The Henry Fund
Henry B. Tippie College of Business
Kelby Barnewolt [kelby-barnewolt@uiowa.edu]

Salesforce.com (CRM)

April 21, 2022

Information Technology – Application Software

Stock Rating **HOLD**

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]

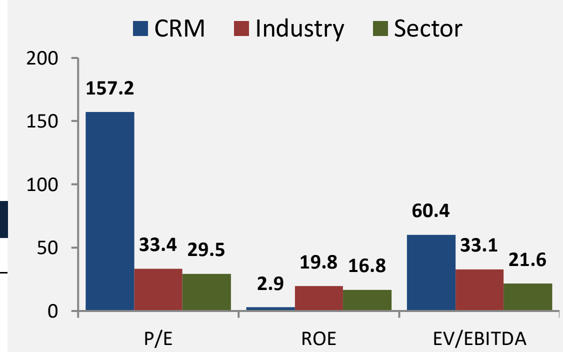
Risks of Thesis

- 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]

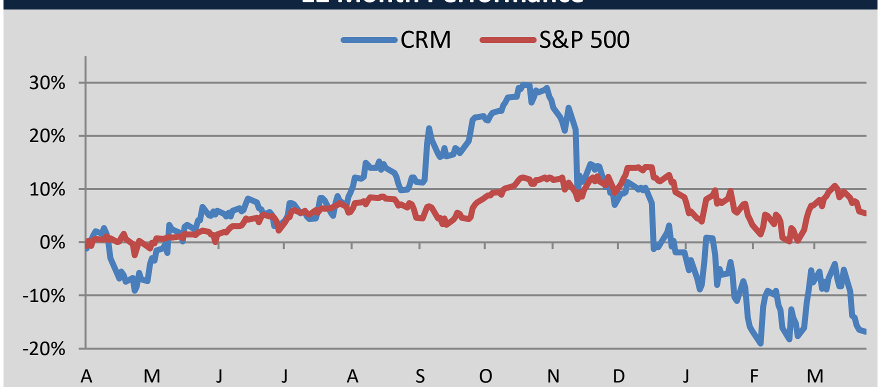
Target Price	$190-200
Model DCF	$193
Model DDM	$134
Relative Multiple P/E	$42
Price Data	
Current Price	$186
52wk Range	$184 – 312
Consensus 1yr Target	$297
Key Statistics	
Market Cap (B)	$207.23
Shares Outstanding (M)	$1,021.30
Institutional Ownership	80.37%
Beta	1.09
Dividend Yield	0.0%
Est. 5yr Growth	15.2%
Price/Earnings (TTM)	157.2x
Price/Earnings (5Y Avg)	419.9x
Price/Sales (TTM)	8.6
Price/Book (mrq)	3.9
Profitability	
Operating Margin	2.1%
Gross Margin	70.7%
Return on Assets (TTM)	1.8%
Return on Equity (TTM)	2.9%



Earnings Estimates

Year	2019	2020	2021	2022E	2023E	2024E
EPS	$1.48	$0.15	$4.48	$1.48	$0.51	$1.28
HF est.				$1.14	$1.71	$2.65
growth	*722%*	*-90%*	*2,887%*	*-74%*	*50%*	*55%*

12 Month Performance



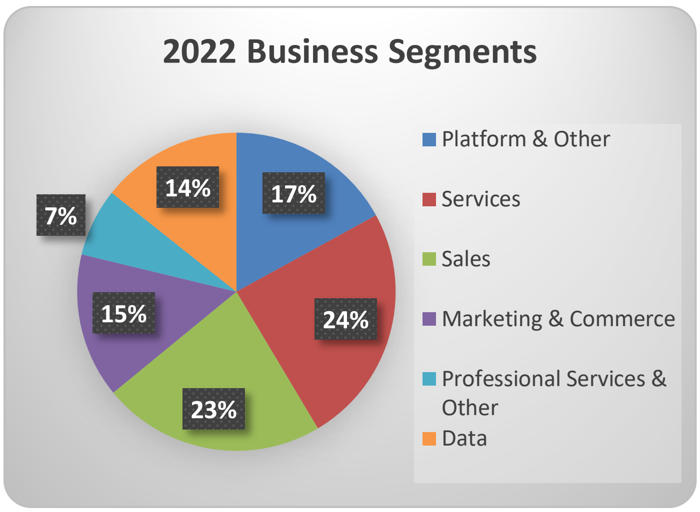
Company Description

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.

Important disclosures appear on the last page of this report.

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.[1] 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.



Source: FactSet

Platform & Other

The Platform & Other business segment is Salesforce's largest segment accounting for 30% of total revenues. It can be separated into three divisions: Platform, Analytics, and Integration. The Platform service enables companies to build apps that help scale operations and bring them closer to their customers. Platform also includes Trailhead which is a free service that helps teach employees how to use Salesforce products. The second division Analytics, includes the data visualization tool, Tableau. Analytics main purpose is to help customers understand their data and make better business decisions. The third division, Integration, is driven by MuleSoft which helps customers control their data. The Platform & Other business segment 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 tapper 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 tailed 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 is 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]

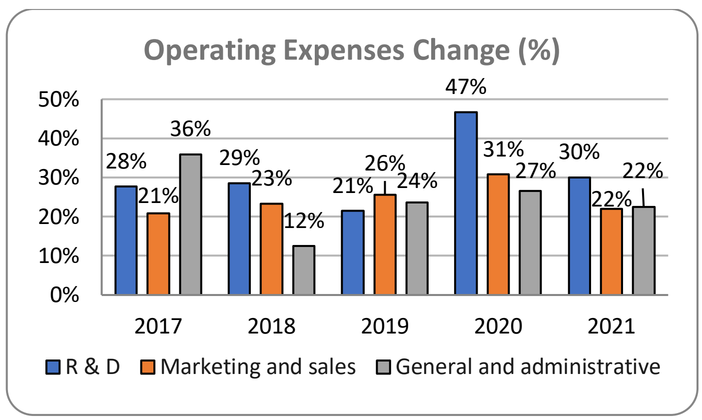
Data

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.

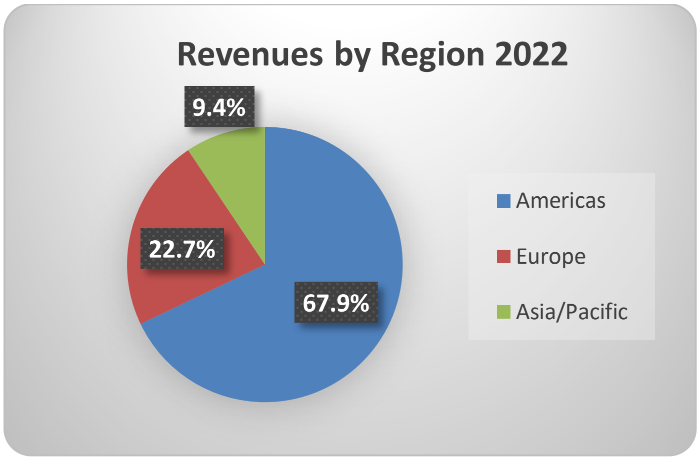
There are three main operating expenses: Research & Development, Marketing & Sales, and General & Administrative. R&D on average has been 15.3% of total revenues. This percentage has increased slightly in the past two years, but these increases can be attributed to research on their large acquisitions 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]



Source: Salesforce 10-k

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]



Source: FactSet

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

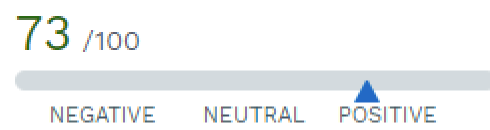
Fiscal Year	Payment ($mil)
2023	4
2024	1,182
2025	1,000
2026	0
2027	0
Thereafter	8,500
Total outstanding	$10,686

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, respectfully. The reason for low scores in these categories involves data privacy concerns and competitive business behaviors.[1]

Overall ESG Score

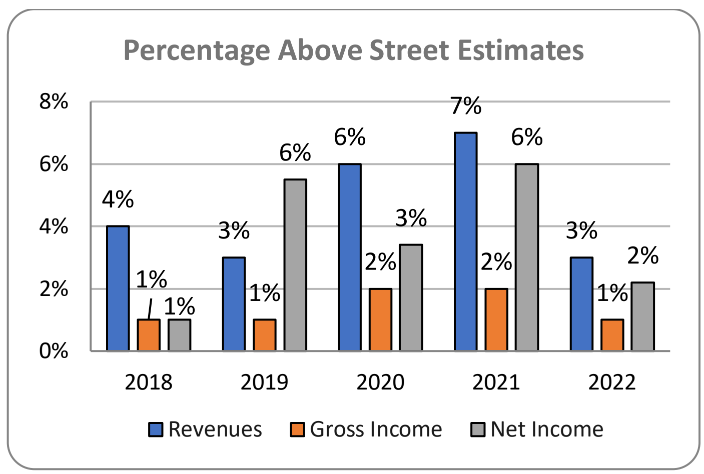


Source: FactSet

RECENT DEVELOPMENTS

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.[7]



Source: FactSet

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 difficultly of switching providers once a business in 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.

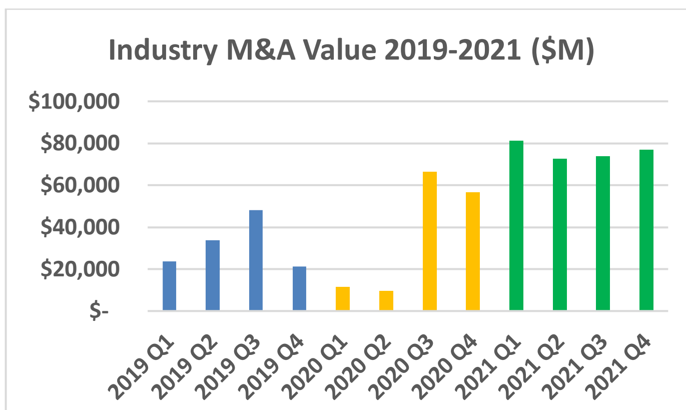
Barriers to Entry Checklist

Competition	Medium
Concentration	Medium
Life Cycle Stage	Growth
Technology Change	High
Regulation & Policy	None
Industry Assistance	None

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, 8]

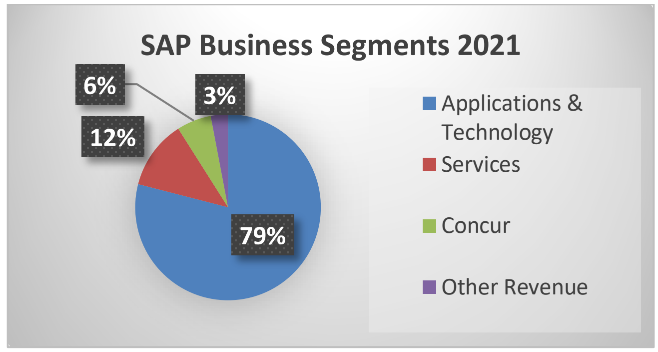
MARKETS AND COMPETITION

Competitive Advantages

Salesforce recognizes that current and potential competitors have serval 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)

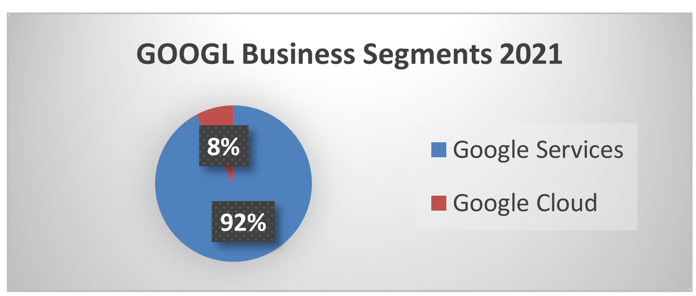
SAP SE is a German-based provider of enterprise application software and software-related services that was founded in 1972. SAP is the largest player in the Application Software industry with over 17% market share. SAP SE derives 99% of its revenues from the Application Software industry and 33% of 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]



Source: FactSet

Alphabet Inc. (GOOGL)

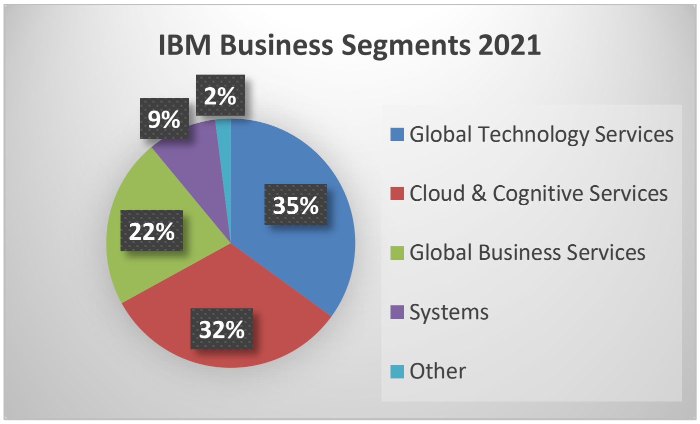
Alphabet is the parent company of Google and currently has a market cap of $1,893 billion and a 16.6% long-term growth rate. Alphabet operates through two main business segments: Google Services and Google Cloud. The Google Cloud segment is the portion of revenue that comes from the Application Software 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]



Source: FactSet

International Business Machines Corp (IBM)

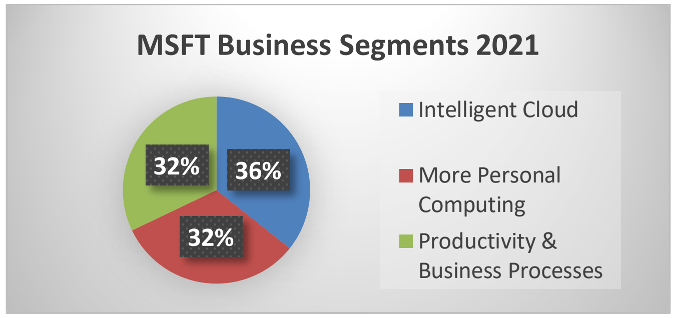
IBM was founded in 1911 and is headquartered in the United States. Currently, IBM has a market cap of $123 billion, a long-term growth rate of 9.5%, and controls 5% of the Application Software market share. IBM operates through the following segments: Global Technology Services, Cloud & Cognitive Software, 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)

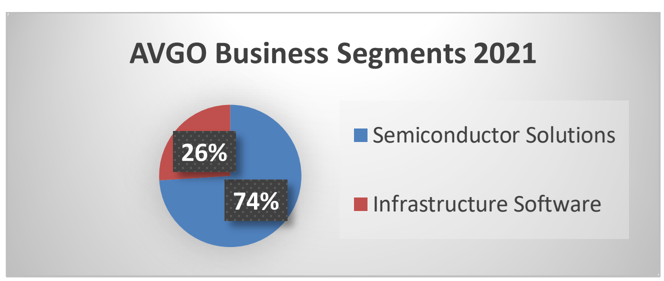
Microsoft is one of the largest companies in the world with a market capitalization of over $2.1 trillion. It was founded by Bill Gates and Paul Allen in 1975 and is headquartered in Redmond, WA. Microsoft operates through three major business segments: Intelligent Cloud, More Personal Computing, and 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)

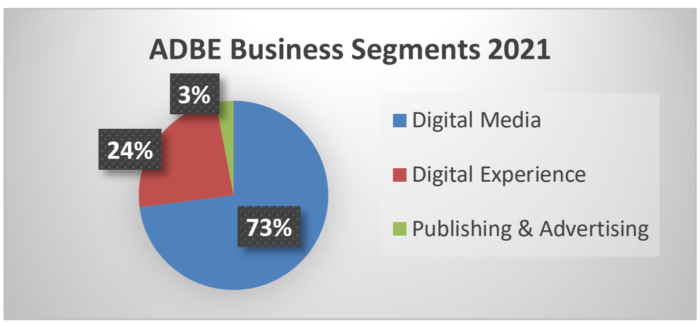
Founded in 1961 and headquartered in San Jose, CA Broadcom operates across two business segments, Semiconductor Solutions, and Infrastructure Software. The Infrastructure Software segment accounts for 74% of total revenues and is where they compete with Salesforce. It enables customers to develop, automate, 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)

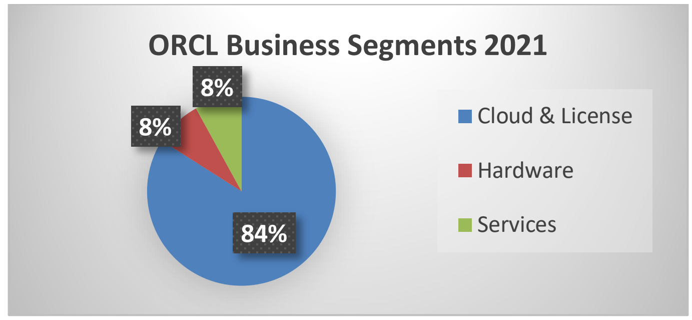
Adobe was founded in 1982 and is headquartered in San Jose, CA. It operates through three key business segments, Digital Media, Digital Experience, and Publishing. The Digital Media segment accounts for 73% of Adobe's total revenues and included products such as Adobe Photoshop, Illustrator, and Premiere 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.



Source: FactSet

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.



Source: FactSet

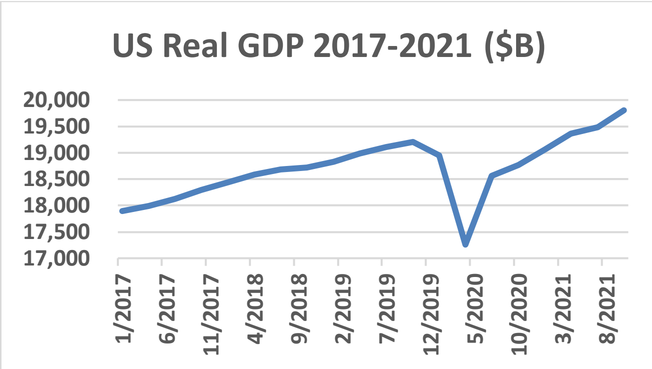
ECONOMIC OUTLOOK

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. [1,7]

Real GDP

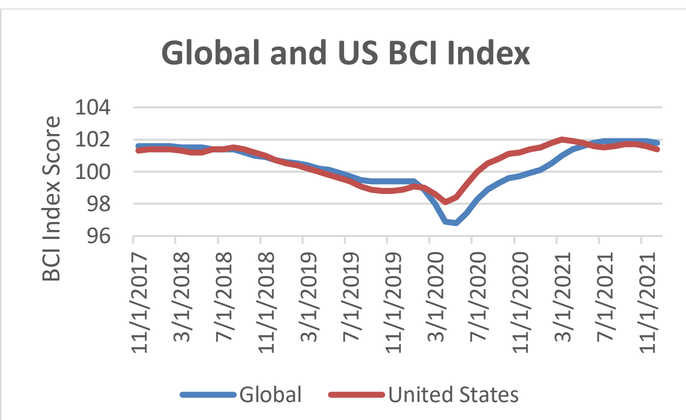
The global economy is in a weaker position than previously expected due to high infection rates of the Covid-19 Omicron variant. Many countries are reimposing border restrictions and rising energy costs are disrupting supply chains. Global growth is expected to slow to 4.4% in 2022, down from 5.9% in 2021.[12] 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.

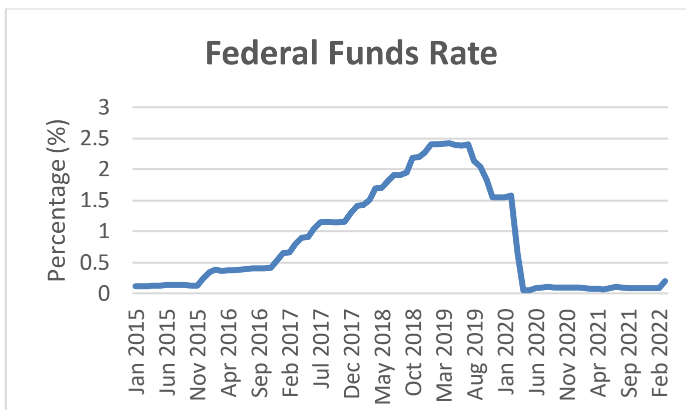


Source: OECD

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.

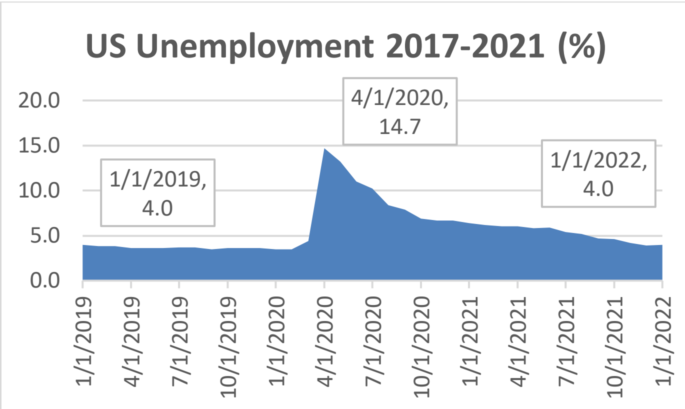
Raising rates can often scare the market but if the Federal Reserve must raise rates this indicates that the economy was booming in the first place. This strong economy is not going to grind to a half due to a few small rate hikes. These rate increases are intended to slow, not stop the economy. The 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)

VALUATION

WACC

To calculate the weighted average cost of capital (WACC) we first found the cost of equity using a risk-free rate of 1.92% which is the current 10-year treasury bond yield. We used a beta of 1.09 which is an average from Bloomberg and an equity risk premium of 5.15% which is the Henry Fund estimate. The beta multiplied by the equity risk premium plus the risk-free rate results in a cost of equity of 7.53%. Next, we found the after-tax cost of debt, the market value of equity, and the market value of debt. Using all these metrics we then found a WACC value of 7.30%. The average WACC for Salesforce's peers is 5.7%, which means that there is a higher level of risk associated with Salesforce as investors require a higher level of return.

Discounted Cash Flows (DCF)

Our discounted cash flow (DCF) model generates an implied share price today of $175.32. This represents a 17% downside in the share price for salesforce. To compute this estimate we first found earnings before interest, taxes, and amortization (EBITA). We then subtracted adjusted taxes and added back the change in deferred taxes to arrive at net operating profit less adjusted taxes (NOPLAT). Next, we calculated the invested capital by subtracting the long-term operating liabilities from long-term operating assets. Subtracting the change in invested capital from NOPLAT gives us free cash flow (FCF). We then used the formula CV = NOPLAT*(1-(g/ROIC))/(WACC-g) to find the continuing value. After discounting each FCF and the CV, we arrived at the present value of operating assets. After making the proper non-operating adjustments, we found the value of equity. Dividing the value of equity by the total number of shares outstanding results in the intrinsic value as of last fiscal year-end. To get 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.

Economic Profit (EP)

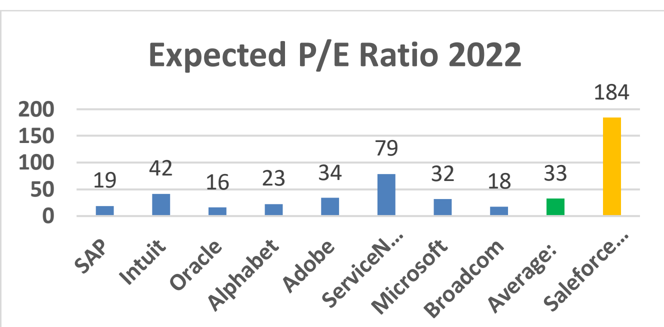
The economic profit model is like the discounted cash flows model but instead of using FCF, we use economic profit. To find economic profit we first found the return on invested capital by dividing NOPLAT by beginning invested capital. We then subtracted WACC from ROIC and multiplied this by beginning 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 grow forward the price by how much time has passed in the current fiscal year. All these steps resulted in an implied share price of 175.32, the same as the DCF just with EP instead of FCF.

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 = (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.



Source: FactSet

Sensitivity Analysis

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.

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.

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DISCLAIMER

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Revenue Decomposition

Fiscal Years Ending 1/31	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Sales															
Platform & Other	1,035	1,442	1,929	2,854	4,473	6,275	8,698	11,611	15,257	19,545	23,920	27,699	30,810	32,901	33,842
% growth		39.3%	33.8%	47.9%	56.7%	40.3%	38.6%	33.5%	31.4%	28.1%	22.4%	15.8%	11.2%	6.8%	2.9%
Service	1,818	2,321	2,877	3,621	4,466	5,377	6,466	7,679	8,963	10,297	11,554	12,775	13,877	14,793	15,471
% growth		27.7%	24.0%	25.9%	23.3%	20.4%	20.2%	18.8%	16.7%	14.9%	12.2%	10.6%	8.6%	6.6%	4.6%
Sales	2,699	3,061	3,554	4,040	4,598	5,191	5,890	6,560	7,255	7,966	8,651	9,313	9,843	10,268	10,564
% growth		13.4%	16.1%	13.7%	13.8%	12.9%	13.5%	11.4%	10.6%	9.8%	8.6%	7.7%	5.7%	4.3%	2.9%
Marketing & Commerce	654	933	1,350	1,898	2,506	3,133	3,840	4,551	5,190	5,728	6,205	6,571	6,913	7,153	7,358
% growth		42.7%	44.6%	40.6%	32.0%	25.0%	22.6%	18.5%	14.0%	10.4%	8.3%	5.9%	5.2%	3.5%	2.9%
Professional Services & Other	462	636	770	869	1,055	1,276	1,542	1,810	2,112	2,418	2,710	2,989	3,233	3,438	3,585
% growth		37.7%	21.0%	12.9%	21.4%	20.9%	20.8%	17.4%	16.7%	14.5%	12.1%	10.3%	8.2%	6.3%	4.3%
Total	**6,667**	**8,392**	**10,480**	**13,282**	**17,098**	**21,252**	**26,435**	**32,211**	**38,777**	**45,955**	**53,039**	**59,347**	**64,677**	**68,554**	**70,820**
% growth		25.9%	24.9%	26.7%	28.7%	24.3%	24.4%	21.9%	20.4%	18.5%	15.4%	11.9%	9.0%	6.0%	3.3%
Percentage of Total (%)															
Platform & Other	15.52%	17.18%	18.41%	21.49%	26.16%	29.53%	32.91%	36.05%	39.35%	42.53%	45.10%	46.67%	47.64%	47.99%	47.79%
Service	27.26%	27.65%	27.45%	27.26%	26.12%	25.30%	24.46%	23.84%	23.11%	22.41%	21.78%	21.53%	21.46%	21.58%	21.84%
Sales	40.48%	36.47%	33.92%	30.42%	26.89%	24.43%	22.28%	20.37%	18.71%	17.33%	16.31%	15.69%	15.22%	14.98%	14.92%
Marketing & Commerce	9.81%	11.12%	12.88%	14.29%	14.66%	14.74%	14.52%	14.13%	13.38%	12.47%	11.70%	11.07%	10.69%	10.43%	10.39%
Professional Services & Other	6.92%	7.58%	7.34%	6.54%	6.17%	6.00%	5.83%	5.62%	5.45%	5.26%	5.11%	5.04%	5.00%	5.02%	5.06%
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**
Geoprahic Segments															
Americas	4,911	6,225	7,621	9,445	12,051	14,736	18,330	22,335	26,888	31,865	36,777	41,151	44,847	47,535	49,106
% growth		26.8%	22.4%	23.9%	27.6%	22.3%	24.4%	21.9%	20.4%	18.5%	15.4%	11.9%	9.0%	6.0%	3.3%
Europe	1,163	1,374	1,916	2,553	3,430	4,501	5,599	6,822	8,213	9,733	11,233	12,569	13,698	14,519	14,999
% growth		18.1%	39.4%	33.2%	34.4%	31.2%	24.4%	21.9%	20.4%	18.5%	15.4%	11.9%	9.0%	6.0%	3.3%
Asia Pacific	593	793	1,003	1,284	1,617	2,015	2,506	3,054	3,677	4,357	5,029	5,627	6,132	6,500	6,715
% growth		33.7%	26.5%	28.0%	25.9%	24.6%	24.4%	21.9%	20.4%	18.5%	15.4%	11.9%	9.0%	6.0%	3.3%
Total	**6,667**	**8,392**	**10,540**	**13,282**	**17,098**	**21,252**	**26,435**	**32,211**	**38,777**	**45,955**	**53,039**	**59,347**	**64,677**	**68,554**	**70,820**

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Income Statement

Fiscal Years Ending 1/31	2019	2020	2021	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Revenues:												
Subscription and support	12,413	16,043	19,976	24,893	30,401	36,665	43,537	50,329	56,358	61,444	65,115	67,235
Professional services and other	869	1,055	1,276	1,542	1,810	2,112	2,418	2,710	2,989	3,233	3,438	3,585
Total revenues	**13,282**	**17,098**	**21,252**	**26,435**	**32,211**	**38,777**	**45,955**	**53,039**	**59,347**	**64,677**	**68,554**	**70,820**
Cost of revenues:												
Subscription and support	(2,604)	(3,198)	(4,154)	(5,120)	(6,212)	(7,552)	(8,940)	(10,328)	(11,582)	(12,618)	(13,372)	(13,811)
Professional services and other	(847)	(1,037)	(1,284)	(1,523)	(1,796)	(2,103)	(2,398)	(2,692)	(2,969)	(3,211)	(3,415)	(3,561)
Total cost of revenues	(3,451)	(4,235)	(5,438)	(6,643)	(8,008)	(9,656)	(11,338)	(13,020)	(14,552)	(15,828)	(16,788)	(17,372)
Depreciation	515	1,343	1,746	1,709	1,911	1,973	1,992	1,997	1,999	2,000	2,000	2,000
Amortization of Intangibles	447	792	1,100	1,078	923	835	568	342	260	108	-	-
Amortization of costs capitalized to obtain revenue contracts, net	737	876	1,058	805	612	466	354	270	205	156	119	90
Gross profit	**9,831**	**12,863**	**15,814**	**19,791**	**24,203**	**29,122**	**34,617**	**40,019**	**44,795**	**48,849**	**51,766**	**53,448**
Operating expenses:												
Research and development	(1,886)	(2,766)	(3,598)	(4,169)	(5,248)	(6,332)	(7,413)	(8,619)	(9,636)	(10,482)	(11,127)	(11,491)
Marketing and sales	(6,064)	(7,930)	(9,674)	(11,452)	(13,245)	(15,092)	(16,875)	(18,309)	(19,181)	(19,481)	(19,140)	(18,215)
General and administrative	(1,346)	(1,704)	(2,087)	(2,636)	(3,195)	(3,841)	(4,565)	(5,261)	(5,886)	(6,418)	(6,801)	(7,026)
Loss on settlement of salesforce.org reseller agreement		(166)	-	-	-	-	-	-	-	-	-	-
Total operating expenses	(9,296)	(12,566)	(15,359)	(18,257)	(21,688)	(25,265)	(28,852)	(32,190)	(34,704)	(36,381)	(37,069)	(36,732)
Income / loss from operations	**535**	**297**	**455**	**1,535**	**2,514**	**3,856**	**5,765**	**7,829**	**10,091**	**12,468**	**14,698**	**16,716**
Gain / loss on sale of investment	542	427	2,170	141	47	169	321	504	697	908	1,134	1,363
Other expense	(94)	(18)	(64)	(59)	(47)	(57)	(54)	(52)	(54)	(54)	(53)	(54)
Income / loss before benefit from / provision for income taxes	983	706	2,561	1,617	2,514	3,968	6,031	8,281	10,733	13,322	15,778	18,025
Benefit from / provision for income taxes	127	(580)	1,511	397	617	973	1,479	2,031	2,632	3,267	3,869	4,420
Net income / loss	**1,110**	**126**	**4,072**	**1,221**	**1,898**	**2,995**	**4,552**	**6,250**	**8,101**	**10,056**	**11,909**	**13,605**
Basic income per share	1.48	0.15	4.48	1.27	1.97	3.09	4.68	6.42	8.33	10.34	12.24	13.98
Basic shares outstanding	751	829	908	958	963	968	973	973	973	973	973	973
Dividends per share	0	0	0	0	0	0	0	0	0	0	0	0

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Balance Sheet

Fiscal Years Ending 1/31	2019	2020	2021	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Cash and cash equivalents	2,669	4,145	6,195	2,043	7,394	14,070	22,107	30,563	39,839	49,735	59,770	69,620
Short-term marketable securities	1,673	3,802	5,771	5,882	5,995	6,110	6,227	6,347	6,469	6,593	6,719	6,848
Accounts receivable, net	4,924	6,174	7,786	9,819	12,383	15,616	19,693	24,834	31,319	39,496	49,808	62,812
Costs capitalized to obtain revenue contracts, net	788	926	1,146	1,475	1,797	2,164	2,564	2,960	3,312	3,609	3,826	3,952
Prepaid expenses and other current assets	629	916	991	1,300	1,584	1,907	2,260	2,609	2,919	3,181	3,372	3,483
Total current assets	**10,683**	**15,963**	**21,889**	**20,519**	**29,153**	**39,867**	**52,852**	**67,312**	**83,857**	**102,614**	**123,494**	**146,716**
Property and equipment, net	2,051	2,375	2,459	2,750	2,839	2,866	2,874	2,877	2,877	2,878	2,878	2,878
Marketable securities, noncurrent	-	-	-	-	-	-	-	-	-	-	-	-
Operating lease right-of-use assets	-	3,040	3,204	3,583	3,699	3,734	3,745	3,748	3,749	3,750	3,750	3,750
Costs capitalized to obtain revenue contracts, noncurrent, net	1,384	1,348	1,715	2,324	2,832	3,409	4,040	4,663	5,217	5,686	6,027	6,226
Strategic investments	1,302	1,963	3,909	3,998	4,089	4,183	4,278	4,375	4,475	4,577	4,682	4,788
Goodwill	12,851	25,134	26,318	35,548	35,548	35,548	35,548	35,548	35,548	35,548	35,548	35,548
Intangible assets acquired through business combinations, net	1,923	4,724	4,114	3,036	2,113	1,278	710	368	108	(0)	(0)	(0)
Deferred tax assets and other assets, net	543	579	2,693	2,795	2,822	2,864	2,930	3,030	3,167	3,345	3,566	3,827
Total assets	**30,737**	**55,126**	**66,301**	**74,553**	**83,095**	**93,748**	**106,977**	**121,921**	**138,999**	**158,397**	**179,944**	**203,733**
Accounts payable, accrued expenses and other liabilities	2,691	3,433	4,355	5,525	7,008	8,891	11,278	14,307	18,150	23,024	29,208	37,052
Operating lease liabilities, current	-	750	766	857	884	893	895	896	896	896	896	896
Deferred revenue	8,564	10,662	12,607	16,403	19,988	24,062	28,516	32,912	36,826	40,134	42,539	43,946
Total current liabilities	**11,255**	**14,845**	**17,728**	**22,785**	**27,880**	**33,846**	**40,690**	**48,116**	**55,873**	**64,055**	**72,644**	**81,895**
Noncurrent debt	3,173	2,673	2,673	3,225	3,367	3,543	3,774	4,063	4,410	4,832	5,344	5,964
Noncurrent operating lease liabilities	-	2,445	2,842	3,658	4,457	5,365	6,359	7,339	8,211	8,949	9,485	9,799
Other noncurrent liabilities	704	1,278	1,565	1,565	1,565	1,565	1,565	1,565	1,565	1,565	1,565	1,565
Total liabilities	**15,132**	**21,241**	**24,808**	**31,232**	**37,269**	**44,319**	**52,388**	**61,082**	**70,059**	**79,401**	**89,039**	**99,223**
Temporary Equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Preferred stock	-	-	-	-	-	-	-	-	-	-	-	-
Additional paid-in capital / common stock	13,928	32,117	35,602	36,209	36,817	37,424	38,032	38,032	38,032	38,032	38,032	38,032
Accumulated other comprehensive loss / income	(58)	(93)	(42)	(42)	(42)	(42)	(42)	(42)	(42)	(42)	(42)	(42)
Accumulated deficit / retained earnings	1,735	1,861	5,933	7,154	9,051	12,047	16,599	22,849	30,951	41,006	52,915	66,521
Total stockholders' equity	**15,605**	**33,885**	**41,493**	**43,321**	**45,826**	**49,429**	**54,589**	**60,839**	**68,941**	**78,996**	**90,905**	**104,510**
Total liabilities and stockholders' equity	**30,737**	**55,126**	**66,301**	**74,553**	**83,095**	**93,748**	**106,977**	**121,921**	**138,999**	**158,397**	**179,944**	**203,733**

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Historical Cash Flow Statement

Fiscal Years Ending 1/31	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Net Income	(12)	(270)	(232)	(263)	(47)	180	127	1,110	126	4,072
Depreciation and amortization	157	217	369	448	553	662	753	982	2,135	2,846
Amortization of costs capitalized to obtain revenue contracts, net	107	155	195	298	319	372	496	737	876	1,058
Expenses related to employee stock plans	229	379	503	557	594	820	997	1,283	1,785	2,190
Loss on settlement of Salesforce.org reseller agreement	-	-	-	-	-	-	-	-	166	-
Gains on strategic investments, net	-	-	-	(6)	(59)	(14)	-	(542)	(427)	(2,170)
Tax benefit from intra-entity transfer of intangible property	-	-	-	-	-	-	-	-	-	(2,003)
Accounts receivable, net	(245)	(183)	(425)	(545)	(582)	(628)	(720)	(923)	(1,000)	(1,556)
Costs capitalized to obtain revenue contracts, net	-	(234)	(265)	(320)	(380)	(462)	(799)	(981)	(1,130)	(1,645)
Prepaid expenses & other current assets & other assets	-	-	105	46	51	(29)	24	(58)	(119)	(133)
Accounts payable, accrued expenses & other liabilities	-	-	(29)	160	254	50	308	287	982	1,100
Operating lease liabilities	-	-	-	-	-	-	-	-	(728)	(830)
Unearned revenue	445	479	612	799	970	1,211	1,552	1,503	1,665	1,872
Net cash flows from operating activities	**592**	**737**	**875**	**1,174**	**1,672**	**2,162**	**2,738**	**3,398**	**4,331**	**4,801**
Investing activities:										
Business combinations, net of cash acquired	(423)	(580)	(2,617)	38	(59)	(3,193)	(25)	(5,115)	(369)	(1,281)
Purchases of strategic investments	(37)	(10)	(31)	(94)	(367)	(30)	(216)	(362)	(768)	(1,069)
Sales of strategic investments	(20)	(4)		224	248	-	131	260	434	1,051
Purchases of marketable securities	(623)	(1,021)	(559)	(907)	(1,564)	(1,070)	(2,003)	(1,068)	(3,857)	(4,833)
Sales of marketable securities	725	707	1,038	244	500	2,005	559	1,426	1,444	1,836
Maturities of marketable securities	40	145	36	88	38	67	79	146	779	1,035
Capital expenditures	(152)	(176)	(299)	(290)	(284)	(464)	(534)	(595)	(643)	(710)
Net cash flows from investing activities	**(490)**	**(939)**	**(2,432)**	**(698)**	**(1,488)**	**(2,684)**	**(2,011)**	**(5,308)**	**(2,980)**	**(3,971)**
Financing activities:										
Proceeds from issuance of debt, net	-	-	-	-	-	-	-	2,966	-	(20)
Proceeds from employee stock plans	-	351	290	309	455	401	650	704	840	1,321
Principal payments on financing obligations	(31)	(32)	(41)	(71)	(82)	(98)	(106)	(131)	(173)	(103)
Repayments of debt	-	-	-	-	-	-	-	(1,529)	(503)	(4)
Net cash flows from financing activities	**76**	**335**	**1,598**	**(310)**	**133**	**998**	**221**	**2,010**	**164**	**1,194**
Effect of exchange rate changes	5	7	(8)	(38)	(7)	(27)	(12)	26	(39)	26
Net increase (decrease) in cash & cash equivalents	183	140	34	126	250	448	937	126	1,476	2,050
Cash & cash equivalents, beginning of period	424	607	747	782	908	1,158	1,607	2,543	2,669	4,145
Cash & cash equivalents, end of period	**607**	**747**	**782**	**908**	**1,158**	**1,607**	**2,543**	**2,669**	**4,145**	**6,195**

Fiscal Years Ending CRM	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Operating activities:									
Net Income	1,221	1,898	2,995	4,552	6,250	8,101	10,056	11,909	13,605
Depreciation	1,709	1,911	1,973	1,992	1,997	1,999	2,000	2,000	2,000
Amortization	1,078	923	835	568	342	260	108	-	-
Changes in operating assets and liabilities									
Accounts receivable, net	(2,033)	(2,564)	(3,233)	(4,077)	(5,142)	(6,484)	(8,177)	(10,312)	(13,005)
Costs capitalized to obtain revenue contracts, net	(329)	(322)	(366)	(401)	(395)	(352)	(297)	(216)	(126)
Prepaid expenses and other current assets	(309)	(284)	(323)	(353)	(348)	(310)	(262)	(191)	(111)
Accounts payable, accrued expenses and other liabilities	1,170	1,484	1,882	2,388	3,029	3,843	4,875	6,184	7,844
Deferred revenue	3,796	3,584	4,074	4,454	4,396	3,914	3,308	2,406	1,406
Deferred taxes	(102)	(27)	(42)	(66)	(100)	(137)	(178)	(221)	(262)
Net Cash from operating activities	**6,200**	**6,603**	**7,796**	**9,058**	**10,029**	**10,834**	**11,431**	**11,558**	**11,352**
Investing activities:									
Short-term marketable securities	(111)	(113)	(115)	(117)	(120)	(122)	(124)	(127)	(129)
Capital Expenditures	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)
Operating lease right-of-use assets	(379)	(116)	(35)	(11)	(3)	(1)	(0)	(0)	(0)
Costs capitalized to obtain revenue contracts, noncurrent, net	(609)	(508)	(577)	(631)	(623)	(555)	(469)	(341)	(199)
Strategic investments	(89)	(91)	(93)	(95)	(98)	(100)	(102)	(104)	(107)
Goodwill	(9,230)	-	-	-	-	-	-	-	-
Other long-term liabilities	-	-	-	-	-	-	-	-	-
Net Cash from investing activities	**(12,418)**	**(2,828)**	**(2,821)**	**(2,854)**	**(2,843)**	**(2,777)**	**(2,695)**	**(2,572)**	**(2,435)**
Financing activities:									
Operating Lease Liabilities Current	91	28	8	3	1	0	0	0	0
Non-Current Debt	552	142	177	231	289	347	423	512	620
non-current operating lease liabilities	816	799	909	993	980	873	738	536	314
Net Cash from financing activities	**1,458**	**969**	**1,094**	**1,227**	**1,269**	**1,220**	**1,160**	**1,048**	**933**
Net Increase in Cash	(4,760)	4,744	6,069	7,430	8,455	9,277	9,896	10,035	9,850
Increase in common stock	607	607	607	607	-	-	-	-	-
Beginning Cash	6,195	2,043	7,394	14,070	22,107	30,563	39,839	49,735	59,770
Ending Cash	**2,043**	**7,394**	**14,070**	**22,107**	**30,563**	**39,839**	**49,735**	**59,770**	**69,620**

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Common Size Income Statement

Fiscal Years Ending 1/31	2019	2020	2021	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Revenues:												
Subscription and support	93.46%	93.83%	94.00%	94.17%	94.38%	94.55%	94.74%	94.89%	94.96%	95.00%	94.98%	94.94%
Professional services and other	6.54%	6.17%	6.00%	5.83%	5.62%	5.45%	5.26%	5.11%	5.04%	5.00%	5.02%	5.06%
Total revenues	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**
Cost of revenues:												
Subscription and support	-19.61%	-18.70%	-19.55%	-19.37%	-19.28%	-19.48%	-19.45%	-19.47%	-19.52%	-19.51%	-19.51%	-19.50%
Professional services and other	-6.38%	-6.07%	-6.04%	-5.76%	-5.58%	-5.42%	-5.22%	-5.07%	-5.00%	-4.96%	-4.98%	-5.03%
Total cost of revenues	-25.98%	-24.77%	-25.59%	-25.13%	-24.86%	-24.90%	-24.67%	-24.55%	-24.52%	-24.47%	-24.49%	-24.53%
Gross profit	**74.02%**	**75.23%**	**74.41%**	**74.87%**	**75.14%**	**75.10%**	**75.33%**	**75.45%**	**75.48%**	**75.53%**	**75.51%**	**75.47%**
Operating expenses:												
Research and development	-14.20%	-16.18%	-16.93%	-15.77%	-16.29%	-16.33%	-16.13%	-16.25%	-16.24%	-16.21%	-16.23%	-16.23%
Marketing and sales	-45.66%	-46.38%	-45.52%	-43.32%	-41.12%	-38.92%	-36.72%	-34.52%	-32.32%	-30.12%	-27.92%	-25.72%
General and administrative	-10.13%	-9.97%	-9.82%	-9.97%	-9.92%	-9.90%	-9.93%	-9.92%	-9.92%	-9.92%	-9.92%	-9.92%
Loss on settlement of salesforce.org reseller agreement	0.00%	-0.97%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total operating expenses	-69.99%	-73.49%	-72.27%	-69.06%	-67.33%	-65.16%	-62.78%	-60.69%	-58.48%	-56.25%	-54.07%	-51.87%
Income / loss from operations	**4.03%**	**1.74%**	**2.14%**	**5.81%**	**7.81%**	**9.94%**	**12.54%**	**14.76%**	**17.00%**	**19.28%**	**21.44%**	**23.60%**
Gain / loss on sale of investment	4.08%	2.50%	10.21%	0.53%	0.14%	0.43%	0.70%	0.95%	1.17%	1.40%	1.65%	1.92%
Other expense	-0.71%	-0.11%	-0.30%	-0.22%	-0.15%	-0.15%	-0.12%	-0.10%	-0.09%	-0.08%	-0.08%	-0.08%
Income / loss before benefit from / provision for income taxes	7.40%	4.13%	12.05%	6.12%	7.81%	10.23%	13.12%	15.61%	18.09%	20.60%	23.02%	25.45%
Benefit from / provision for income taxes	0.96%	-3.39%	7.11%	1.50%	1.91%	2.51%	3.22%	3.83%	4.44%	5.05%	5.64%	6.24%
Net income / loss	**8.36%**	**0.74%**	**19.16%**	**4.62%**	**5.89%**	**7.72%**	**9.91%**	**11.78%**	**13.65%**	**15.55%**	**17.37%**	**19.21%**

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Common Size Balance Sheet

Fiscal Years Ending 1/31	2019	2020	2021	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Cash and cash equivalents	20.09%	24.24%	29.15%	7.73%	22.96%	36.28%	48.11%	57.62%	67.13%	76.90%	87.19%	98.31%
Short-term marketable securities	12.60%	22.24%	27.16%	22.25%	18.61%	15.76%	13.55%	11.97%	10.90%	10.19%	9.80%	9.67%
Accounts receivable, net	37.07%	36.11%	36.64%	37.14%	38.44%	40.27%	42.85%	46.82%	52.77%	61.07%	72.66%	88.69%
Costs capitalized to obtain revenue contracts, net	5.93%	5.42%	5.39%	5.58%	5.58%	5.58%	5.58%	5.58%	5.58%	5.58%	5.58%	5.58%
Prepaid expenses and other current assets	4.74%	5.36%	4.66%	4.92%	4.92%	4.92%	4.92%	4.92%	4.92%	4.92%	4.92%	4.92%
Total current assets	**80.43%**	**93.36%**	**103.00%**	**77.62%**	**90.51%**	**102.81%**	**115.01%**	**126.91%**	**141.30%**	**158.66%**	**180.14%**	**207.17%**
Property and equipment, net	15.44%	13.89%	11.57%	10.40%	8.81%	7.39%	6.25%	5.42%	4.85%	4.45%	4.20%	4.06%
Marketable securities, noncurrent	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Operating lease right-of-use assets	0.00%	17.78%	15.08%	13.55%	11.48%	9.63%	8.15%	7.07%	6.32%	5.80%	5.47%	5.29%
Costs capitalized to obtain revenue contracts, noncurrent, net	10.42%	7.88%	8.07%	8.79%	8.79%	8.79%	8.79%	8.79%	8.79%	8.79%	8.79%	8.79%
Strategic investments	9.80%	11.48%	18.39%	15.12%	12.70%	10.79%	9.31%	8.25%	7.54%	7.08%	6.83%	6.76%
Goodwill	96.76%	147.00%	123.84%	134.47%	110.36%	91.67%	77.35%	67.02%	59.90%	54.96%	51.85%	50.19%
Intangible assets acquired through business combinations, net	14.48%	27.63%	19.36%	11.48%	6.56%	3.30%	1.54%	0.69%	0.18%	0.00%	0.00%	0.00%
Deferred tax assets and other assets, net	4.09%	3.39%	12.67%	10.57%	8.76%	7.39%	6.37%	5.71%	5.34%	5.17%	5.20%	5.40%
Total assets	**231.42%**	**322.41%**	**311.98%**	**282.03%**	**257.97%**	**241.76%**	**232.78%**	**229.87%**	**234.22%**	**244.90%**	**262.49%**	**287.68%**
Accounts payable, accrued expenses and other liabilities	20.26%	20.08%	20.49%	20.90%	21.76%	22.93%	24.54%	26.98%	30.58%	35.60%	42.61%	52.32%
Operating lease liabilities, current	0.00%	4.39%	3.60%	3.24%	2.75%	2.30%	1.95%	1.69%	1.51%	1.39%	1.31%	1.27%
Deferred revenue	64.48%	62.36%	59.32%	62.05%	62.05%	62.05%	62.05%	62.05%	62.05%	62.05%	62.05%	62.05%
Total current liabilities	**84.74%**	**86.82%**	**83.42%**	**86.19%**	**86.56%**	**87.28%**	**88.54%**	**90.72%**	**94.15%**	**99.04%**	**105.97%**	**115.64%**
Noncurrent debt	23.89%	15.63%	12.58%	12.20%	10.45%	9.14%	8.21%	7.66%	7.43%	7.47%	7.80%	8.42%
Noncurrent operating lease liabilities	0.00%	14.30%	13.37%	13.84%	13.84%	13.84%	13.84%	13.84%	13.84%	13.84%	13.84%	13.84%
Other noncurrent liabilities	5.30%	7.47%	7.36%	5.92%	4.86%	4.04%	3.41%	2.95%	2.64%	2.42%	2.28%	2.21%
Total liabilities	**113.93%**	**124.23%**	**116.73%**	**118.15%**	**115.70%**	**114.29%**	**114.00%**	**115.16%**	**118.05%**	**122.77%**	**129.88%**	**140.11%**
Temporary Equity	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**
Preferred stock	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Additional paid-in capital /Common stock	104.86%	187.84%	167.52%	136.98%	114.30%	96.51%	82.76%	71.71%	64.08%	58.80%	55.48%	53.70%
Accumulated other comprehensive loss / income	-0.44%	-0.54%	-0.20%	-0.16%	-0.13%	-0.11%	-0.09%	-0.08%	-0.07%	-0.06%	-0.06%	-0.06%
Accumulated deficit / retained earnings	13.06%	10.88%	27.92%	27.06%	28.10%	31.07%	36.12%	43.08%	52.15%	63.40%	77.19%	93.93%
Total stockholders' equity	**117.49%**	**198.18%**	**195.24%**	**163.88%**	**142.27%**	**127.47%**	**118.79%**	**114.71%**	**116.17%**	**122.14%**	**132.60%**	**147.57%**
Total liabilities and stockholders' equity	**231.42%**	**322.41%**	**311.98%**	**282.03%**	**257.97%**	**241.76%**	**232.78%**	**229.87%**	**234.22%**	**244.90%**	**262.49%**	**287.68%**

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Value Driver Estimation

Fiscal Years Ending 1/31	2019	2020	2021	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
NOPLAT:												
EBITA:												
Revenue	13,282	17,098	21,252	26,435	32,211	38,777	45,955	53,039	59,347	64,677	68,554	70,820
Total cost of revenues	(3,451)	(4,235)	(5,438)	(6,643)	(8,008)	(9,656)	(11,338)	(13,020)	(14,552)	(15,828)	(16,788)	(17,372)
Research and development	(1,886)	(2,766)	(3,598)	(4,169)	(5,248)	(6,332)	(7,413)	(8,619)	(9,636)	(10,482)	(11,127)	(11,491)
Marketing and sales	(6,064)	(7,930)	(9,674)	(11,452)	(13,245)	(15,092)	(16,875)	(18,309)	(19,181)	(19,481)	(19,140)	(18,215)
General and administrative	(1,346)	(1,704)	(2,087)	(2,636)	(3,195)	(3,841)	(4,565)	(5,261)	(5,886)	(6,418)	(6,801)	(7,026)
Operating lease interest	102	129	112	130	134	135	136	136	136	136	136	136
EBITA	**637**	**592**	**567**	**1,665**	**2,648**	**3,991**	**5,900**	**7,965**	**10,227**	**12,603**	**14,833**	**16,852**
Adjusted Taxes:												
Marginal tax rate	67.55%	103.12%	-46.43%	24.52%	24.52%	24.52%	24.52%	24.52%	24.52%	24.52%	24.52%	24.52%
Income tax provision	127	(580)	1,511	397	617	973	1,479	2,031	2,632	3,267	3,869	4,420
Loss on settlement of salesforce.org reseller agreement	-	(171)	-	-	-	-	-	-	-	-	-	-
Gain / loss on sale of investment	(542)	(427)	(2,170)	(35)	(11)	(41)	(79)	(124)	(171)	(223)	(278)	(334)
Other expense	94	18	64	14	11	14	13	13	13	13	13	13
Operating lease interest	69	133	(52)	32	33	33	33	33	33	33	33	33
***Less:* Adjusted Taxes**	**(321)**	**(1,160)**	**(595)**	**376**	**617**	**946**	**1,414**	**1,920**	**2,474**	**3,057**	**3,604**	**4,099**
***Plus:* Change in deferred taxes**	**(266)**	**36**	**2,114**	**102**	**27**	**42**	**66**	**100**	**137**	**178**	**221**	**262**
NOPLAT	**692**	**1,789**	**3,276**	**1,390**	**2,059**	**3,087**	**4,552**	**6,145**	**7,890**	**9,724**	**11,450**	**13,015**
Invested Capital (IC):												
Operating Assets:												
Normal cash	2,245	2,890	3,592	4,467	5,444	6,553	7,766	8,963	10,029	10,930	11,585	11,968
Accounts receivable, net	4,924	6,174	7,786	9,819	12,383	15,616	19,693	24,834	31,319	39,496	49,808	62,812
Costs capitalized to obtain revenue contracts, net	788	926	1,146	1,475	1,797	2,164	2,564	2,960	3,312	3,609	3,826	3,952
Prepaid expenses and other current assets	629	916	991	1,300	1,584	1,907	2,260	2,609	2,919	3,181	3,372	3,483
Total Operating Assets:	**8,586**	**10,906**	**13,515**	**17,062**	**21,208**	**26,240**	**32,284**	**39,366**	**47,579**	**57,216**	**68,591**	**82,216**
Operating Liabilities:												
Accounts payable, accrued expenses and other liabilities	2,691	3,433	4,355	5,525	7,008	8,891	11,278	14,307	18,150	23,024	29,208	37,052
Deferred revenue	8,564	10,662	12,607	16,403	19,988	24,062	28,516	32,912	36,826	40,134	42,539	43,946
Total Operating Liabilities:	**11,255**	**14,095**	**16,962**	**21,928**	**26,996**	**32,953**	**39,795**	**47,219**	**54,976**	**63,158**	**71,747**	**80,998**
Net Operating Working Capital	**(2,669)**	**(3,189)**	**(3,447)**	**(4,866)**	**(5,788)**	**(6,713)**	**(7,511)**	**(7,853)**	**(7,397)**	**(5,942)**	**(3,157)**	**1,218**
LT Operating Assets:												
Property and equipment, net	2,051	2,375	2,459	2,750	2,839	2,866	2,874	2,877	2,877	2,878	2,878	2,878
Costs capitalized to obtain revenue contracts, noncurrent, ne	1,384	1,348	1,715	2,324	2,832	3,409	4,040	4,663	5,217	5,686	6,027	6,226
Intangible assets acquired through business combinations, n	1,923	4,724	4,114	3,036	2,113	1,278	710	368	108	(0)	(0)	(0)
Present value of operating leases	3,576	3,040	3,204	3,583	3,699	3,734	3,745	3,748	3,749	3,750	3,750	3,750
LT Operating Liabilities:												
Other noncurrent liabilities	704	1,278	1,565	1,565	1,565	1,565	1,565	1,565	1,565	1,565	1,565	1,565
Invested Capital (IC):	**4,654**	**7,169**	**6,723**	**6,545**	**6,219**	**5,988**	**6,059**	**6,342**	**6,638**	**6,998**	**7,339**	**7,539**
Free Cash Flow (FCF):												
NOPLAT	692	1,789	3,276	1,390	2,059	3,087	4,552	6,145	7,890	9,724	11,450	13,015
Change in IC	2,528	2,515	-446	(178)	(326)	(231)	71	283	295	361	341	199
FCF	**(1,836)**	**(726)**	**3,722**	**1,568**	**2,385**	**3,318**	**4,481**	**5,862**	**7,594**	**9,363**	**11,109**	**12,815**
Return on Invested Capital (ROIC):												
NOPLAT	692	1,789	3,276	1,390	2,059	3,087	4,552	6,145	7,890	9,724	11,450	13,015
Beginning IC	2,126	4,654	7,169	6,723	6,545	6,219	5,988	6,059	6,342	6,638	6,998	7,339
ROIC	**32.57%**	**38.43%**	**45.70%**	**20.68%**	**31.45%**	**49.65%**	**76.03%**	**101.42%**	**124.39%**	**146.50%**	**163.61%**	**177.33%**
Economic Profit (EP):												
Beginning IC	2,126	4,654	7,169	6,723	6,545	6,219	5,988	6,059	6,342	6,638	6,998	7,339
x (ROIC - WACC)	25.27%	31.13%	38.40%	13.38%	24.15%	42.35%	68.73%	94.12%	117.09%	139.20%	156.31%	170.03%
EP	**537**	**1,449**	**2,753**	**900**	**1,581**	**2,633**	**4,115**	**5,703**	**7,427**	**9,240**	**10,939**	**12,479**

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Weighted Average Cost of Capital (WACC) Estimation

Cost of Equity:		*ASSUMPTIONS:*	
Risk-Free Rate	1.92%	*10 yr treasury bond*	
Beta	1.09	*Average of 1,2,5 yr monthly and weekly betas*	
Equity Risk Premium	5.15%	*Henry Fund Estimate*	
Cost of Equity	**7.53%**		
Cost of Debt:			
Risk-Free Rate	1.92%	*10 yr treasury bond*	
Implied Default Premium	1.70%		
Pre-Tax Cost of Debt	3.62%	*YTM on company's 40-year corporate bond*	
Marginal Tax Rate	25%		
After-Tax Cost of Debt	**2.73%**		
Market Value of Common Equity:		**MV Weights**	
Total Shares Outstanding	985		
Current Stock Price	$210.39		
MV of Equity	**207,234**	96.89%	
Market Value of Debt:			*Include all sources of debt.*
Short-Term Debt			
Current Portion of LTD	4		FactSet Debt Schedule
Long-Term Debt	2673		Balance Sheet
Operating lease liabilities, current	766		Balance Sheet
PV of Operating Leases	3204		Balance Sheet
MV of Total Debt	**6,647**	3.11%	
Market Value of the Firm	**213,881**	100.00%	
Estimated WACC		**7.30%**	

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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%

Fiscal Years Ending 1/31	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
DCF Model:									
Free Cash Flow (FCF)	1568.4	2385.0	3318.1	4481.1	5861.9	7594.5	9363.3	11109.2	12815.4
Continuing Value (CV)									258762.1
PV of FCF	1461.7	2071.5	2685.9	3380.6	4121.4	4976.2	5717.8	6322.5	147266.1
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								
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								

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

Fiscal Years Ending 1/31	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EPS	$ 1.27	$ 1.97	$ 3.09	$ 4.68	$ 6.42	$ 8.33	$ 10.34	$ 12.24	$ 13.98
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	
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**								

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Relative Valuation Models

Ticker	Company	Price	EPS 2022E	EPS 2023E	P/E 22	P/E 23	Est. 5yr EPS gr.	PEG 22	PEG 23	EV/EBITDA 2022E	EV/EBITDA 2023E	WACC Most Recent
SAP	SAP	$113.02	$5.94	$6.54	19.03	17.28	4.1	4.65	4.23	13.64	12.27	6%
INTU	Intuit	$487.18	$11.68	$13.68	41.71	35.61	17.4	2.40	2.05	31.15	26.26	6.3%
ORCL	Oracle	$76.35	$4.82	$5.29	15.84	14.43	9.6	1.64	1.50	13.45	12.68	4.3%
GOOG	Alphabet	$2,690.39	$117.92	$137.66	22.82	19.54	27.6	0.83	0.71	13.81	12.05	5.7%
ADBE	Adobe	$465.54	$13.78	$16.26	33.78	28.63	15.4	2.20	1.87	25.45	22.09	5.6%
NOW	ServiceNow	$580.23	$7.35	$9.35	78.94	62.06	26.1	3.02	2.38	49.17	38.77	5.7%
MSFT	Microsoft	$297.31	$9.38	$10.79	31.70	27.55	17.4	1.82	1.58	22.07	19.08	5.6%
AVGO	Broadcom	$588.01	$33.20	$36.30	17.71	16.20	14.7	1.20	1.10	14.99	14.29	6.1%
				Average	32.69	27.66		2.22	1.93			5.70%

Ticker	Company	Price	EPS 2022E	EPS 2023E	P/E 22	P/E 23	Est. 5yr EPS gr.	PEG 22	PEG 23	EV/EBITDA 2022E	EV/EBITDA 2023E	WACC
CRM	Salesforce.com	$210.39	1.27	1.97	165.1	106.8	7.5	22.1	14.3	55.49	21.96	7.30%

Implied Relative Value:

P/E (EPS22)	**$ 41.66**
P/E (EPS23)	**$ 54.52**
PEG (EPS22)	**$ 21.16**
PEG (EPS23)	**$ 28.37**

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Key Management Ratios

Fiscal Years Ending 1/31	2019	2020	2021	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Liquidity Ratios:												
Current Ratio (x) (Tot Curr Assets/Tot Curr Liab)	0.95	1.08	1.23	0.90	1.05	1.18	1.30	1.40	1.50	1.60	1.70	1.79
Quick Ratio (x) (Tot Curr Assets-Inv/Tot Curr Liab)	0.95	1.08	1.23	0.90	1.05	1.18	1.30	1.40	1.50	1.60	1.70	1.79
Cash Ratio (Cash & Equivalents/Tot Curr Liab)	0.24	0.28	0.35	0.09	0.27	0.42	0.54	0.64	0.71	0.78	0.82	0.85
Cash & ST Inv/Current Assets	40.64	49.78	54.67	38.62	45.93	50.62	53.61	54.83	55.22	54.89	53.84	52.12
CFO/Current Liabilities	30.19	29.17	27.08	27.21	23.68	23.03	22.26	20.84	19.39	17.85	15.91	13.86
Asset-Management Ratios:												
Total Asset Turnover (Rev/Avg Total Assets)	0.51	0.40	0.35	0.38	0.41	0.44	0.46	0.46	0.45	0.43	0.41	0.37
Receivables Turnover (Rev/Average AR)	3.00	3.08	3.04	3.00	2.90	2.77	2.60	2.38	2.11	1.83	1.54	1.26
Financial Leverage Ratios:												
LT Debt/Total Equity	20.33	7.89	6.44	7.44	7.35	7.17	6.91	6.68	6.40	6.12	5.88	5.71
LT Debt/Total Assets	10.32	4.85	4.03	4.33	4.05	3.78	3.53	3.33	3.17	3.05	2.97	2.93
LT Debt/Total Capital	22.78	8.32	7.51	8.91	9.14	9.47	9.92	10.68	11.60	12.71	14.05	15.68
Profitability Ratios:												
Return on Equity (NI/Beg TSE)	7.11%	0.37%	9.81%	2.82%	4.14%	6.06%	8.34%	10.27%	11.75%	12.73%	13.10%	13.02%
Gross Margin (Gross Income/Sales)	74.02%	75.23%	74.41%	74.87%	75.14%	75.10%	75.33%	75.45%	75.48%	75.53%	75.51%	75.47%
Net Margin (Net Income /Sales)	8.36%	0.74%	19.16%	4.62%	5.89%	7.72%	9.91%	11.78%	13.65%	15.55%	17.37%	19.21%
Return on Assets (Net Income/Beg TA)	5.28%	0.41%	7.39%	1.84%	2.55%	3.60%	4.86%	5.84%	6.64%	7.23%	7.52%	7.56%
Payout Ratios:												
Total Payout Ratio ((Dividends + Repurchases)/NI)	0%	0%	0%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Dividend Payout Ratio	0%	0%	0%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

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Present Value of Operating Lease Obligations

Fiscal Years Ending 1/31	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Year 1	124.0	151.0	197.0	290.0	357.0	463.0	611.0	778.0	819.0	822
Year 2	104.0	140.0	190.0	267.0	320.0	413.0	540.0	658.0	624.0	680
Year 3	72.0	131.0	161.0	224.0	252.0	332.0	401.0	466.0	448.0	508
Year 4	63.0	126.0	130.0	187.0	203.0	266.0	299.0	369.0	348.0	399
Year 5	54.0	124.0	119.0	186.0	189.0	241.0	277.0	314.0	285.0	336
Thereafter	250.0	913.0	588.0	1124.0	999.0	1202.0	1156.0	1610.0	1020.0	1161.0
Total Minimum Payments	667.0	1585.0	1385.0	2278.0	2320.0	2917.0	3284.0	4195.0	3544.0	3906.0
Less: Cumulative Interest	96.4	317.5	217.4	398.5	367.7	448.9	456.3	619.3	441.8	497.1
PV of Minimum Payments	**570.6**	**1267.5**	**1167.6**	**1879.5**	**1952.3**	**2468.1**	**2827.7**	**3575.7**	**3102.2**	**3408.9**
Implied Interest in Year 1 Payment		**20.7**	**45.9**	**42.3**	**68.0**	**70.7**	**89.3**	**102.4**	**129.4**	**112.3**
Pre-Tax Cost of Debt	3.62%	3.62%	3.62%	3.62%	3.62%	3.62%	3.62%	3.62%	3.62%	3.62%
Years Implied by Year 6 Payment	4.6	7.4	4.9	6.0	5.3	5.0	4.2	5.1	3.6	3.5
Expected Obligation in Year 6 & Beyond	54	124	119	186	189	241	277	314	285	336
Present Value of Lease Payments										
PV of Year 1	119.7	145.7	190.1	279.9	344.5	446.8	589.7	750.8	790.4	793.3
PV of Year 2	96.9	130.4	177.0	248.7	298.0	384.6	502.9	612.8	581.2	633.3
PV of Year 3	64.7	117.7	144.7	201.3	226.5	298.4	360.4	418.8	402.7	456.6
PV of Year 4	54.6	109.3	112.8	162.2	176.1	230.7	259.4	320.1	301.9	346.1
PV of Year 5	45.2	103.8	99.6	155.7	158.2	201.7	231.9	262.9	238.6	281.3
PV of 6 & beyond	189.5	660.5	443.4	831.7	748.9	905.7	883.4	1210.2	787.6	898.4
Capitalized PV of Payments	570.6	1267.5	1167.6	1879.5	1952.3	2468.1	2827.7	3575.7	3102.2	3408.9

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

Number of Options Outstanding (shares):	23
Average Time to Maturity (years):	4.62
Expected Annual Number of Options Exercised:	5
Current Average Strike Price:	$ 122.06
Cost of Equity:	7.53%
Current Stock Price:	$210.39

Fiscal Years Ending 1/31	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Increase in Shares Outstanding:	5	5	5	5	0	0	0	0	0
Average Strike Price:	$ 122.06	$ 122.06	$ 122.06	$ 122.06	$ 122.06	$ 122.06	$ 122.06	$ 122.06	$ 122.06
Increase in Common Stock Account:	**607**	**607**	**607**	**607**	**-**	**-**	**-**	**-**	**-**
Share Repurchases ($)	0	0	0	0	0	0	0	0	0
Expected Price of Repurchased Shares:	$210.39	$ 226.23	$ 243.26	$ 261.57	$ 281.26	$ 302.43	$ 325.19	$ 349.67	$ 375.99
Number of Shares Repurchased:	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Shares Outstanding (beginning of the year)	908	958	963	968	973	973	973	973	973
Plus: Shares Issued Through ESOP	5	5	5	5	0	0	0	0	0
Plus: Shares Issued Through Mergers	45	0	0	0	0	0	0	0	0
Less: Shares Repurchased in Treasury	-	-	-	-	-	-	-	-	-
Shares Outstanding (end of the year)	**958**	**963**	**968**	**973**	**973**	**973**	**973**	**973**	**973**

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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%

Range of Outstanding Options	Number of Shares	Average Exercise Price	Average Remaining Life (yrs)	B-S Option Price	Value of Options Granted
0.36 to 59.34	4	41.41	3.00	$ 171.32	$ 685
59.64 to 118.04	6	97.24	3.40	$ 122.45	$ 735
122.03 to 148.95	2	142.49	5.30	$ 100.45	$ 201
154.14	6	154.14	6.20	$ 99.00	$ 594
155.20 to 161.50	4	161.50	5.00	$ 88.90	$ 356
162.81 to 258.04	1	202.46	6.10	$ 77.98	$ 78
Total	23	$ 122.06	4.62	$ 109.35	**$ 2,648**