offerings. This business segment has very low-profit margins and lost $8 million in 2021. Over the last five years, the segment has grown at 22.8% but we expect these rates to decline 20.9% in 2022 as this is not Salesforce’s primary source of revenue and will likely focus fewer resources here.1,7

**Data**

The Data business segment was created in 2022 and currently accounts for 14% of revenues. This segment is further broken into the Analytics side and the Integration side. The analytics business includes Tableau which provides customers with end-to-end solutions across a broad range of enterprise cases. The integration business features MuleSoft which easily connects data to multiple systems. MuleSoft also provides data security and reusable API’s which increase speed and agility.1,7

**Cost Structure Analysis**

The total cost of revenues for Salesforce is broken into two-line items, Subscription & Support and Professional Services & Other. As a percentage of total revenues, Subscription & Support has increased slightly over the last five years with an average percentage of 19.2%. We forecast that the costs for this segment remain constant with a projection of 19.4% for 2022. The Professional Services & Other business segment average 6.7% of total revenues over the last five years. This proportion has been trending down and we forecast costs to be 5.7% of total revenues. The total cost of revenues has averaged 25.9% of revenues over the last five years. Like Professional Services, this percentage has declined in recent years, and we forecast total cost to be 25.1% in 2022. To forecast all the cost of goods sold we used a three-year rolling average for cost divided by revenues for each business segment.

There are three main operating expenses: Research & Development, Marketing & Sales, and General & Administrative. R&D on average has been 15.3% of total revenues. This percentage has increased slightly in the past two years, but these increases can be attributed to research on their large acquisitions in recent years. We forecast R&D expenses to remain relatively constant at 15.8% for 2022. Marketing and sales expenses are Salesforce’s largest expense with an average percentage of total revenues equal to 46.1%. This expense has come down slightly in recent years which is why we are forecasting 44% for 2022. General & administrative expenses have averaged 10.4% of total revenues and have been declining in recent years. We are forecasting general expenses to be 10.0% of total revenues in 2022. Total operating expenses average 71.9% of revenues and have remained constant over the last five years. We forecast total operating expenses to decline to 69.8% of revenues. In 2022, Salesforce’s operations do not require large amounts of tangible assets which have risen in price due to supply chain constraints. Without these extra costs, Salesforce will likely be able to reduce total expenses.1,7

**Geographic Operations**

Salesforce operates worldwide but earns 65.9% of total revenues from the United States. The next highest country is Germany with 3.4%. Russia only accounts for 1.5% of total revenues so if tensions with Russia get worse, they have limited exposure. It’s not surprising that Salesforce earns 87.4% of revenues from developed economies since emerging and underdeveloped countries typically don’t
have the infrastructure to support cloud-based operations.¹

Debt Maturity Analysis

Salesforce’s debt is rated A+ by S&P. It has total short-term debt of $4 million which the company will easily be able to pay. Salesforce has a total debt to EBITDA ratio of 2.8 indicating that they are not in financial stress and can comfortably make their short-term payments. It did issue $8 billion worth of debt in June of 2021 that will help finance its acquisition of Slack Technologies.

Three-Year Debt Maturity Schedule

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Payment ($mil)</th>
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<tr>
<td>2023</td>
<td>4</td>
</tr>
<tr>
<td>2024</td>
<td>1,182</td>
</tr>
<tr>
<td>2025</td>
<td>1,000</td>
</tr>
<tr>
<td>2026</td>
<td>0</td>
</tr>
<tr>
<td>2027</td>
<td>0</td>
</tr>
<tr>
<td>Thereafter</td>
<td>8,500</td>
</tr>
<tr>
<td><strong>Total outstanding</strong></td>
<td><strong>$10,686</strong></td>
</tr>
</tbody>
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Source: Salesforce 10-k

ESG Analysis

Salesforce received an overall ESG score of 73/100 and an Above Average long-term rating when compared against industry peers. There are five sub-scores for the sections: Environment, Social Capital, Leadership and Governance, Human Capital, and Business Model & Innovation. Salesforce has strong scores in Environment, Human Capital, and Business Model & Innovation with scores of 71, 70, and 63, respectfully. In the categories, Social Capital, and Leadership & Governance Salesforce received scores of 50 and 49, respectively. The reason for low scores in these categories involves data privacy concerns and competitive business behaviors.¹

Overall ESG Score

73 /100

Source: FactSet

Recent Earnings Announcement

Salesforce reported earnings for fiscal year-end 2022 on March 1st. As of this report, Salesforce had not released its 10-k for the fiscal year 2022 so we could not update our model for the current year. They beat street estimates across the board with higher-than-expected revenues, net income, and EPS. Salesforce even increased its revenue guidance for the fiscal year 2023 by $100 million. We were expecting revenues for FY 2022 of $26.7 billion and actual revenues came in at $26.5 billion. Our estimates for net income were $1.1 billion and Salesforce reported actual net income of $1.4 billion.²

COVID-19 Impact

Covid-19 had a huge impact on Salesforce’s overall revenues for 2020 and 2021. Companies rushed to transition their operations to digital applications and Salesforce benefited greatly from this. Total revenues
jumped 24% to $21.3 billion for fiscal year-end 2021 which is essentially 2020 since Salesforce has a FY end on January 31st. Net income increased over 3100% YoY from $126 million to $4,072 billion. A large portion of this gain came in the form of share appreciation of publicly traded securities as the stock market rebounded rapidly from its Covid lows. Looking forward, Covid is likely to have minimal effects on operations as Salesforce has little tangible assets that can be disrupted by supply chain constraints spurred by Covid. Also, being a software company Salesforce was easily able to transition employees to remote work and currently has a hybrid format that will continue looking forward.7

MARKETS AND COMPETITION

New Entrants

The Application Software industry has moderately low barriers for new entrants into the marketplace. There are no regulatory obstacles and relatively low initial operating expenses. Even with these low barriers to entry, it is still difficult for new players in the industry to lure customers away from existing businesses. The best way for new entrants to establish themselves is to target smaller businesses or develop new and innovative software. Another possible way to gain market share is to target niche industries and develop customized applications for businesses in that field. The largest barrier of entry is the difficulty of switching providers once a business is fully integrated with their current CRM provider. Switching providers means employers must train employees on new software systems. Switching CRM providers can also take years to fully transition data and integrate systems into day-to-day business operations. The industry is moderately concentrated with the top five players accounting for 37.4% of total industry revenues. The remaining industry revenues are derived from over 1,000 small players.

Source: IBIS World

M&A Activity

M&A activity in the application software industry has exploded in the last six quarters with 2,533 transactions worth a combined value of over $427 billion taking place. The Q4 2021 YoY value of transactions is up 36% and the YoY total deal count for the same period is up 23%. With interest rates expected to rise over the coming year, total M&A activity may slow as companies elect not to issue higher interest debt to fund deals. However, M&A activity is expected to remain elevated when compared to pre-pandemic levels as new startups enter the marketplace.1

Source: FactSet

There have been several major acquisitions in the Application Software industry two of which were made by Salesforce. In June of 2019, salesforce announced it was
acquiring Tableau Software Inc. for $14.7 billion in stock representing a 42% premium. In April of 2021, Microsoft entered into an agreement to acquire Nuance Communications for $17.8 billion in cash representing a 23% premium. The largest and most disruptive recent acquisition occurred in December of 2020 when Salesforce announced it was acquiring Slack Technologies of $26.7 billion representing a 54% premium. This strategic acquisition closed in July of 2021 and was financed by 60%/40%, cash and stock split. In Salesforce's most recent earnings report, they noted that they do not have any plans for material M&A in the near term. Instead, it is focused on fully integrating its products with Slack. With interest rates and inflation on the rise we believe this is a good move by Salesforce to focus on internal growth. Once Slack is fully integrated, they will then be able market it with other grouped packages.¹

MARKETS AND COMPETITION

Competitive Advantages

Salesforce recognizes that current and potential competitors have several competitive advantages that help them drive growth. These advantages include greater name recognition, longer operating history, broader geographic scope, larger marketing budgets, broader offerings, and greater financial and personnel recourses. The main competitors for Salesforce are Microsoft, Alphabet, Broadcom, Adobe, Oracle, SAP, IBM. We analyzed each competitor’s business segments and potential for expansion.

SAP SE (SAP)

SAP SE is a German-based provider of enterprise application software and software-related services that was founded in 1972. SAP is the largest player in the Application Software industry with over 17% market share. SAP SE derives 99% of its revenues from the Application Software industry and 33% of these revenues come from the United States. It operates through three key segments: Applications & Technology; Services; and Concur, with 79% of revenues coming from the Applications & Technology segment. Currently, SAP has a 3.6% long-term growth rate and a total market cap of $149 billion. SAP had negative sales growth for the first time in over 10 years in 2020 and only 1.8% growth in 2021. SAP has a considerably lowered beta of only 0.94 and pays a dividend of 2.49% compared to Salesforce at 1.09 and 0%, respectfully. SAP is a major industry player but has seen little internal growth in recent years.¹

Alphabet Inc. (GOOGL)

Alphabet is the parent company of Google and currently has a market cap of $1,893 billion and a 16.6% long-term growth rate. Alphabet operates through two main business segments: Google Services and Google Cloud. The Google Cloud segment is the portion of revenue that comes from the Application Software industry and although it only accounts for 8% of Alphabet’s total revenue, it accounts for 10% of the industry’s total revenues. Alphabet was technically founded in 2015 since that is when it became the parent company for Google which was founded in 1998. Alphabet currently earns 46% of total revenues from the United States. In 2021, Alphabet recorded a net income of $76 billion and total cash of $140 billion. It has a similar beta to Salesforce of 1.1 and also does not pay a dividend. Alphabet is one of the largest companies in the world and certainly has the resources to expand its market share in the industry. However, Alphabet must tread lightly as it has had anti-trust issues in the past and must limit expansion to targeted sectors.¹
International Business Machines Corp (IBM)

IBM was founded in 1911 and is headquartered in the United States. Currently, IBM has a market cap of $123 billion, a long-term growth rate of 9.5%, and controls 5% of the Application Software market share. IBM operates through the following segments: Global Technology Services, Cloud & Cognitive Software, Global Business Services, Systems, and Global Financing. Sales, Net Income, and EPS have all declined in recent years but are all projected to increase over the next three years. IBM is the only major player in the Software – Application industry with a hold rating, all the other major players have either Buy or Overweight ratings.1

Source: FactSet

Microsoft (MSFT)

Microsoft is one of the largest companies in the world with a market capitalization of over $2.1 trillion. It was founded by Bill Gates and Paul Allen in 1975 and is headquartered in Redmond, WA. Microsoft operates through three major business segments: Intelligent Cloud, More Personal Computing, and Productivity & Business Processes each of which accounts for roughly one-third of total revenues. Historically, Microsoft and Salesforce were not direct competitors but with Salesforce’s recent acquisitions of Tableau and Slack these two companies now have overlapping revenues streams. Tableau competes with Microsoft’s Power BI and Slack competes with Microsoft Teams. In terms of customer relationship management systems, Microsoft does not currently operate in this division but with a strong brand name, large amounts of cash, and greater product offerings, Microsoft could easily expand more into the application software industry. The only major concern for Microsoft would be regulatory-related as they are already under scrutiny from regulators due to their size. Microsoft also just purchased video game developer Activision Blizzard for $69 billion and will likely focus its resources on the integration of this new acquisition.1

Source: FactSet

Broadcom (AVGO)

Founded in 1961 and headquartered in San Jose, CA Broadcom operates across two business segments, Semiconductor Solutions, and Infrastructure Software. The Infrastructure Software segment accounts for 74% of total revenues and is where they compete with Salesforce. It enables customers to develop, automate, manage, and secure applications across mainframe, mobile, and cloud platforms. Broadcom’s software products focus mainly on securing and optimizing business environments. Broadcom operates in the semiconductor industry and has a manufacturing business segment where it designs and manufactures microchips. Broadcom has had average YoY sales and net income increases over the last three years of 9.6% and 10.7%, respectfully. Over the next three years, Broadcom is expected to have average sales and net income increase of 8.9% and 13.0%, respectfully. Broadcom has a high Debt/Equity ratio of 161.2%, this can partially be attributed to new debt issuance for acquisitions. Broadcom is unique in amongst its peers for the fact that it pays a 2.7% dividend which is high for most industries.

Source: FactSet
Adobe (ADBE)

Adobe was founded in 1982 and is headquartered in San Jose, CA. It operates through three key business segments, Digital Media, Digital Experience, and Publishing. The Digital Media segment accounts for 73% of Adobe’s total revenues and included products such as Adobe Photoshop, Illustrator, and Premiere Pro. It has had average YoY sales growth over the last three years of 20.5% and is projected to see YoY sales growth over the next three years of 13.4%. Adobe and Salesforce both operate in the Application Software industry but aren’t necessarily direct competitors. Adobe’s main business focuses more on the marketing and design side of software, whereas Salesforce’s primary business deals more with supply chain logistics and customer relationship management applications. With Salesforce’s purchase of Tableau in 2019, these two companies have more customer overlap but remain focused on other areas. Besides, Tableau is designed as a data visualization tool whereas Adobe’s products focus more on photo and video editing.

Oracle (ORCL)

Oracle was founded in 1977 and is headquartered in Austin, TX. It operates in the Infrastructure Software industry through the three key business segments, Cloud & License, Hardware, and Services. The Cloud & License segment accounts for 84% of total revenues and focuses on the marketing and delivery of infrastructure technologies. For a company in the technology sector, Oracle has a relatively low P/E of only 16.9 and it is projected to decrease in the coming years. It is also unique for the technology sector for the fact that it pays a healthy dividend of 1.6%. Over the last three years, Oracle has had average YoY sales and net income growth of 1.4% and 2.4%, respectfully. Over the next three years, these figures are projected to increase to 5.0% and 3.0%, respectfully.

ECONOMIC OUTLOOK

Russia/Ukraine

Russia’s invasion of Ukraine has thrown geopolitics into chaos as countries choose which side to support. Commodity prices have skyrocketed as the world oil supply becomes uncertain if Russia is going to limit production. The United States has announced that they will no longer import Russian oil which accounts for 7% of total US oil imports. The European Union, United States, Canada, United Kingdom, and other nations have imposed sanctions on Russia and have halted most business transactions. Many businesses have announced that they will be shutting down stores and factories in Russia including Salesforce. Salesforce stated, “Through resellers and other channels, we have a very small number of Russia-based customer, and we began exiting those relationships.” Slack released a similar statement and also has very little exposure to Russia but is currently in contact by affected customers regarding the impact of these sanctions. Sales from Russia accounted for less than 1% of Salesforce’s total revenues in 2021.

Real GDP

The global economy is in a weaker position than previously expected due to high infection rates of the Covid-19 Omicron variant. Many countries are reimposing border restrictions and rising energy costs are disrupting supply chains. Global growth is expected to slow to 4.4% in 2022, down from 5.9% in 2021. The US saw Real GDP increase from -3.4% in 2020 to 5.7% in 2021. Like the global economic outlook, the US Real GDP is expected to slow to a growth rate of 3.9% in 2022 followed by 2.3% and 2.0% in 2023 and 2024, respectfully. 2020 was an exceptionally
back year in terms of Real GDP which led to an abnormally high growth rate in 2021. So, even though GDP is slowing, it is still above average, and the economy is expected to remain relatively strong compared to pre-pandemic levels throughout 2022.

Source: FRED

**Business Confidence Index**

The Business Confidence Index (BCI) measures future developments, production numbers, and stocks of finished goods. It is used as a gauge to predict turning points in the economy. Numbers above 100 suggest increased confidence in near future business performance, and numbers below 100 indicate pessimism towards future performance. Currently, both the US and Global BCI Indexes are above 100 suggesting confidence in the economy.

Source: OECD

**Interest Rates**

Interest rates have a major impact on the global economy as they impact the costs of borrowing and lending. During the height of the Covid-19 pandemic, the United States Federal Reserve brought the Federal Funds Rate (FFR) down to a range of 0.0% to 0.25%. The federal funds rate is the rate at which banks can borrow from each other. It sets the benchmark for all fixed income instruments, mortgage rates, and currencies. These factors make it the most important interest rate in the world. Currently, the FFR is near 0% but the Federal Reserve is expected to increase rates four times this year to around 1.00%. The reason for raising rates is to combat inflation and slow down our booming economy which has exploded in growth thanks in part to an increased money supply. Even though the Federal Reserve has good intentions when raising rates, higher rates can lead to short-term declines in growth. This decline in growth could lead to companies hoarding cash and limiting capital expenditure. This would lead to fewer new customers for the Application Software industry.

Raising rates can often scare the market but if the Federal Reserve must raise rates this indicates that the economy was booming in the first place. This strong economy is not going to grind to a half due to a few small rate hikes. These rate increases are intended to slow, not stop the economy. The Federal Reserve targets an inflation rate of 2% and at the end of 2021, it was at 7.0%. This means the economy is well above expected inflation levels and needs to be reined in.

Source: Statista

**Unemployment**

Before the pandemic unemployment numbers had been slowly declining. In April of 2020, unemployment peaked at 14.7%. Since then, it has declined steadily and is now right around pre-pandemic levels. There is some controversy as to if this number is accurate as many people...
have left the labor market due to early retirement or working gig jobs. Since these people are no longer counted as participants in the labor market this skews the unemployment rate. Low unemployment creates a tight labor market which is forcing employers to pay higher wages to attract new workers. Employers are also forced to raise wages for existing employees to keep up with the high inflation levels.

Source: Bureau of Labor Statistics (BLS)

**US Unemployment 2017-2021 (%)**

- 1/1/2019: 4.0%
- 4/1/2019: 4.0%
- 7/1/2019: 4.0%
- 10/1/2019: 4.0%
- 1/1/2020: 4.0%
- 4/1/2020: 4.0%
- 7/1/2020: 4.0%
- 10/1/2020: 4.0%
- 1/1/2021: 4.0%
- 4/1/2021: 4.0%
- 7/1/2021: 4.0%
- 10/1/2021: 4.0%
- 1/1/2022: 4.0%

**Economic Profit (EP)**

The economic profit model is like the discounted cash flows model but instead of using FCF, we use economic profit. To find economic profit we first found the return on invested capital by dividing NOPLAT by beginning invested capital. We then subtracted WACC from ROIC and multiplied this by beginning invested capital to arrive at the economic profit. Using our EP values, we followed the same process as the DCF. To find the continuing value we used the formula CV = EP/WACC + (NOPLAT*(g/ROIC) *(ROIC-WACC))/(WACC*(WACC-g)). After discounting the EP values and the CV, we added back invested capital and made the necessary non-operating adjustments to arrive at the value of equity. Dividing the equity value by the total number of shares outstanding equals the intrinsic share price as of the last fiscal year-end. To find today's implied share price we then grow the intrinsic value by how much time has elapsed in the current fiscal year. All these steps resulted in an implied share price of $175.32.

**Dividend Discount Model (DDM)**

Salesforce.com does not pay dividends which makes the dividend discount model less relevant. However, we still the model and we arrived at an implied share price as of today of $125.78. This represents a 40% downside in the current actual stock price. To find the intrinsic stock price...
using the DDM we used the formula \( P/E = \frac{1-(g/ROE)}{(Re-g)} \) to find the P/E of the continuing value year. Multiplying the CV P/E ratio by the CV earnings per share results in the future stock price. We then discounted the future stock price to arrive at the intrinsic value as of last fiscal year. We then grow this forward by the amount of time that has passed this fiscal year. These steps resulted in an implied share price today of $125.78. As mentioned earlier, since Salesforce does not pay dividends, this model is less relevant, so we assigned a lower weight to this model when determining the target price range.1

Relative Valuation

The relative valuation using the average P/E across comparable companies results in an implied relative value of $37.43. This represents an 82% downside from where Salesforce.com is currently trading. To calculate this value, we first found the average expected P/E ratio in 2022 for eight comparable companies in the application software industry. The comparable companies have an average 2022 P/E multiple of 32.69x. We then multiplied this multiple by the expected earnings per share for 2022 to arrive at the relative value of $37.43. We did the same calculations with the 2024 P/E multiple and ended with a relative valuation of $47.39. When then performed similar calculations using the PEG ratio and ended with relative values of $11.46 and $14.86 using years 2023 and 2024, respectfully. From the relative valuation metric, we can conclude that Salesforce.com is trading at a much higher price compared to its peers. Salesforce.com is projected to have a P/E of 184x in 2022, 151x higher than the average of its peers. Holding a lower P/E company such as Oracle which is projected to have a P/E of 15.8x in 2022 may allow for more capital appreciation.

In our sensitivity testing, we compared 12 variables across six sensitivity tables that charted the price change in our DCF model. One table compared the beta to the risk-free rate and found that a 0.3% change in risk-free rate results in a $30 price change. The beta however had little effect on the share price change. Another table compared the WACC to the CV Growth rate of NOPLAT. A 1% move in CV rate resulted in a $60 change in price and a 0.6% increase in WACC resulted in a $42 increase.

Ratio Analysis

We analyzed several types of ratios to better determine the overall financial health and stability of Salesforce. Key liquidity ratios that stood out include the current ratio which is currently at 1.23. A good current ratio is typically between 1.5 and 3 so, Salesforce is below the lower threshold but still above 1 meaning they can pay their short-term liabilities. The receivables turnover is currently 3.04 and the total asset turnover is 0.35. Key profitability ratios such as gross margin and net margin equal 75% and 4%, respectfully. A gross margin of 75% tells us that Salesforce has low costs of goods sold. However, a net margin of only 4% tells us that they have large expenditures elsewhere and generate low net income per unit of revenue.

We recommend a HOLD rating for Salesforce with a target price range of $170 – 180 which represents a 14% - 19% downside. Salesforce has seen explosive growth over the last few years spurred by businesses transitioning operations to the cloud due to Covid. As the pandemic slows and interest rates begin to rise, companies will likely hoard cash as it becomes more expensive to borrow. This leads to lower capital expenditures and results in businesses not purchasing new cloud-based applications. Project growth rates have slowed to 3.5% YoY.4

Salesforce currently trades at a P/E of 157.2x which is extremely expensive when compared to the industry average of only 37x. Even with the stock price down 35% from its highs back in November, the stock still seems expensive at these levels. Salesforce is also focused on fully integrating Slack and does not anticipate any material mergers or acquisitions in the near future which may limit growth.1

KEYS TO MONITOR

We recommend a HOLD rating for Salesforce with a target price range of $170 – 180 which represents a 14% - 19% downside. Salesforce has seen explosive growth over the last few years spurred by businesses transitioning operations to the cloud due to Covid. As the pandemic slows and interest rates begin to rise, companies will likely hoard cash as it becomes more expensive to borrow. This leads to lower capital expenditures and results in businesses not purchasing new cloud-based applications. Project growth rates have slowed to 3.5% YoY.4

Salesforce currently trades at a P/E of 157.2x which is extremely expensive when compared to the industry average of only 37x. Even with the stock price down 35% from its highs back in November, the stock still seems expensive at these levels. Salesforce is also focused on fully integrating Slack and does not anticipate any material mergers or acquisitions in the near future which may limit growth.1
We project the application software industry to have strong growth in 2022 with a 17.5% YoY increase in revenues. While the industry continues to expand, only time will tell if Salesforce can capture new sales or miss out to larger more competitive players.

REFERENCES

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8. CNBC
9. U.S. Energy Information Administration
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DISCLAIMER

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## Revenue Decomposition

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### Geographic Segments

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Salesforce.com

Revenue Decomposition
## Salesforce.com Income Statement

**Fiscal Years Ending 1/31**

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<tr>
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<td>(9,296)</td>
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<td>(64)</td>
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<td>(54)</td>
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<td>7,394</td>
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<td>121,921</td>
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<td>(427)</td>
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<td>(31)</td>
<td>(94)</td>
<td>(367)</td>
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<td>(216)</td>
<td>(362)</td>
<td>(768)</td>
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<td>(464)</td>
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<td>(595)</td>
<td>(643)</td>
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<td>(2,011)</td>
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<td>(106)</td>
<td>(131)</td>
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<td>Repayments of debt</td>
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<td>(310)</td>
<td>133</td>
<td>998</td>
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<td>(8)</td>
<td>(38)</td>
<td>(7)</td>
<td>(27)</td>
<td>(12)</td>
<td>26</td>
<td>(39)</td>
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<td>140</td>
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<td>250</td>
<td>448</td>
<td>937</td>
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<td>Cash &amp; cash equivalents, beginning of period</td>
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<td>607</td>
<td>747</td>
<td>782</td>
<td>908</td>
<td>1,158</td>
<td>1,607</td>
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<tr>
<td>Cash &amp; cash equivalents, end of period</td>
<td>607</td>
<td>747</td>
<td>782</td>
<td>908</td>
<td>1,158</td>
<td>1,607</td>
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<td>2023E</td>
<td>2024E</td>
<td>2025E</td>
<td>2026E</td>
<td>2027E</td>
<td>2028E</td>
<td>2029E</td>
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<tr>
<td><strong>Operating activities:</strong></td>
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<td>108</td>
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<td>Changes in operating assets and liabilities</td>
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<tr>
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<td>(4,077)</td>
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<td>(8,177)</td>
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<td>(322)</td>
<td>(366)</td>
<td>(401)</td>
<td>(395)</td>
<td>(352)</td>
<td>(297)</td>
<td>(216)</td>
<td>(126)</td>
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<td>Prepaid expenses and other current assets</td>
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<td>(353)</td>
<td>(348)</td>
<td>(310)</td>
<td>(262)</td>
<td>(191)</td>
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<td>(27)</td>
<td>(42)</td>
<td>(66)</td>
<td>(100)</td>
<td>(137)</td>
<td>(178)</td>
<td>(221)</td>
<td>(262)</td>
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<td>6,603</td>
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<td>10,029</td>
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<td>11,558</td>
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<tr>
<td>Short-term marketable securities</td>
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<td>(113)</td>
<td>(115)</td>
<td>(117)</td>
<td>(120)</td>
<td>(122)</td>
<td>(124)</td>
<td>(127)</td>
<td>(129)</td>
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<tr>
<td>Capital Expenditures</td>
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<td>(2,000)</td>
<td>(2,000)</td>
<td>(2,000)</td>
<td>(2,000)</td>
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<td>(3)</td>
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<tr>
<td>Costs capitalized to obtain revenue contracts, noncurrent, net</td>
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<td>(508)</td>
<td>(677)</td>
<td>(631)</td>
<td>(623)</td>
<td>(555)</td>
<td>(409)</td>
<td>(341)</td>
<td>(199)</td>
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<td>(95)</td>
<td>(98)</td>
<td>(100)</td>
<td>(102)</td>
<td>(104)</td>
<td>(107)</td>
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<td>Goodwill</td>
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<tr>
<td>Other long-term liabilities</td>
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<tr>
<td><strong>Net Cash from investing activities</strong></td>
<td>(12,418)</td>
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<td>(2,843)</td>
<td>(2,777)</td>
<td>(2,695)</td>
<td>(2,572)</td>
<td>(2,435)</td>
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<tr>
<td><strong>Financing activities:</strong></td>
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<td>0</td>
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<td>Non-Current Debt</td>
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<td>993</td>
<td>980</td>
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<td>59,770</td>
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<tr>
<td><strong>Ending Cash</strong></td>
<td>2,043</td>
<td>7,394</td>
<td>14,070</td>
<td>22,107</td>
<td>30,563</td>
<td>39,839</td>
<td>49,735</td>
<td>59,770</td>
<td>69,620</td>
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<td><strong>Revenues:</strong></td>
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<tr>
<td>Subscription and support</td>
<td>93.46%</td>
<td>93.83%</td>
<td>94.00%</td>
<td>94.17%</td>
<td>94.38%</td>
<td>94.55%</td>
<td>94.74%</td>
<td>94.89%</td>
<td>94.96%</td>
<td>95.00%</td>
<td>94.98%</td>
<td>94.94%</td>
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<tr>
<td>Professional services and other</td>
<td>6.54%</td>
<td>6.17%</td>
<td>6.00%</td>
<td>5.83%</td>
<td>5.62%</td>
<td>5.45%</td>
<td>5.26%</td>
<td>5.11%</td>
<td>5.04%</td>
<td>5.00%</td>
<td>5.02%</td>
<td>5.06%</td>
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<tr>
<td><strong>Total revenues</strong></td>
<td>100.00%</td>
<td>100.00%</td>
<td>100.00%</td>
<td>100.00%</td>
<td>100.00%</td>
<td>100.00%</td>
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<td>100.00%</td>
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<td>100.00%</td>
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<td><strong>Cost of revenues:</strong></td>
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</tr>
<tr>
<td>Professional services and other</td>
<td>-6.38%</td>
<td>-6.07%</td>
<td>-6.04%</td>
<td>-5.76%</td>
<td>-5.58%</td>
<td>-5.42%</td>
<td>-5.22%</td>
<td>-5.07%</td>
<td>-5.00%</td>
<td>-4.96%</td>
<td>-4.98%</td>
<td>-5.03%</td>
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<td><strong>Gross profit</strong></td>
<td>74.02%</td>
<td>75.23%</td>
<td>74.41%</td>
<td>74.87%</td>
<td>75.14%</td>
<td>75.10%</td>
<td>75.33%</td>
<td>75.45%</td>
<td>75.48%</td>
<td>75.53%</td>
<td>75.51%</td>
<td>75.47%</td>
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<tr>
<td><strong>Operating expenses:</strong></td>
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<tr>
<td>Research and development</td>
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<td>-16.93%</td>
<td>-15.77%</td>
<td>-16.29%</td>
<td>-16.33%</td>
<td>-16.13%</td>
<td>-16.25%</td>
<td>-16.24%</td>
<td>-16.21%</td>
<td>-16.23%</td>
<td>-16.23%</td>
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<tr>
<td>Marketing and sales</td>
<td>-45.66%</td>
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<td>-41.12%</td>
<td>-38.92%</td>
<td>-36.72%</td>
<td>-34.52%</td>
<td>-32.32%</td>
<td>-30.12%</td>
<td>-27.92%</td>
<td>-25.72%</td>
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<tr>
<td>Loss on settlement of salesforce.org reseller agreement</td>
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<td>-0.97%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
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<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td>-69.99%</td>
<td>-73.49%</td>
<td>-72.27%</td>
<td>-69.06%</td>
<td>-67.33%</td>
<td>-65.16%</td>
<td>-62.78%</td>
<td>-60.69%</td>
<td>-58.48%</td>
<td>-56.25%</td>
<td>-54.07%</td>
<td>-51.87%</td>
</tr>
<tr>
<td><strong>Income / loss from operations</strong></td>
<td>4.03%</td>
<td>1.74%</td>
<td>2.14%</td>
<td>5.81%</td>
<td>7.81%</td>
<td>9.94%</td>
<td>12.54%</td>
<td>14.76%</td>
<td>17.00%</td>
<td>19.28%</td>
<td>21.44%</td>
<td>23.60%</td>
</tr>
<tr>
<td>Gain / loss on sale of investment</td>
<td>4.06%</td>
<td>2.50%</td>
<td>10.21%</td>
<td>0.53%</td>
<td>0.14%</td>
<td>0.43%</td>
<td>0.70%</td>
<td>0.95%</td>
<td>1.17%</td>
<td>1.40%</td>
<td>1.65%</td>
<td>1.92%</td>
</tr>
<tr>
<td>Other expense</td>
<td>-0.71%</td>
<td>-0.11%</td>
<td>-0.30%</td>
<td>-0.22%</td>
<td>-0.15%</td>
<td>-0.15%</td>
<td>-0.12%</td>
<td>-0.10%</td>
<td>-0.09%</td>
<td>-0.08%</td>
<td>-0.08%</td>
<td>-0.08%</td>
</tr>
<tr>
<td>Income / loss before benefit from / provision for income taxes</td>
<td>7.40%</td>
<td>4.13%</td>
<td>12.05%</td>
<td>6.12%</td>
<td>7.81%</td>
<td>10.23%</td>
<td>13.12%</td>
<td>15.61%</td>
<td>18.09%</td>
<td>20.60%</td>
<td>23.02%</td>
<td>25.45%</td>
</tr>
<tr>
<td>Benefit from / provision for income taxes</td>
<td>0.96%</td>
<td>-3.39%</td>
<td>7.11%</td>
<td>1.50%</td>
<td>1.91%</td>
<td>2.51%</td>
<td>3.22%</td>
<td>3.83%</td>
<td>4.44%</td>
<td>5.05%</td>
<td>5.64%</td>
<td>6.24%</td>
</tr>
<tr>
<td><strong>Net income / loss</strong></td>
<td>8.36%</td>
<td>0.74%</td>
<td>19.16%</td>
<td>4.62%</td>
<td>5.89%</td>
<td>7.72%</td>
<td>9.91%</td>
<td>11.78%</td>
<td>13.65%</td>
<td>15.56%</td>
<td>17.37%</td>
<td>19.21%</td>
</tr>
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</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>7.73%</td>
<td>22.96%</td>
<td>36.28%</td>
<td>48.11%</td>
<td>57.62%</td>
<td>67.13%</td>
<td>76.90%</td>
<td>87.19%</td>
<td>98.31%</td>
<td>109.52%</td>
<td>120.73%</td>
<td>132.94%</td>
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<tr>
<td>Short-term marketable securities</td>
<td>12.60%</td>
<td>22.24%</td>
<td>27.16%</td>
<td>22.25%</td>
<td>18.61%</td>
<td>15.76%</td>
<td>13.55%</td>
<td>11.97%</td>
<td>10.54%</td>
<td>9.67%</td>
<td>9.37%</td>
<td>9.08%</td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>37.07%</td>
<td>36.11%</td>
<td>36.64%</td>
<td>37.14%</td>
<td>38.44%</td>
<td>40.27%</td>
<td>42.85%</td>
<td>46.82%</td>
<td>52.77%</td>
<td>61.07%</td>
<td>72.66%</td>
<td>88.69%</td>
</tr>
<tr>
<td>Costs capitalized to obtain revenue contracts, net</td>
<td>5.93%</td>
<td>5.42%</td>
<td>5.59%</td>
<td>5.58%</td>
<td>5.58%</td>
<td>5.58%</td>
<td>5.58%</td>
<td>5.58%</td>
<td>5.58%</td>
<td>5.58%</td>
<td>5.58%</td>
<td>5.58%</td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td>4.74%</td>
<td>5.36%</td>
<td>4.66%</td>
<td>4.92%</td>
<td>4.92%</td>
<td>4.92%</td>
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<td>4.92%</td>
<td>4.92%</td>
<td>4.92%</td>
<td>4.92%</td>
<td>4.92%</td>
</tr>
<tr>
<td>Total current assets</td>
<td>80.43%</td>
<td>93.36%</td>
<td>103.00%</td>
<td>77.62%</td>
<td>90.51%</td>
<td>102.81%</td>
<td>115.01%</td>
<td>126.91%</td>
<td>141.30%</td>
<td>158.66%</td>
<td>180.14%</td>
<td>207.17%</td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>15.44%</td>
<td>13.89%</td>
<td>11.57%</td>
<td>10.40%</td>
<td>8.81%</td>
<td>7.39%</td>
<td>6.25%</td>
<td>5.42%</td>
<td>4.85%</td>
<td>4.45%</td>
<td>4.20%</td>
<td>4.06%</td>
</tr>
<tr>
<td>Marketable securities, noncurrent</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
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<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Operating lease right-of-use assets</td>
<td>0.00%</td>
<td>17.78%</td>
<td>15.08%</td>
<td>13.55%</td>
<td>11.48%</td>
<td>9.63%</td>
<td>8.15%</td>
<td>7.07%</td>
<td>6.38%</td>
<td>5.47%</td>
<td>5.29%</td>
<td>5.29%</td>
</tr>
<tr>
<td>Costs capitalized to obtain revenue contracts, noncurrent, net</td>
<td>10.42%</td>
<td>7.88%</td>
<td>8.07%</td>
<td>8.79%</td>
<td>8.79%</td>
<td>8.79%</td>
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<td>8.79%</td>
<td>8.79%</td>
<td>8.79%</td>
<td>8.79%</td>
</tr>
<tr>
<td>Total assets</td>
<td>231.42%</td>
<td>322.41%</td>
<td>311.98%</td>
<td>282.03%</td>
<td>257.97%</td>
<td>241.76%</td>
<td>232.78%</td>
<td>229.87%</td>
<td>234.22%</td>
<td>244.90%</td>
<td>262.49%</td>
<td>287.68%</td>
</tr>
<tr>
<td>Accounts payable, accrued expenses and other liabilities</td>
<td>20.26%</td>
<td>20.08%</td>
<td>20.49%</td>
<td>20.90%</td>
<td>21.76%</td>
<td>22.53%</td>
<td>23.54%</td>
<td>24.85%</td>
<td>26.33%</td>
<td>28.04%</td>
<td>30.58%</td>
<td>42.61%</td>
</tr>
<tr>
<td>Operating lease liabilities, current</td>
<td>0.00%</td>
<td>4.39%</td>
<td>3.60%</td>
<td>3.24%</td>
<td>2.75%</td>
<td>2.30%</td>
<td>1.95%</td>
<td>1.69%</td>
<td>1.51%</td>
<td>1.39%</td>
<td>1.27%</td>
<td>1.27%</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>64.48%</td>
<td>62.36%</td>
<td>59.32%</td>
<td>62.05%</td>
<td>62.05%</td>
<td>62.05%</td>
<td>62.05%</td>
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<td>62.05%</td>
<td>62.05%</td>
<td>62.05%</td>
<td>62.05%</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>113.93%</td>
<td>124.23%</td>
<td>116.13%</td>
<td>118.15%</td>
<td>116.79%</td>
<td>114.28%</td>
<td>114.00%</td>
<td>116.18%</td>
<td>118.06%</td>
<td>122.77%</td>
<td>129.88%</td>
<td>140.11%</td>
</tr>
<tr>
<td>Temporary Equity</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
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<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Preferred stock</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
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<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Additional paid-in capital /Common stock</td>
<td>104.86%</td>
<td>187.84%</td>
<td>167.52%</td>
<td>136.98%</td>
<td>114.30%</td>
<td>96.51%</td>
<td>82.76%</td>
<td>71.72%</td>
<td>64.08%</td>
<td>58.80%</td>
<td>55.48%</td>
<td>53.70%</td>
</tr>
<tr>
<td>Accumulated deficit / retained earnings</td>
<td>-0.44%</td>
<td>-0.54%</td>
<td>-0.20%</td>
<td>-0.16%</td>
<td>-0.13%</td>
<td>-0.08%</td>
<td>-0.07%</td>
<td>-0.06%</td>
<td>-0.06%</td>
<td>-0.06%</td>
<td>-0.06%</td>
<td>-0.06%</td>
</tr>
<tr>
<td>Total stockholders' equity</td>
<td>117.49%</td>
<td>198.18%</td>
<td>195.24%</td>
<td>183.88%</td>
<td>142.27%</td>
<td>127.42%</td>
<td>118.79%</td>
<td>114.71%</td>
<td>116.17%</td>
<td>122.14%</td>
<td>128.68%</td>
<td>147.87%</td>
</tr>
<tr>
<td>Total liabilities and stockholders' equity</td>
<td>231.42%</td>
<td>322.41%</td>
<td>311.98%</td>
<td>282.03%</td>
<td>257.97%</td>
<td>241.76%</td>
<td>232.78%</td>
<td>229.87%</td>
<td>234.22%</td>
<td>244.90%</td>
<td>262.49%</td>
<td>287.68%</td>
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</tr>
<tr>
<td><strong>EBITA</strong></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>13,282</td>
<td>17,098</td>
<td>21,252</td>
<td>26,435</td>
<td>32,211</td>
<td>38,777</td>
<td>45,955</td>
<td>53,039</td>
<td>59,347</td>
<td>64,677</td>
<td>68,554</td>
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<tr>
<td>Research and development</td>
<td>(1,886)</td>
<td>(2,765)</td>
<td>(3,598)</td>
<td>(4,169)</td>
<td>(5,248)</td>
<td>(6,332)</td>
<td>(7,413)</td>
<td>(8,619)</td>
<td>(9,636)</td>
<td>(10,482)</td>
<td>(11,127)</td>
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<tr>
<td>Marketing and sales</td>
<td>(6,064)</td>
<td>(7,930)</td>
<td>(9,674)</td>
<td>(11,452)</td>
<td>(13,245)</td>
<td>(15,092)</td>
<td>(16,875)</td>
<td>(18,309)</td>
<td>(19,181)</td>
<td>(19,481)</td>
<td>(18,215)</td>
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</tr>
<tr>
<td>General and administrative</td>
<td>(1,346)</td>
<td>(1,704)</td>
<td>(2,087)</td>
<td>(2,636)</td>
<td>(3,195)</td>
<td>(3,841)</td>
<td>(4,565)</td>
<td>(5,263)</td>
<td>(5,886)</td>
<td>(6,418)</td>
<td>(6,801)</td>
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<tr>
<td>Operating lease interest</td>
<td>102</td>
<td>129</td>
<td>112</td>
<td>130</td>
<td>134</td>
<td>135</td>
<td>136</td>
<td>136</td>
<td>136</td>
<td>136</td>
<td>136</td>
<td></td>
</tr>
<tr>
<td><strong>NET</strong></td>
<td>837</td>
<td>992</td>
<td>867</td>
<td>1,885</td>
<td>2,548</td>
<td>3,201</td>
<td>3,900</td>
<td>5,905</td>
<td>10,237</td>
<td>12,100</td>
<td>14,832</td>
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<tr>
<td><strong>Adjusted Taxes</strong></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marginal tax rate</td>
<td>67.55%</td>
<td>103.12%</td>
<td>46.43%</td>
<td>46.43%</td>
<td>24.52%</td>
<td>24.52%</td>
<td>24.52%</td>
<td>24.52%</td>
<td>24.52%</td>
<td>24.52%</td>
<td>24.52%</td>
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</tr>
<tr>
<td>Income tax provision</td>
<td>-127 (905)</td>
<td>1,511</td>
<td>397</td>
<td>617</td>
<td>973</td>
<td>1,479</td>
<td>2,031</td>
<td>2,632</td>
<td>3,267</td>
<td>3,869</td>
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<tr>
<td>Other expense</td>
<td>94</td>
<td>18</td>
<td>64</td>
<td>14</td>
<td>11</td>
<td>14</td>
<td>13</td>
<td>13</td>
<td>13</td>
<td>13</td>
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</tr>
<tr>
<td>Operating lease interest</td>
<td>69</td>
<td>133</td>
<td>62</td>
<td>32</td>
<td>33</td>
<td>33</td>
<td>33</td>
<td>33</td>
<td>33</td>
<td>33</td>
<td>33</td>
<td></td>
</tr>
<tr>
<td><strong>Net</strong></td>
<td>(321) (1,160) (599)</td>
<td>376</td>
<td>617</td>
<td>948</td>
<td>1,474</td>
<td>1,820</td>
<td>2,474</td>
<td>3,057</td>
<td>3,604</td>
<td>4,099</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Plus: Change in deferred taxes</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td><strong>NOPAT</strong></td>
<td>692</td>
<td>1,789</td>
<td>3,276</td>
<td>1,399</td>
<td>2,039</td>
<td>3,087</td>
<td>4,552</td>
<td>6,145</td>
<td>7,890</td>
<td>9,724</td>
<td>11,456</td>
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</tr>
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</table>

**Invested Capital (IC):**

**Operating Assets:**

- Normal cash: 2,245, 2,890, 3,592
- Accounts receivable, net: 4,924, 6,174, 7,786
- Costs capitalized to obtain revenue contracts, net: 778, 926, 1,146
- Prepaid expenses and other current assets: 629, 916, 991

**Total Operating Assets:** 8,586, 10,906, 13,515

**Operating Liabilities:**

- Accounts payable, accrued expenses and other liabilities: 2,691, 3,433, 4,355
- Deferred revenue: 8,364, 10,662, 12,607
- Costs capitalized to obtain revenue contracts, noncurrent: 1,384, 1,348, 1,715
- Intangible assets acquired through business combinations, net: 1,923, 4,724, 4,114
- Present value of operating leases: 3,576, 3,040, 3,204

**Total Operating Liabilities:** 11,395, 14,095, 16,992

**Net Operating Working Capital:** (2,809), (3,189), (3,447)

**LT Operating Assets:**

- Property and equipment, net: 2,051, 2,375, 2,459
- Costs capitalized to obtain revenue contracts, noncurrent, net: 1,384, 1,348, 1,715
- Intangible assets acquired through business combinations, net: 1,923, 4,724, 4,114
- Present value of operating leases: 3,576, 3,040, 3,204

**LT Operating Liabilities:**

- Other noncurrent liabilities: 704, 1,278, 1,566

**Invested Capital (IC):** 4,854, 7,169, 6,723

**Free Cash Flow (FCF):**

- NOPAT: 692, 1,789, 3,276
- Change in IC: 2,528, 2,515, 446

**FCF:** (1,838), (726), 3,722

**Return on Invested Capital (ROIC):**

- NOPAT: 692, 1,789, 3,276
- Beginning IC: 2,126, 4,654, 7,169

**ROIC:** 22.57%, 38.63%, 46.76%

**Economic Profit (EP):**

- Beginning IC: 2,126, 4,654, 7,169
- Beginning IC x (ROIC - WACC): 25.27%, 31.13%, 38.40%

**EP:** 537, 1,449, 2,763
<table>
<thead>
<tr>
<th>Cost of Equity:</th>
<th>ASSUMPTIONS:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk-Free Rate</td>
<td>1.92% 10 yr treasury bond</td>
</tr>
<tr>
<td>Beta</td>
<td>1.09 Average of 1,2,5 yr monthly and weekly betas</td>
</tr>
<tr>
<td>Equity Risk Premium</td>
<td>5.15% Henry Fund Estimate</td>
</tr>
<tr>
<td><strong>Cost of Equity</strong></td>
<td><strong>7.53%</strong></td>
</tr>
</tbody>
</table>

**Cost of Equity:**

| Risk-Free Rate                       | 1.92% 10 yr treasury bond                                                                         |
| Implied Default Premium              | 1.70% YTM on company's 40-year corporate bond                                                      |
| Pre-Tax Cost of Debt                 | 3.62% MV Weights                                                                                  |
| Marginal Tax Rate                    | 25%                                                                                               |
| **After-Tax Cost of Debt**           | **2.73%**                                                                                         |

**Market Value of Common Equity:**

| Total Shares Outstanding             | 985                                                                                               |
| Current Stock Price                  | $210.39                                                                                           |
| **MV of Equity**                     | **207,234**                                                                                       |

**Market Value of Debt:**

| Short-Term Debt                      | 4                                                                                                 |
| Current Portion of LTD               |                                                                                                   |
| Long-Term Debt                       | 2673                                                                                              |
| Operating lease liabilities, current | 766                                                                                               |
| PV of Operating Leases               | 3204                                                                                              |
| **MV of Total Debt**                 | **6,647**                                                                                         |

**Market Value of the Firm**

| 213,881                               | 100.00%                                                                                           |

**Estimated WACC**

| 7.30%                                                                 |
Salesforce.com
Discounted Cash Flow (DCF) and Economic Profit (EP) Valuation Models

Key Inputs:
- CV Growth of NOPLAT: 3.00%
- CV Year ROIC: 20.68%
- WACC: 7.30%
- Cost of Equity: 7.53%

<table>
<thead>
<tr>
<th>Fiscal Years Ending 1/31</th>
<th>2022E</th>
<th>2023E</th>
<th>2024E</th>
<th>2025E</th>
<th>2026E</th>
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<td>Free Cash Flow (FCF)</td>
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<td>PV of FCF</td>
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<td>Strategic investments</td>
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<td>Intrinsic Value of Last FYE</td>
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<td><strong>Implied Price as of Today</strong></td>
<td>$192.70</td>
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| **EP Model:**            |       |       |       |       |       |       |       |       |       |
| Economic Profit (EP)     | 899.6 | 1580.8| 2633.5| 4115.3| 5702.9| 7426.6| 9239.6| 10939.2| 12478.9|
| Continuing Value (CV)    |       |       |       |       |       |       |       |       | 251422.8|
| PV of EP                 | 838.4 | 1373.0| 2131.7| 3104.6| 4009.5| 4866.2| 5642.3| 6225.7| 143089.2|
| Total PV of EP           | 171280.7 | |       |       |       |       |       |       |       |
| Invested Capital (last FYE) | 6723.0 | |       |       |       |       |       |       |       |
| Value of Operating Assets| 178003.7 | |       |       |       |       |       |       |       |
| Non-Operating Adjustments|       |       |       |       |       |       |       |       |       |
| Excess cash              | 2424.8|       |       |       |       |       |       |       |       |
| Short-term marketable securities | 5881.8| |       |       |       |       |       |       |       |
| Marketable securities, noncurrent | 0.0| |       |       |       |       |       |       |       |
| Strategic investments    | 3998.1| |       |       |       |       |       |       |       |
| Operating lease right-of-use assets | -3583.2| |       |       |       |       |       |       |       |
| Noncurrent debt          | -3224.7| |       |       |       |       |       |       |       |
| Value of Equity          | 183500.5 | |       |       |       |       |       |       |       |
| Shares Outstanding       | 958.0 | |       |       |       |       |       |       |       |
| Intrinsic Value of Last FYE | $191.55 | |       |       |       |       |       |       |       |
| **Implied Price as of Today** | $192.70 | |       |       |       |       |       |       |       |
### Salesforce.com

*Dividend Discount Model (DDM) or Fundamental P/E Valuation Model*

<table>
<thead>
<tr>
<th>Fiscal Years Ending 1/31</th>
<th>2022E</th>
<th>2023E</th>
<th>2024E</th>
<th>2025E</th>
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<th>2028E</th>
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<td>$12.24</td>
<td>$13.98</td>
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**Key Assumptions**
- CV growth of EPS: 3.00%
- CV Year ROE: 13.02%
- Cost of Equity: 7.53%

**Future Cash Flows**
- P/E Multiple (CV Year): 17.00
- EPS (CV Year): $13.98
- Future Stock Price: $237.69
- Dividends Per Share: 0 0 0 0 0 0 0 0 0
- Discounted Cash Flows: 0 0 0 0 0 0 0 0 $133.00

**Intrinsic Value as of Last FYE**
- $133.00

**Implied Price as of Today**
- $133.80
### Salesforce.com

**Relative Valuation Models**

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<thead>
<tr>
<th>Ticker</th>
<th>Company</th>
<th>Price</th>
<th>EPS 2022E</th>
<th>EPS 2023E</th>
<th>P/E 22</th>
<th>P/E 23</th>
<th>Est. 5yr EPS gr.</th>
<th>PEG 22</th>
<th>PEG 23</th>
<th>EV/EBITDA 2022E</th>
<th>EV/EBITDA 2023E</th>
<th>WACC 2022E</th>
<th>WACC 2023E</th>
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<td>SAP</td>
<td>SAP</td>
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<td>$5.94</td>
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<td>19.03</td>
<td>17.28</td>
<td>4.1</td>
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<td>12.27</td>
<td>6%</td>
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<tr>
<td>INTU</td>
<td>Intuit</td>
<td>$487.18</td>
<td>$11.68</td>
<td>$13.68</td>
<td>41.71</td>
<td>35.61</td>
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<td>Oracle</td>
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<td>14.43</td>
<td>9.6</td>
<td>1.64</td>
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<td>13.45</td>
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<td>ServiceNow</td>
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<td>5.6%</td>
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<td>32.69</td>
<td>27.66</td>
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<td>2.22</td>
<td>1.93</td>
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</tbody>
</table>

**Implied Relative Value:**

- **P/E (EPS22)**: $41.66
- **P/E (EPS23)**: $54.52
- **PEG (EPS22)**: $21.16
- **PEG (EPS23)**: $28.37
### Key Management Ratios

#### Fiscal Years Ending 1/31

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<td><strong>Liquidity Ratios:</strong></td>
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</tr>
<tr>
<td>Current Ratio (x)</td>
<td>0.95</td>
<td>1.08</td>
<td>1.23</td>
<td>0.90</td>
<td>1.05</td>
<td>1.18</td>
<td>1.30</td>
<td>1.40</td>
<td>1.50</td>
<td>1.60</td>
<td>1.70</td>
<td>1.79</td>
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<td>Quick Ratio (x)</td>
<td>0.95</td>
<td>1.08</td>
<td>1.23</td>
<td>0.90</td>
<td>1.05</td>
<td>1.18</td>
<td>1.30</td>
<td>1.40</td>
<td>1.50</td>
<td>1.60</td>
<td>1.70</td>
<td>1.79</td>
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<td>0.28</td>
<td>0.35</td>
<td>0.09</td>
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<td>0.54</td>
<td>0.64</td>
<td>0.71</td>
<td>0.78</td>
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<tr>
<td>LT Debt/Total Equity</td>
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<td>7.89</td>
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<td>7.44</td>
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<td>7.17</td>
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<td>7.51</td>
<td>8.91</td>
<td>9.14</td>
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<td>9.92</td>
<td>10.68</td>
<td>11.60</td>
<td>12.71</td>
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</tr>
<tr>
<td>Return on Equity (NI/Beg TSE)</td>
<td>7.11%</td>
<td>0.37%</td>
<td>9.81%</td>
<td>2.82%</td>
<td>4.14%</td>
<td>6.06%</td>
<td>8.34%</td>
<td>10.27%</td>
<td>11.75%</td>
<td>12.73%</td>
<td>13.10%</td>
<td>13.02%</td>
</tr>
<tr>
<td>Gross Margin (Gross Income/Sales)</td>
<td>74.02%</td>
<td>75.23%</td>
<td>74.41%</td>
<td>74.87%</td>
<td>75.14%</td>
<td>75.10%</td>
<td>75.33%</td>
<td>75.45%</td>
<td>75.48%</td>
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<td>75.47%</td>
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<td>4.62%</td>
<td>5.89%</td>
<td>7.72%</td>
<td>9.91%</td>
<td>11.78%</td>
<td>13.65%</td>
<td>15.55%</td>
<td>17.37%</td>
<td>19.21%</td>
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<td>Return on Assets (Net Income/Beg TA)</td>
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<td>7.39%</td>
<td>1.84%</td>
<td>2.55%</td>
<td>3.60%</td>
<td>4.86%</td>
<td>5.84%</td>
<td>6.64%</td>
<td>7.23%</td>
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<td>7.56%</td>
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<tr>
<td>Total Payout Ratio ([Dividends + Repurchases]/NI)</td>
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<td>0%</td>
<td>0%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
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Salesforce.com

Effects of ESOP Exercise and Share Repurchases on Common Stock Account and Number of Shares Outstanding

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<th>2024E</th>
<th>2025E</th>
<th>2026E</th>
<th>2027E</th>
<th>2028E</th>
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</table>
Salesforce.com
Valuation of Options Granted under ESOP

Current Stock Price $210.39
Risk Free Rate 1.92%
Current Dividend Yield 0.00%
Annualized St. Dev. of Stock Returns 33.00%

<table>
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<tr>
<th>Range of Outstanding Options</th>
<th>Number of Shares</th>
<th>Average Exercise Price</th>
<th>Average Remaining Life (yrs)</th>
<th>B-S Value of Option</th>
<th>Value of Options Granted</th>
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