

## The Henry Fund

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# Salesforce, Inc. (CRM)

Information Technology – Software Application

April 12, 2023

## Investment Thesis

Salesforce has seen significant topline revenue growth in recent years, partially driven by aggressive M&A activity. The company is shifting its focus from growth to profitability. We believe that despite its recent strong quarter and future earnings potential, the company is still overvalued compared to industry peers. We are recommending a sell rating with a price target of \$147-152.

## Drivers of Thesis

- Near term macro demand pressures and the disbanding of its M&A committee will slow revenue growth. We expect revenue to grow at 14% annually over the next five years compared to a 24.3% CAGR over the previous five.
- Goodwill accounts for nearly 50% of total assets after a run of high-priced acquisitions. Failure to capture expected synergies and the potential for impairment charges could be a drag on future profitability.
- The company currently trades at a trailing P/E of 913.3 and forward PE of 76.4 compared to a sector multiple of 30.2. We believe the company is overvalued relative to its peers as it faces slowing topline growth.

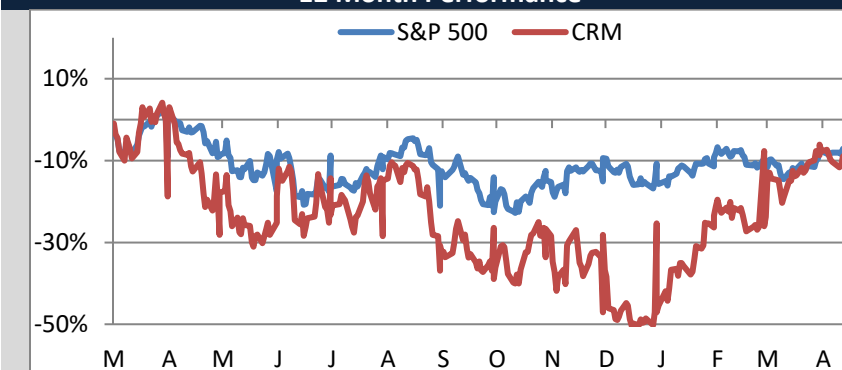
## Risks to Thesis

- The company's restructuring efforts exceed expectations and bring down operating costs significantly, driving up net margin.
- Successful integration of new acquisitions and existing products allows the company to continue to capture market share and sustain its high growth rate for longer than expected.
- A soft economic landing and lower interest rates drive business spending up and increases sales in the near term.

## Earnings Estimates

Year	2021	2022	2023	2024E	2025E	2026E
EPS	\$4.48	\$1.51	\$0.21	\$2.51	\$4.52	\$4.76
HF est.				\$2.44	\$3.94	\$5.06
growth		-66.3%	-86.1%	1162.0%	61.4%	28.4%

## 12 Month Performance



## Stock Rating

**Sell**

## Target Price

**\$147-152**

Henry Fund DCF	\$152.0
Henry Fund DDM	N/A
Relative Multiple	\$147.1

## Price Data

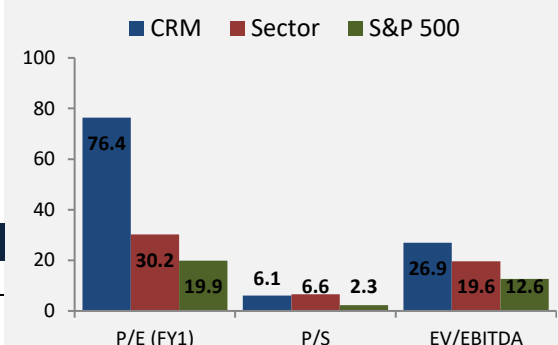
Current Price	\$191.74
52wk Range	\$126.3 – 201.1
Consensus 1yr Target	\$218.77

## Key Statistics

Market Cap (B)	\$192.6
Shares Outstanding (M)	1000
Institutional Ownership	77.9%
Beta	1.32
Dividend Yield	0%
Est. 5yr Growth	19.6%
Price/Earnings (TTM)	913.3
Price/Earnings (FY1)	76.4
Price/Sales (TTM)	6.1
Price/Book (mrq)	3.3

## Profitability

Operating Margin	5.93%
Profit Margin	0.66%
Return on Assets (TTM)	0.21%
Return on Equity (TTM)	0.36%



## Company Description

Salesforce is the industry leader in cloud-based Customer Relationship Management (CRM) software. Its offerings are categorized under Software as a Service (SaaS) and sold on a subscription-based model primarily to larger businesses with at least 1,000 employees. The company has expanded its offerings to now include business app development, data analytics and integration, collaboration software, and marketing and e-commerce.

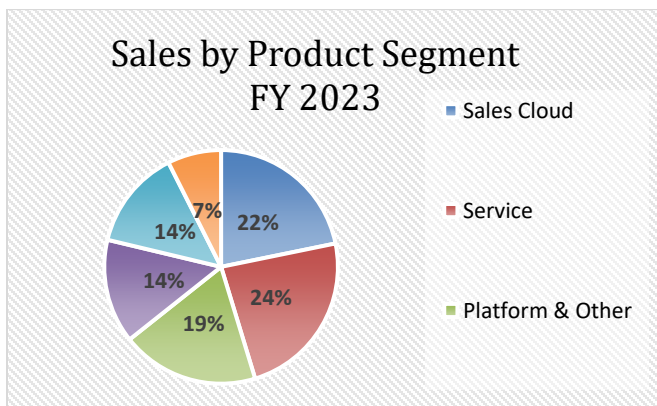
Important disclosures appear on the last page of this report.

## COMPANY DESCRIPTION

Salesforce is an enterprise software company offering a full suite of Customer Relationship Management tools that help businesses track, analyze, and communicate with their customers. It ranks as the fourth largest software company by market cap and is the industry leader in CRM software with an estimated 22.9% market share.<sup>1</sup> Their products are cloud based and sold under a subscription based model (SaaS). Over the past few years Salesforce has worked to expand their product offerings through both internal development and acquisitions. The five largest acquisitions combined to directly contribute \$9.2B in revenue or 29.5% of sales in FY23.<sup>19</sup> The company has now integrated many of their key products and platforms under the Customer 360 heading. They have placed an emphasis on integrating across teams and operating functions so that all parts of a business can access the same customer data. As a result, Salesforce's offerings have grown to include platforms specifically tailored to commerce, customer service, IT, and marketing. Salesforce has also developed 12 industry specific clouds for companies in Healthcare, Financial Services, Education, and more. The industries business is one of the key strategic initiatives for growth and has now reached \$3.8B in recurring revenues.

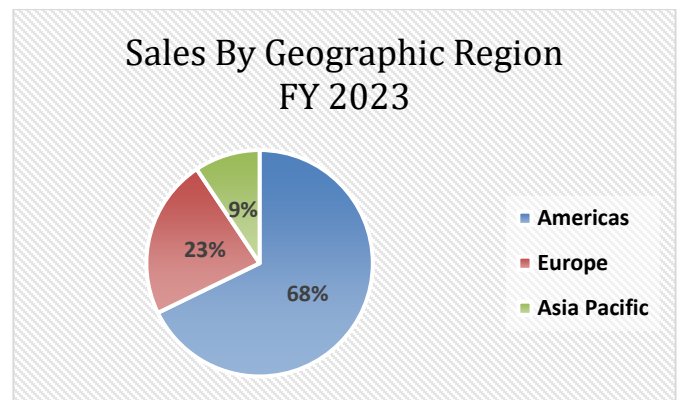
18

The company's revenues are broken into two segments, subscription & support, and professional services & other. Subscription and support accounts for 93% of sales and is broken into five distinct categories. The professional services category is largely derived from product implementation and training services. The cost of the professional services has exceeded the revenues generated in each of the past three years. The segment is primarily intended to facilitate and drive subscriptions.



Salesforce 10-K

The company also breaks down revenues into three distinct geographic regions, Europe, Asia Pacific, and the Americas. The Americas region accounts for over two thirds of total revenue and US sales make up 93% of that amount. That share has gradually declined over the past 10 years. The European segment has increased its share from 18% in 2015 to 23% currently. Finally, the Asia Pacific category has held a stable share between 8.9 – 9.7% over the past 10 years. The company has reiterated a focus on increasing their geographic reach as part of their growth strategy. To this point however, they have failed to gain significant traction in new markets as the overall sales mix is still dominated by the US and Europe. From a currency standpoint, the company saw a 300bps impact to revenues in Q4 and 400bps for the full fiscal year. Operating expenses are generally recorded in the same currency as revenues so there is a natural hedge for operating margin.<sup>17</sup>



Salesforce 10-K

## Sales Cloud

The Sales Cloud is Salesforce's flagship CRM offering. It is tailored towards business's sales staffs and used for storing customer data, identifying, and monitoring leads, and delivering quotes and invoices. It accounts for approximately 22% of total revenues, down from 34% in 2018.<sup>1</sup> The segment has a well-developed market and has seen the lowest growth of all categories over the past five years at an average of 13.75% annually. We expect the slowing growth trend to continue in the near term due to prevailing macro conditions. Additionally, as the company focuses on diversifying its product mix and integrating new acquisitions, sales cloud revenue will likely continue to grow at a slower rate relative to other segments. Newer market entrants offering lower priced solutions may also dampen growth. We have forecasted segment growth to

fall to 7% in FY24 and gradually recover to average 10.5% growth over the next five years before tapering off.

## Service

The Service category is currently the largest operating segment and accounted for 23.5% of revenues in FY23. The Service offering is geared towards customer service representatives. It helps enable companies to connect with customers across multiple channels and incorporates self-service options such as AI-Powered chatbots. The service cloud also has a field service solution used to schedule dispatch work and monitor jobs in real-time.<sup>1</sup> Similar to sales cloud, the service offering is an older well-developed platform. It has seen slowing growth including just 13.8% in FY23 compared to an average of 21% growth over the prior three years. We're forecasting a CAGR of 10.7% through 2028 before declining to 5% annual growth at the end of our 10-year forecast horizon.

## Platform & Other

The Platform and Other category accounts for 19% of total sales. The segment was redefined in FY20 as analytics and integration revenues were moved to a new separate category. The Platform offering allows for businesses to develop customized business applications. Platform can also help automate tasks and process data in real time while improving efficiencies and reducing IT costs.<sup>1</sup> As the digital transformation trend continues, we expect strong growth for Platform revenues. Many companies are looking for ways to streamline processes and more easily access and analyze their data.

The segment also includes revenues from Slack, a collaboration software offering instant messaging, work sharing, and conference calls. The Slack acquisition was completed in 2021 and revenues from Slack were incorporated into Platform and Other sales starting in Q3 of 2022. Since the acquisition in July 2021, Slack sales have grown from \$1.1B annually to \$1.5B in FY23. We expect Slack sales growth to continue to outpace other segments as the company works to integrate it into all of their offerings. We have projected a 19.5% average growth rate for platform revenues over the next five years, the highest of any segment.

## Marketing & Commerce

The Marketing and Commerce segment has grown at an average rate of 26.7% over the past five years, making it the fastest growing segment during that span. The Marketing platform is geared towards customized one-to-one marketing solutions. It allows companies to create personalized marketing journeys for their customers across all platforms.

The Commerce offering helps companies build out their omni-channel platforms and connect to customers digitally. The recent shift towards e-commerce has helped drive growth for the Marketing & Commerce segment as a whole. We believe Salesforce will continue to benefit from this trend as more businesses look to build out omni-channel platforms, digital storefronts, and customized marketing campaigns. We see the segment growing at 14.5% annually over the next five years.

## Data

The Data segment was recently separated from Platform and Services revenue. Since the segment was introduced in FY2020 it has grown at 35.8% CAGR. The category is broken down into Analytics and Integration. The Analytics offering includes the recent \$15.7B acquisition of Tableau in 2019. Tableau offers data analytics and visualization tools to help users make more informed data driven decisions.

The integration revenues are also largely impacted by a recent acquisition. Salesforce purchased MuleSoft in 2018 for \$6.5B. MuleSoft allows for companies to integrate and connect data across systems. Business processes and third-party applications such as MS Office can be seamlessly integrated with Salesforce products. Additionally, MuleSoft offers RPA or robotic process automation which enables users to automate repetitive manual tasks to process unstructured data. An example being scanning a pdf file and automatically extracting relevant data.<sup>1</sup>

We believe the Data segment will continue to be among the fastest growing as companies look to leverage data to drive strategy and decision making and automate repetitive tasks. In the Q4 earnings call, management highlighted both MuleSoft and Tableau as key drivers of the 14% YoY revenue growth. This came despite facing what they described as a measured buying environment.<sup>17</sup>

We are projecting 15% revenue growth through 2028 and a gradual decline to 7% by 2033.

## Professional Services & Other

The Professional Services and Other category mainly serves as a support structure for the Subscription revenues and accounts for just 7% of sales. Professional Services includes product implementation and training services for companies. The services create opportunities to show companies the capabilities of the different operating segments and how they can be utilized in their operations. The segment generally operates at a loss as cost of sales exceeds direct revenues. We expect the segment to grow fairly consistently with overall company sales at around 14% in the near term before declining to our long-term rate of 6% by FY2033.

## Cost Structure & Margin Analysis

Over the past decade Salesforce has seen consistently strong top line revenue growth. This has been driven by organic growth as well as M&A activity. The company has now shifted its focus towards profitability and improving margins in the coming years. Net margins have fluctuated recently due to outsized gains in strategic investments and one-off tax situations. A breakdown of recent and forecasted margins is below.

Year	Gross	Operating	Net
2021	74.4%	2.1%	19.2%
2022	73.5%	2.1%	5.5%
2023	73.3%	3.3%	0.7%
2024E	76.0%	8.6%	6.9%
2025E	76.6%	12.2%	9.8%
2026E	77.2%	13.4%	10.7%

FactSet, Henry Fund

As mentioned, in both FY22 and 23 net margin exceeded operating margin due to tax benefits and strategic investment gains. The gross margin has remained fairly stable, hovering between 73-74.5%. We expect gross margin to increase gradually to 77% as newly acquired companies become fully integrated into the business and operating leverage increases. Additionally, we see operating margin expanding significantly in the coming years to low double digits. Amortization of acquired intangibles has contributed to elevated COGS and marketing and sales expenses, exceeding 6% of total sales each of the past two years. Assuming no further

acquisitions, these costs will be gradually phased out as intangibles are fully amortized, further driving up margins. The amortization schedule is outlined below.

Year	Amortization Expense
2024	\$1,869
2025	1,597
2026	1,335
2027	990
2028	616
Thereafter	698
<b>Total</b>	<b>7,125</b>

Salesforce 10k

We also anticipate operating expenses to fall starting in FY24 resulting from the company's recent restructuring. The restructuring efforts have cut headcount by 10% and reduced the real estate footprint. In previous years, share-based compensation expense has been 10% of total revenues and a large contributor to overall operating expenses. Management is forecasting this to drop to 8.3% in the coming year.<sup>17</sup> The company reported 4.3% GAAP operating margin in Q4. This came despite absorbing the entire \$828mm restructuring charge for the year (a 990bps impact).

Given the reduction of acquisition-related expenses and the recommitment to profitability, we expect strong margin improvements in the near term. However, we remain cautiously optimistic as the company has yet to consistently demonstrate an ability to cut costs while maintaining top-line growth.

## M&A Activity

Salesforce has focused on expanding the business through major acquisitions in recent years. The acquisitions of MuleSoft, Tableau, and Salesforce cost the company a combined \$49.9B since 2018. Salesforce has also made a number of smaller acquisitions along the way. The resulting impact of these moves is goodwill on the balance sheet ballooning to \$48.5B or 49.1% of total assets. The company has leveraged its future on being able to fully integrate these companies into the business and capture

expected synergies. Details for five of the largest acquisitions are listed below.

Company	Date	Price	P/S	FY23 Revenue	Goodwill
Slack	July-21	\$27.7B	27x	\$1.5B	21.2B
Tableau	August-19	\$15.7B	12x	\$2B	10.8B
Mulesoft	May-18	\$6.4B	23x	\$1.7B	4.8B
Demandware	July-16	\$2.8B	12x	\$1B	2B
ExactTarget	July-13	\$2.5B	9x	\$3B	1.8B

*Salesforce*

Looking at the chart we see that both the deal size and premiums paid for these companies has risen significantly. Of note, the \$27.7B paid for Slack was a \$10b premium over market cap and \$21B over book value, nearly doubling goodwill on the balance sheet. The deal consisted of 43% common stock and 57% cash including \$8B in debt financing.<sup>18</sup> Slack was bought at 27x trailing sales, and the company had yet to turn a profit. Revenues for Slack have since increased from \$1.1B to \$1.5B, showing signs of growth but likely not to the degree anticipated.

The Tableau deal was an all-stock transaction and also came at a high multiple of 12x P/S. Like the Slack acquisition, revenue contribution from Tableau hasn't lived up to expectations. In the three full years since acquisition, Tableau revenues have increased from 1.4 to \$2B or a CAGR of 12.6%.<sup>19</sup> This growth rate is lower than overall sales growth for the company during that span.

A key point to note with these acquisitions is that both Slack and Tableau face strong competition from Microsoft. Microsoft Teams and Power BI pose as direct competitors and likely cap the growth potential. Microsoft maintains the distinct advantage of incorporating Teams into its widely used Office 365, eliminating the need for many companies to pay for Slack. Additionally, Power BI is Microsoft's data analytics and visualization tool and is closely integrated with other Microsoft products like Excel.<sup>20</sup>

We believe the premiums paid for recent acquisitions pose a risk to profitability going forward. If the company continues to struggle capturing the expected synergies from these acquisitions, they may face large goodwill impairment charges creating a drag on net income. Salesforce recently announced the dissolution of their

M&A committee, emphasizing a focus on profitable growth moving forward.<sup>17</sup>

## Debt Maturity Analysis

Salesforce currently has \$10.68B in debt outstanding, most of which is long-term debt with 80% maturing in 2028 or later. The company has \$1B in senior notes maturing in April and an additional \$1B in 2024. As of January 31, 2023, there was \$7B in cash on hand in addition to \$5B in marketable securities on the balance sheet.<sup>1</sup> The company is well positioned to meet both its near-term and long-term financing obligations. It has also secured longer-term financing at a weighted average coupon rate of 2.7%, well below current market rates. Salesforce currently has an A+ credit rating from S&P and an A2 rating from Moody's. The rating is comparable to its peers with Microsoft being the only key competitor with a higher rating at AAA. Both SAP and Oracle have lower ratings from S&P at A and BBB respectively.<sup>5</sup>

### Five-Year Debt Maturity Schedule

Fiscal Year	Coupon (%)	Payment (\$mil)
2023	3.33	\$1182
2024	.625	1000
2025	N/A	0
2026	N/A	0
2027	N/A	0
Thereafter	2.7	8500
Total		\$10,682

*Salesforce 10K*

## ESG Analysis

Sustainalytics gives Salesforce a 12.8 ESG risk rating and categorizes the company as low risk. It is ranked 20th out of the 1098 software and services companies in their ratings universe.<sup>8</sup> The ratings of Salesforce and its competitors are detailed in the table below. Each company qualifies as Low Risk.

Company	ESG Risk Score	Industry Ranking
Salesforce	12.8	20
Oracle	13.8	36
Adobe	13	25
SAP	10.8	9
Microsoft	15.3	78

*Sustainalytics*



Salesforce has a number of social and environmental initiatives, with a heavy emphasis on sustainability. The company has achieved net zero residual emissions and 100% renewable energy for their operations. Salesforce has also committed to providing STEM based education opportunities and workforce development in underserved areas through the Salesforce Foundation.<sup>9</sup>

CEO Marc Benioff has touted his belief in the concept of stakeholder capitalism, saying the company values stakeholders as much as shareholders.<sup>14</sup> This viewpoint has led to some criticism, particularly from activist investor Strive Asset Management. Strive's president Anson Frericks called out Benioff for using the business as a "platform for social change" and "choosing politics over profit".<sup>15</sup> This type of criticism has been limited to this point, but it bears monitoring. If the company fails to deliver on its goals of profitability, then any and all uses of funds that aren't being returned to shareholders will fall under greater scrutiny.

From a governance standpoint there have been significant changes to the board of directors and executive leadership in recent months. Three new members joined the board in March, replacing two long tenured directors who were stepping down. Among the new members is Mason Morfit who is the CEO of hedge fund Value Act Capital and has prior experience serving on the board of Microsoft.<sup>16</sup> His selection to the board comes amidst pressures from a number of activist funds pushing for operational changes.

Additionally, Bret Taylor stepped down as co-CEO on Jan 31, just a year after being promoted to the role. He cited a desire to start a new venture as his reason for leaving. Marc Benioff reclaimed his role as sole CEO and to this point has stated his focus remains on profitability and is not expecting to appoint another co-CEO anytime soon.<sup>17</sup>

## TRENDS & RECENT DEVELOPMENTS

### Recent Earnings Announcement

Salesforce announced their Q4 and full FY23 results on March 1, 2023. The company reported Q4 revenue of \$8.38B compared to consensus estimates of \$7.99B. non-GAAP earnings came in at \$1.68/share compared to \$1.36/share expected.<sup>10</sup> During the earnings call CEO Marc Benioff touted the recent acquisitions of Tableau and

MuleSoft as key drivers of higher-than-expected revenues. He also referenced the creation of a new business transformation committee to help accelerate their commitment to profitable growth.<sup>10</sup>

The company provided full FY24 guidance with expected revenues of \$34.5-\$34.7B and GAAP EPS of \$2.56-\$2.59. The revenue expectations of 10% YoY growth is lower than previous years. Management referenced a measured demand environment as the root cause.

Our forecasts for FY24 are largely in line with company guidance. We expect revenues of \$34.46B with a more conservative EPS of \$2.44 as the benefits of recent restructuring efforts begin to take effect.

### Activist Investors

Salesforce has faced strong pressures from activist investors over the previous year. Heading into its Q4 earnings the company was under fire from at least five different activist investors. A common theme among them was a criticism of Salesforce's aggressive acquisition strategy and bloated expenses. Elliott Management in particular had taken a multi-billion-dollar stake in the company and was pushing for a proxy battle after nominating multiple candidates for the board of directors.<sup>11</sup>

The overwhelmingly positive Q4 earnings announcement appears to have staved off further pressure for now. In late March Elliott management ended its efforts to gain representation on the board and put out a joint statement with the company. Regardless, one strong quarter likely isn't enough to fully alleviate the external pressures. The fact that so many activists took an interest in the stock highlights the growing dissatisfaction with the direction that management has taken in recent years. Any further earnings regression or failures to deliver on profitable growth expectations could lead to another push to shakeup up the board and possibly the management team.

### Restructuring

On January 6<sup>th</sup> of this year Salesforce announced restructuring efforts to cut overall expenses by \$3-5B. The restructuring plan includes laying off 10% of its workforce or roughly 8,000 employees. Additionally, the company plans to reduce its real estate footprint as a large number of employees have continued to work remotely post

pandemic.<sup>17</sup> The efforts are likely a result of the overzealous hiring during a covid driven demand peak. Employee headcount grew from 36,000 in 2019 to over 79,000 by December of 2022.<sup>7</sup> The cost-cutting efforts will result in restructuring charges of \$828mm in FY23 and an expected charge of \$862mm in FY24 or \$0.85 on a per share basis.<sup>17</sup>

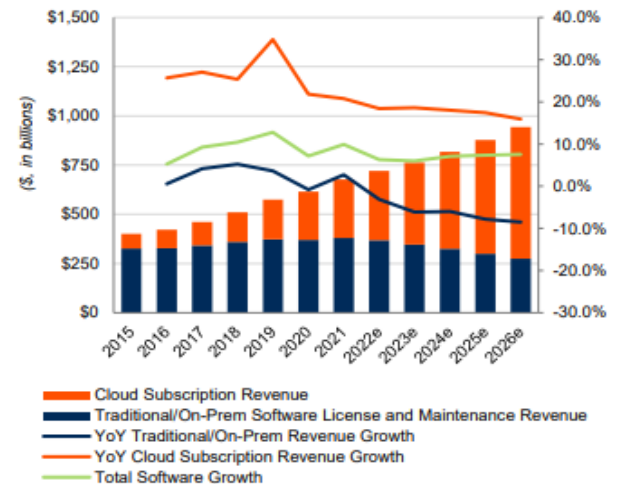
## Digital Transformation Projects

Covid-19 helped to expedite an already ongoing digital transformation for many businesses. Growth in e-commerce, remote work, and the adoption of video conferencing apps means businesses are interacting with both employees and customers virtually. By October of 2020, McKinsey had found that businesses were three times more likely to report that at least 80% of their customer interactions were digital.<sup>4</sup> Salesforce has benefited from this shift seeing 24% average sales growth over the past three years. The growth trend is likely slowing now from its peak as many businesses have already made the shift. Salesforce must now focus on retaining its new customers and expanding its offerings. The acquisition of Slack should bolster those efforts as the company can now integrate its own online communication service into its other products.

## MARKETS AND COMPETITION

The software market as a whole is projected to exceed \$900B annually by 2026 per CFRA with an 18% CAGR in that span.<sup>2</sup> Cloud-based subscription revenue growth continues to far outpace traditional on-premises software license revenue. The chart below highlights the rapid growth in cloud revenue relative to the total software market. Salesforce is well positioned to benefit from cloud migration as its revenues are centered around a cloud-based SaaS model. Looking ahead, software companies who are able to successfully integrate AI into their offerings and facilitate company's digital transformation projects will be set up for strong future growth.

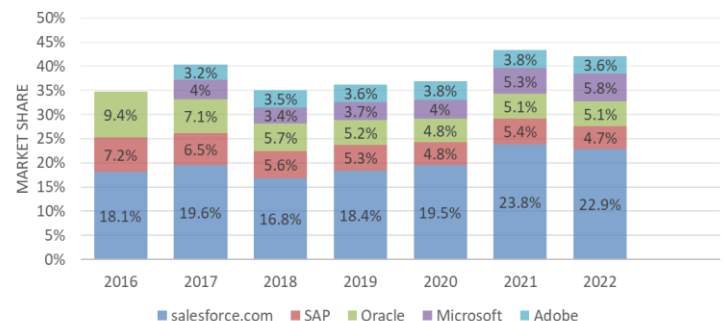
### Total Software Industry Revenue\*



CaptialIQ – CFRA

Looking at the CRM market in particular, Salesforce holds an industry leading 23% market share. The next closest is Microsoft at just 5.8%. Oracle, Adobe, and SAP all maintain market share between 3.5-5%. Salesforce has gradually increased its lead, growing from 18.1% in 2016 to its current 23% share. Of note, the five largest CRM providers combine for just 42.1% of the total annual CRM revenues. This implies a highly fragmented and fiercely competitive market with a number of options available to businesses. Salesforce holds an industry leadership advantage. Companies widely recognize it as the premier CRM vendor. However, newer entrants offering lower costs may cut into that market share over time. Barriers to entry remain relatively low and a wide range of options already exist in the market.

### MARKET SHARE OF CRM VENDORS 2016-2022



Statista - IDC

## Peer Comparisons

### SAP

SAP is an enterprise software company based in Germany. Their operating segments are broken into Cloud, software licensing and support, and services. Similar to Salesforce the company's service category primarily supports its software revenues and operates at a relatively low operating margin of 22%. The cloud-based revenues is their fastest growing category and accounts for 40% of total sales compared to just 20% in 2018.

SAP's product offerings are more diverse and not primarily geared towards CRM. They offer solutions that help businesses with supply chain management, procurement, resource management, and travel and expenses planning. Other offerings within their product strategy compete more directly with Salesforce. These include their Customer Experience Portfolio, Industry Clouds, and Business Technology Platform for customized app development.<sup>3</sup> As the company continues to shift towards cloud-based services it will likely increase its direct level of competition with Salesforce's primary lines of business.

### Oracle

Oracle is a US based company specializing in enterprise software & applications as well as IT infrastructure. It is the second largest software company by market cap at \$259B. Their annual revenues have seen declining growth including an average CAGR of just 2.38% over the past five years.

Key revenue segments include cloud services and license support, cloud license and on-premises license, Hardware, and Services. The company's products are geared more towards enterprise IT infrastructure. Additionally, their revenues rely to a greater degree on the legacy license and support model compared to the cloud-based SaaS model.<sup>2</sup> As cloud migration continues, Oracle may continue to lose market share and struggle to generate growth opportunities.

### Adobe

Adobe is a software company following the SaaS model, with 94% of their \$4.65B revenue coming from subscriptions. The company offers a diverse mix of products and services aimed towards creative

professionals including marketers, communicators, and content creators.<sup>6</sup> Their three main segments are Digital Media, Digital Experience, and Publishing and Advertising. The Digital Experience cloud in particular offers products and applications that directly compete with Salesforce's Data and Marketing & Commerce segments.

The Experience Cloud helps businesses develop personalized marketing campaigns at scale and leverages Adobe Analytics to enable e-commerce-based shopping experiences.<sup>6</sup> This platform generates \$1.04B in annual revenue for Adobe in comparison to Salesforce's \$4.5B and commerce segment revenues.

### Microsoft

Microsoft is a global technology company with a \$2.1tr market cap. Its key operating segments include Productivity and Business Processes, Intelligent Cloud, and More Personal Computing. The Productivity and Business Processes segment includes Microsoft Teams under Office 365 and Dynamics which offers cloud-based CRM solutions.

Microsoft Teams is the industry leading teamwork and collaboration software and the main competitor for Slack. Microsoft holds a competitive advantage by incorporating Teams into Office 365 and Microsoft 365 Business products. Per Statista, the number of daily active users for Microsoft teams had grown to 270mm by the end of 2022 while Slack had only 18mm daily users.<sup>7</sup>

Microsoft's Dynamics business is one of the main competitors for Salesforce's CRM solutions. Dynamics offers CRM as well as supply chain management and enterprise resource planning and integrates fully with Microsoft Office Suite. The Dynamics 365 business also includes Power BI which directly competes with Tableau in the data analytics and visualization category.

## Key Statistics and Ratio Analysis

Company	Mkt Cap (\$B)	Sales (\$B)	P/S	P/E (FY1)
Salesforce	192.6	31.4	6.1	76.4
SAP	148.0	30.9	4.8	21.9
Oracle	259.0	42.4	6.1	32.3
Adobe	174.6	17.6	9.9	34.4
Microsoft	2105.3	198.3	10.6	31.1

FactSet

Looking at overall market cap and revenues of the peer group, Microsoft stands alone at \$2.1tr and \$198B

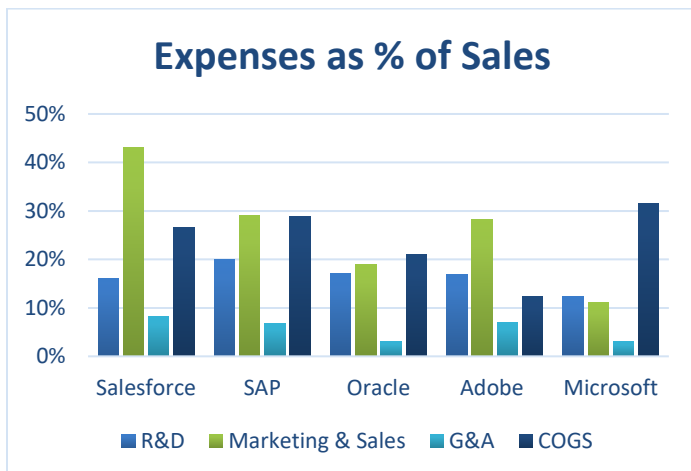


respectively. The other companies are all fairly similar in terms of size and revenues relative to Salesforce. Key differences are found in growth and profitability. Salesforce has seen the highest growth in the past five years but also the lowest margins. SAP and Oracle have reached mature growth stages but offer consistent profits and return of capital to shareholders. Microsoft and Adobe have both maintained strong growth and profitability. Salesforce has yet to achieve that balance and is still priced at a forward P/E multiple more than double the average of its peers. The market appears to be pricing in an expectation of vastly improved margins with little to no impact on sales growth.

Company	5yr Sales CAGR	Op Margin	Net Margin
Salesforce	24.5%	5.9%	0.7%
SAP	5.6%	17.0%	7.4%
Oracle	2.4%	29.2%	17.5%
Adobe	19.2%	33.9%	26.3%
Microsoft	17.1%	41.0%	33.1%

FactSet

Looking closer at the operating expenses of each company, Salesforce's marketing and sales expenses stand out. They account for 42% of the company's revenues. All other the peer group members have M&S expenses less than 30% of sales. Both Oracle and Microsoft are under 20%. General and Administrative expenses are also higher for Salesforce relative to their competition. G&A takes up 8% of sales compared to under 7% for SAP and Adobe and just 3% for Oracle and Microsoft.



FactSet

We anticipate strong margin improvements for Salesforce following restructuring efforts and an end to M&A related expenses. But the company has a long way to go to rival

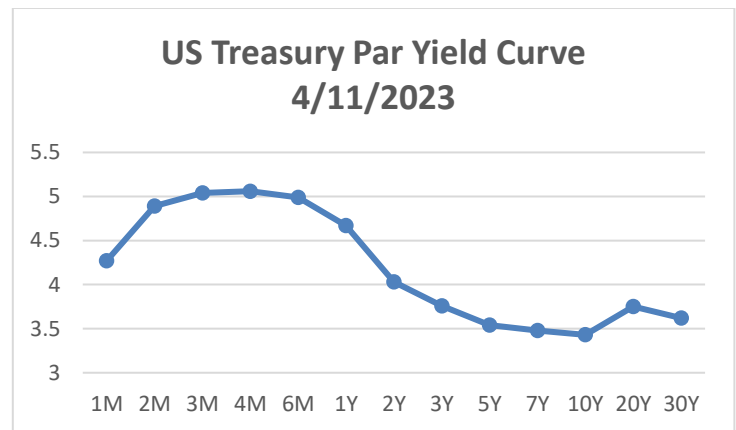
the cost structures of its peers. The market seems to have already priced in the improved profitability and then some when looking at relative multiples.

## ECONOMIC OUTLOOK

Salesforce's customer base is made up primarily of large and mid-size companies. Any Macroeconomic factors that impact overall business spending will in turn have a direct impact on Salesforce's revenues. Like many other companies, management has referenced a "measured buying environment" and tough macroeconomic conditions when discussing guidance on FY24.<sup>17</sup>

## Interest Rates

The US Treasury yield curve below shows the current interest rates by maturity. Rates have remained elevated as the Fed maintains its commitment to combatting inflation. Additionally, the inversion of the curve has historically been an accurate indicator of an impending recession. Our Henry Fund consensus estimate calls for at least a 50% chance of a recession within the next 12 months.



US Treasury

Sustainably higher interest rates will continue to slow business spending and deter many growth projects. Salesforce will likely continue to see dampened demand while higher rates persist. Additionally, if the economy experiences a hard landing, companies will likely continue to avoid non-essential expenditures.

## Business Confidence Index

The Organization for Economic Co-operation and Development (OECD) publishes a survey-based Business

Confidence Index. The index has a baseline of 100 and represents expectations on production, orders, and inventories. A number lower than 100 means businesses have a pessimistic outlook on future results. The chart below shows the BCI level over time.



The index currently sits just below 100, representing a moderately bearish near-term outlook on output.

## Inflation

The most recent CPI inflation data came in at 5%.<sup>21</sup> Inflation has gradually declined over the year but remains well above the Fed's 2% target. As long as prices stay at elevated levels, we expect the Fed to remain firm in their stance on not lowering rates this year. Higher for longer interest rates will further slow growth in enterprise demand. When borrowing costs are high, businesses cut back on spending and delay growth and transformation projects. We anticipate some degree of stickiness in the price level over the course of 2023, reaffirming our bearish outlook on short-term revenue growth for Salesforce.

## VALUATION

### Revenue and Cost Forecasts

Recent Q4 results suggest Salesforce has turned the corner towards stable profitability. The disbanding of the M&A committee and restructuring efforts have paved the way for Salesforce to reduce expenses and drive-up margins. While we believe there are real opportunities for the company to cut back spending, we are taking a cautious approach given the lack of historical track record.

We've forecasted Salesforce's operating expenditures to gradually decrease as a % of sales over the next 10 years and move towards margins that more closely resemble their peer group. We're forecasting cost of revenues for

subscription and support to decline to 15% of sales by the end of our forecast horizon. Additionally, we expect costs for professional service and other to fall below 100% of revenues.

For operating expenses, we expect R&D to average 16.6% of sales in line with management guidance. We foresee the greatest improvement in cost reduction coming in the marketing and sales expense. This has been the main sticking point in lower operating margins compared to peers. We are projecting M&S expense to drop to 41% of sales in FY24 followed by gradual improvement down to 36.6% by 2033. The main drivers of these forecasts are the reduction in headcount and real estate footprint as well as the phasing out of amortization of acquired intangibles. Both amortization expense and employee stock compensation have been large components of M&S and COGS in prior years. These costs will gradually decrease over time, helping to increase operating margins.

Our revenue assumptions are also cautiously optimistic. We anticipate slowing growth for the company due to economic pressures in the near term and elevated competition over time. The reduced headcount may also have a negative impact on sales. We've forecasted a 5-year CAGR of 14.4% for sales and expect growth to taper down to 6% annually by the end of our 10-year horizon.

### DCF Valuation and NOPLAT Assumptions

Our DCF and Economic profit valuation yielded an implied share price of \$151.0, significantly lower than the current market price of \$191.7 and consensus target price of \$218.7. Key assumptions in this model include a WACC for the firm of 10.22% and a terminal NOPLAT growth rate of 4.5%. The NOPLAT growth rate is based on an expectation of real GDP growth around 2% along with an estimated inflation rate of 2.5%.

We calculated the WACC for the firm using an estimated 10.69% cost of equity and 3.25% after tax cost of debt. The company's capital structure consists of 93.4% equity and just 6.6% debt so the discount rate was largely comprised of the firm's cost of equity.

One potential reason for the lower valuation estimate is more conservative estimates of revenue growth. The consensus 5-year growth rate is 18% compared to our forecasted growth of just over 14% for the period. As mentioned previously we anticipate slowing growth

resulting from economic pressures and elevated competition. We remain skeptical that the company will fully realize anticipated revenue gains from recent acquisitions. Finally, the company's strategic investments have had a large impact on Net Income in prior years, with gains accounting for nearly half of NI in FY21 and essentially all of NI in FY22. We have forecasted no change in the value of the strategic investment portfolio going forward.

## Relative P/E Valuation

As a result of our relative P/E valuation we arrived at an implied share value of \$147.1. The comparison used the forward P/Es of six peer companies and a resulting average multiple of 60.21 based on expected 2023 EPS.

Ticker	Company	Price	EPS 2023E	EPS 2024E	P/E 23
SAP SE	SAP	\$126.54	\$5.81	\$6.72	21.78
ORCL	Oracle	\$93.92	\$2.91	\$3.92	32.27
MSFT	Microsoft	\$287.23	\$9.23	\$10.61	31.12
GOOG	Alphabet	\$104.91	\$5.13	\$6.10	20.45
NOW	ServiceNow	\$464.49	\$2.10	\$3.14	221.19
ADBE	Adobe	\$380.08	\$11.04	\$12.69	34.43
		Average	60.21		

The results were heavily impacted by the inclusion of the fast-growing ServiceNow, with a multiple of 221.19. The other six companies all had a multiple between 20-34. Salesforce's recent growth rates are greater than most of the peer group so we felt it was reasonable to include a high growth peer to counterbalance the lower multiples of more mature peers who are experiencing much slower growth.

## Target Price

Our final target price range is \$147-152 using the values from our DCF and relative valuation models. Our EPS estimates come in slightly lower than street consensus, again due to more conservative estimates for revenue growth and cost reduction reiterate the belief that the recent turn towards profitability has been overhyped to a degree and the current price reflects that. The market has placed lofty expectations for future earnings growth based primarily on one quarter of solid profitability. We have taken a more measured approach to growth expectations as the company still faces near-term headwinds and strong competition.

## KEYS TO MONITOR

Salesforce has used aggressive acquisitions to drive up growth over the past few years at the expense of profitability. As their focus shifts, the company's future performance rests largely on their ability to successfully integrate new businesses into their existing product and service offerings. The company stands to benefit from cloud-based migration, the ongoing digital transformation, and adoption of AI technology. However, we feel that the risks outweigh the potential rewards at the current valuation.

Strong economic headwinds in the near term may present a major challenge during this transformational period. We believe that future earnings growth is largely factored into the current share price. Any unforeseen obstacles towards profits such as goodwill impairments could cause a large and swift drop in share value. We reiterate a sell rating for the stock.

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Salesforce

Revenue Decomposition

in millions

Fiscal Years Ending Jan. 31	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
Revenue by segment													
Sales Cloud	5,191	5,989	6,831	7,309	7,967	8,843	9,816	10,896	12,040	13,304	14,235	15,018	15,619
growth	12.90%	15.37%	14.06%	7.00%	9.00%	11.00%	11.00%	11.00%	10.50%	10.50%	7.00%	5.50%	4.00%
% of total sales	24.43%	22.61%	21.79%	21.21%	20.56%	19.69%	18.84%	18.20%	17.61%	17.12%	16.63%	16.22%	15.89%
Service	5,377	6,474	7,369	7,848	8,515	9,622	10,873	12,286	13,699	15,275	16,497	17,816	18,707
growth	20.40%	20.40%	13.82%	6.50%	8.50%	13.00%	13.00%	13.00%	11.50%	11.50%	8.00%	8.00%	5.00%
% of total sales	25.30%	24.44%	23.50%	22.77%	21.97%	21.42%	20.86%	20.52%	20.04%	19.66%	19.28%	19.24%	19.03%
Platform & Other	3,324	4,509	5,967	6,922	8,237	10,090	12,360	14,462	16,920	19,797	22,172	24,389	26,341
growth	19.27%	35.65%	32.34%	16.00%	19.00%	22.50%	22.50%	17.00%	17.00%	17.00%	12.00%	10.00%	8.00%
% of total sales	15.64%	17.02%	19.03%	20.09%	21.26%	22.47%	23.72%	24.15%	24.75%	25.47%	25.91%	26.34%	26.80%
Marketing & Commerce	3,133	3,902	4,516	4,877	5,463	6,419	7,542	8,862	10,191	11,719	13,126	14,241	15,096
growth	25.02%	24.55%	15.74%	8.00%	12.00%	17.50%	17.50%	17.50%	15.00%	15.00%	12.00%	8.50%	6.00%
% of total sales	14.74%	14.73%	14.40%	14.15%	14.10%	14.29%	14.47%	14.80%	14.91%	15.08%	15.34%	15.38%	15.36%
Data	2,951	3,783	4,338	4,859	5,539	6,453	7,517	8,758	10,203	11,631	12,969	14,006	14,987
growth	75.03%	28.19%	14.67%	12.00%	14.00%	16.50%	16.50%	16.50%	16.50%	14.00%	11.50%	8.00%	7.00%
% of total sales	13.89%	14.28%	13.84%	14.10%	14.29%	14.37%	14.42%	14.63%	14.93%	14.97%	15.15%	15.13%	15.25%
Professional Services & Other Revenues	1,276	1,835	2,331	2,646	3,029	3,484	4,006	4,607	5,298	5,987	6,586	7,113	7,539
growth	20.95%	43.81%	27.03%	13.50%	14.50%	15.00%	15.00%	15.00%	15.00%	13.00%	10.00%	8.00%	6.00%
% of total sales	6.00%	6.93%	7.43%	7.68%	7.82%	7.76%	7.69%	7.70%	7.75%	7.70%	7.70%	7.68%	7.67%
Total	21,252	26,492	31,352	34,460	38,750	44,910	52,115	59,870	68,351	77,713	85,585	92,584	98,289
growth	24.30%	24.66%	18.35%	9.91%	12.45%	15.90%	16.04%	14.88%	14.17%	13.70%	10.13%	8.18%	6.16%
Revenue by Geographic Region													
Americas	14,736	17,983	21,250	23,433	26,156	30,090	34,656	38,916	44,087	49,542	54,132	58,328	61,922
growth	22.65%	22.03%	18.17%	10.27%	11.62%	15.04%	15.18%	12.29%	13.29%	12.37%	9.27%	7.75%	6.16%
% of total	69.34%	67.88%	67.78%	68.00%	67.50%	67.00%	66.50%	65.00%	64.50%	63.75%	63.25%	63.00%	63.00%
Europe	4,501	6,016	7,163	7,581	8,622	10,217	11,986	14,519	16,746	19,428	21,610	23,609	25,064
growth	31.22%	33.66%	19.07%	5.84%	13.72%	18.50%	17.32%	21.13%	15.34%	16.02%	11.23%	9.25%	6.16%
% of total	21.18%	22.71%	22.85%	22.00%	22.25%	22.75%	23.00%	24.25%	24.50%	25.00%	25.25%	25.50%	25.50%
Asia Pacific	2,015	2,493	2,939	3,446	3,972	4,603	5,472	6,436	7,519	8,743	9,842	10,647	11,303
growth	24.61%	23.72%	17.89%	17.25%	15.26%	15.90%	18.87%	17.62%	16.82%	16.28%	12.58%	8.18%	6.16%
% of total	9.48%	9.41%	9.37%	10.00%	10.25%	10.25%	10.50%	10.75%	11.00%	11.25%	11.50%	11.50%	11.50%
Total	21,252	26,492	31,352	34,460	38,750	44,910	52,115	59,870	68,351	77,713	85,585	92,584	98,289
growth	24.30%	24.66%	18.35%	9.91%	12.45%	15.90%	16.04%	14.88%	14.17%	13.70%	10.13%	8.18%	6.16%



Salesforce

Income Statement

in millions

Fiscal Years Ending Jan. 31	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
Revenues:													
Subscription & support revenues	19,976	24,657	29,021	31,815	35,720	41,427	48,109	55,263	63,053	71,726	78,999	85,472	90,749
Professional services & other revenues	1,276	1,835	2,331	2,646	3,029	3,484	4,006	4,607	5,298	5,987	6,586	7,113	7,539
<b>Total revenues</b>	<b>21,252</b>	<b>26,492</b>	<b>31,352</b>	<b>34,460</b>	<b>38,750</b>	<b>44,910</b>	<b>52,115</b>	<b>59,870</b>	<b>68,351</b>	<b>77,713</b>	<b>85,585</b>	<b>92,584</b>	<b>98,289</b>
Cost of Revenues:													
Cost of revenues - subscription & support (incl. D&A)	4,154	5,059	5,821	5,673	6,112	6,836	7,641	8,512	9,590	10,759	11,719	12,679	13,462
Cost of revenues - professional services & other (incl. D&A)	1,284	1,967	2,539	2,597	2,973	3,419	3,932	4,522	5,200	5,876	6,463	6,980	7,399
Total cost of revenues	5,438	7,026	8,360	8,269	9,085	10,255	11,573	13,034	14,790	16,635	18,182	19,660	20,861
Depreciation & amortization	2,846	3,298	3,786	2,768	2,482	2,256	1,939	1,645	3,272	2,969	2,446	2,361	2,339
<b>Gross Profit</b>	<b>15,814</b>	<b>19,466</b>	<b>22,992</b>	<b>26,191</b>	<b>29,665</b>	<b>34,656</b>	<b>40,542</b>	<b>46,837</b>	<b>53,561</b>	<b>61,078</b>	<b>67,402</b>	<b>72,925</b>	<b>77,427</b>
Operating Expenses:													
Research & development	3,598	4,465	5,055	5,728	6,441	7,466	8,663	9,952	11,362	12,919	14,227	15,391	16,339
Marketing & sales	9,674	11,855	13,526	14,178	15,749	18,028	20,660	23,435	26,413	29,642	32,216	34,388	36,015
General & administrative	2,087	2,598	2,553	2,462	2,671	2,983	3,332	3,678	4,028	4,385	4,616	4,762	5,006
Restructuring	-	-	828	862	-	-	-	-	-	-	-	-	-
Other expenses	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Operating Expenses</b>	<b>15,359</b>	<b>18,918</b>	<b>21,962</b>	<b>23,229</b>	<b>24,861</b>	<b>28,477</b>	<b>32,654</b>	<b>37,065</b>	<b>41,803</b>	<b>46,946</b>	<b>51,059</b>	<b>54,540</b>	<b>57,360</b>
Operating Income (Loss)	455	548	1,030	2,962	4,803	6,179	7,887	9,772	11,758	14,133	16,344	18,384	20,067
Investment income	-	-	-	188	195	202	208	216	223	231	239	247	255
Interest expense	-	-	-	(140)	(136)	(138)	(144)	(154)	(348)	(327)	(311)	(304)	(303)
Gains (losses) on strategic investments, net	2,170	1,211	(239)	-	-	-	-	-	-	-	-	-	-
Other income (expense)	(64)	(227)	131	-	-	-	-	-	-	-	-	-	-
Gain on sales of land & building improvements	-	-	-	-	-	-	-	-	-	-	-	-	-
Gains from acquisitions of strategic investments	-	-	-	-	-	-	-	-	-	-	-	-	-
Income (loss) before provision for (benefit from) income taxes	2,561	1,532	660	3,010	4,863	6,242	7,951	9,833	11,633	14,036	16,271	18,327	20,019
Provision for (benefit from) income taxes	(1,511)	88	452	632	1,021	1,311	1,670	2,065	2,443	2,948	3,417	3,849	4,204
<b>Net income (loss)</b>	<b>4,072</b>	<b>1,444</b>	<b>208</b>	<b>2,378</b>	<b>3,841</b>	<b>4,931</b>	<b>6,282</b>	<b>7,768</b>	<b>9,190</b>	<b>11,089</b>	<b>12,854</b>	<b>14,479</b>	<b>15,815</b>
Net Margin	19.16%	5.45%	0.66%	6.90%	9.91%	10.98%	12.05%	12.97%	13.45%	14.27%	15.02%	15.64%	16.09%
Earnings per share (basic)	4.48	1.51	0.21	2.44	4.00	5.20	6.70	8.32	9.83	11.86	13.75	15.49	16.92
Shares outstanding (weighted avg)	908	955	992	974	960	948	937	934	935	935	935	935	935
Shares outstanding (end of year)	919	989	981	966	953	942	933	935	935	935	935	935	935
Share Repurchases			4,000	4,000	4,000	4,000	4,000	-	-	-	-	-	-

## Fiscal Year

[illegible]

Salesforce

Historical Cash Flow Statement

in millions

Fiscal Years Ending Jan. 31	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Operating activities:</b>										
Net Income	(232)	(263)	(47)	180	127	1,110	126	4,072	1,444	208
Adjustments to reconcile net income:										
Depreciation & amortization	369	448	526	632	753	962	2,135	2,846	3,298	3,786
Amortization of costs capitalized to obtain revenue contracts	195	258	319	372	465	737	876	1,058	1,348	1,668
Amortization of debt discount & issuance costs	50	40	27	31	31	20	-	-	-	-
Stock-based compensation expense	495	557	534	820	997	1,283	1,785	2,190	2,779	3,279
Gains (losses) on strategic investments, net	-	-	-	(14)	-	(542)	(427)	(2,170)	(1,211)	239
Tax benefit from intra-entity transfer of intangible property	-	-	-	-	-	-	-	(2,003)	-	-
Loss on settlement of Salesforce.org reseller agreement	-	-	-	-	-	-	166	-	-	-
50 Fremont lease termination	-	-	(37)	-	-	-	-	-	-	-
Loss on conversions of convertible senior notes	-	10	-	-	-	-	-	-	-	-
Costs capitalized to obtain revenue contracts, net	(265)	(321)	(380)	(462)	(799)	(981)	(1,130)	(1,645)	(2,283)	(2,345)
Loss (gain) on sales of land & building improvements	-	(16)	(22)	-	-	-	-	-	-	-
Accounts receivable, net	(425)	(545)	(582)	(628)	(720)	(923)	(1,000)	(1,556)	(1,824)	(995)
Prepaid expenses & other current assets & other assets	105	46	51	(29)	24	(58)	(119)	(133)	114	(302)
Operating lease liabilities	-	-	-	-	-	-	(728)	(830)	(801)	(699)
Accounts payable, accrued expenses & other liabilities	(29)	160	254	50	308	287	982	1,100	507	528
Unearned revenue	612	799	970	1,211	1,552	1,503	1,665	1,872	2,629	1,744
<b>Net cash flows from operating activities</b>	<b>875</b>	<b>1,174</b>	<b>1,613</b>	<b>2,162</b>	<b>2,738</b>	<b>3,398</b>	<b>4,331</b>	<b>4,801</b>	<b>6,000</b>	<b>7,111</b>
<b>Investing Activities:</b>										
Business combinations, net of cash acquired	(2,617)	38	(59)	(3,193)	(25)	(5,115)	(369)	(1,281)	(14,876)	(439)
Proceeds from land activity, net	-	223	133	-	-	-	-	-	-	-
Purchase of 50 Fremont land & building	-	-	(425)	-	-	-	-	-	-	-
Deposit for purchase of building & land	-	(126)	115	-	-	-	-	-	-	-
Purchases of strategic investments	(31)	(94)	(367)	(30)	(216)	(362)	(768)	(1,069)	(1,718)	(550)
Sales of strategic investments	-	-	-	-	131	260	434	1,051	2,201	355
Purchases of marketable securities	(559)	(781)	(1,139)	(1,070)	(2,003)	(1,068)	(3,857)	(4,833)	(5,674)	(4,777)
Sales of marketable securities	1,038	244	500	2,005	559	1,426	1,444	1,836	4,179	1,771
Maturities of marketable securities	36	88	38	67	79	146	779	1,035	2,069	2,449
Capital expenditures	(299)	(290)	(284)	(464)	(534)	(595)	(643)	(710)	(717)	(798)
<b>Net cash flows from investing activities</b>	<b>(2,432)</b>	<b>(698)</b>	<b>(1,488)</b>	<b>(2,684)</b>	<b>(2,011)</b>	<b>(5,308)</b>	<b>(2,980)</b>	<b>(3,971)</b>	<b>(14,536)</b>	<b>(1,989)</b>
<b>Financing Activities:</b>										
Proceeds from issuance of debt, net of issuance costs	-	-	-	-	-	2,966	-	(20)	7,906	-
Repayments of Slack convertible notes, net of capped call proceeds	-	-	-	-	-	-	-	-	(1,197)	-
Repurchases of common stock	-	-	-	-	-	-	-	-	-	(4,000)
Proceeds from (payments on) term loan, net	(15)	(285)	-	496	-	-	-	-	-	-
Proceeds from employee stock plans	290	309	455	401	650	704	840	1,321	1,289	861
Principal payments on financing obligations	(41)	(71)	(82)	(98)	(106)	(131)	(173)	(103)	(156)	(419)
Repayments of debt	-	-	(300)	(550)	(200)	(1,529)	(503)	(4)	(4)	(4)
Proceeds from revolving credit facility	-	297	-	749	-	-	-	-	-	-
Proceeds from borrowings on convertible senior notes, net	1,133	-	-	-	-	-	-	-	-	-
Proceeds from issuance of warrants	85	-	-	-	-	-	-	-	-	-
Proceeds from term loan, net	299	-	-	-	-	-	-	-	-	-
Purchase of convertible note hedge	(154)	-	-	-	-	-	-	-	-	-
Excess tax benefits from employee stock plans	8	8	59	-	-	-	-	-	-	-
Payments on convertible senior notes	(6)	(569)	-	-	(123)	-	-	-	-	-
<b>Net cash flows from financing activities</b>	<b>1,598</b>	<b>(310)</b>	<b>133</b>	<b>998</b>	<b>221</b>	<b>2,010</b>	<b>164</b>	<b>1,194</b>	<b>7,838</b>	<b>(3,562)</b>

Salesforce

Forecasted Cash Flow Statement

in millions

Fiscal Years Ending Jan. 31	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
Net Income	2,378	3,841	4,931	6,282	7,768	9,190	11,089	12,854	14,479	15,815
Adjustments from Operating activities										
Depreciation & Amortization	2768	2482	2256	1939	1645	3272	2969	2446	2361	2339
Accounts Receivable,net	(1,617)	(1,540)	(2,212)	(2,586)	18,710	(24,539)	(3,361)	(2,826)	(2,513)	(2,048)
Costs capitalized to obtain revenue contracts, net	(125)	(237)	(340)	(397)	(428)	(468)	(516)	(434)	(386)	(315)
Prepaid expenses & other current assets	(162)	(189)	(271)	(317)	(342)	(374)	(412)	(347)	(308)	(251)
Noncurrent costs capitalized to obtain revenue contracts, ne	(234)	(365)	(524)	(613)	(660)	(721)	(796)	(669)	(595)	(485)
Deferred tax assets & other assets, net	(56)	(57)	(58)	(59)	(61)	(62)	(63)	(64)	(66)	(67)
Accounts payable, accrued expenses & other liabilities	455	896	1,287	1,505	1,620	1,771	1,955	1,644	1,462	1,192
Unearned revenue	2,581	2,484	3,568	4,172	(30,181)	39,583	5,422	4,559	4,054	3,304
Operating lease right-of-use assets, net	(76)	(52)	(162)	(266)	(6,346)	1,015	582	284	76	(56)
Operating lease liabilities Current	98	12	38	62	1,472	(236)	(135)	(66)	(18)	13
Other Non-Current Liabilities	20	(29)	(8)	15	(2,281)	2,510	(26)	3	16	22
Non-Current operating lease liabilities	(203)	47	147	242	5,762	(922)	(529)	(258)	(69)	51
Net Cash Provided by Operating Activities	5,827	7,295	8,652	9,977	(3,319)	30,022	16,179	17,126	18,493	19,513
Investing Activities										
Capital Expenditures	(844)	(949)	(1,100)	(1,277)	(1,467)	(1,675)	(1,904)	(2,097)	(2,268)	(2,408)
Short-Term marketable securities	(188)	(195)	(202)	(208)	(216)	(223)	(231)	(239)	(247)	(255)
Strategic Investments	(160)	(166)	(171)	(177)	5,347	-	-	-	-	-
Cash Used for Investing Activities	(1,193)	(1,310)	(1,473)	(1,663)	3,664	(1,898)	(2,135)	(2,335)	(2,515)	(2,663)
Financing Activities										
Repurchases of common stock	(4,000)	(4,000)	(4,000)	(4,000)	-	-	-	-	-	-
Current Portion of LT Debt	76	17	38	54	(120)	323	51	54	54	48
Non-Current Debt	609	137	302	429	(956)	2,576	404	428	428	384
Proceeds from ESOP	637	637	637	637	267	-	-	-	-	-
Cash from Financing Activities	(2,678)	(3,209)	(3,024)	(2,880)	(808)	2,900	455	481	481	433
Beginning Cash	7,016	8,972	11,748	15,903	21,337	20,874	51,898	66,397	81,669	98,129
Increase (decrease) in Cash	1,956	2,776	4,155	5,434	(463)	31,025	14,499	15,272	16,459	17,282
Ending Cash Balance	8,972	11,748	15,903	21,337	20,874	51,898	66,397	81,669	98,129	115,411

**Salesforce**
*Common Size Income Statement*

<b>Fiscal Years Ending Jan. 31</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>	<b>2029E</b>	<b>2030E</b>	<b>2031E</b>	<b>2032E</b>	<b>2033E</b>
Revenues:													
Subscription & support revenues	94.00%	93.07%	92.57%	92.32%	92.18%	92.24%	92.31%	92.30%	92.25%	92.30%	92.30%	92.32%	92.33%
Professional services & other revenues	6.00%	6.93%	7.43%	7.68%	7.82%	7.76%	7.69%	7.70%	7.75%	7.70%	7.70%	7.68%	7.67%
<b>Total revenues</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
Cost of Revenues:													
Cost of revenues - subscription & support	20.79%	20.52%	20.06%	17.83%	17.11%	16.50%	15.88%	15.40%	15.21%	15.00%	14.83%	14.83%	14.83%
Cost of revenues - professional services & other	100.63%	107.19%	108.92%	98.14%	98.14%	98.14%	98.14%	98.14%	98.14%	98.14%	98.14%	98.14%	98.14%
Total cost of revenues	25.59%	26.52%	26.66%	24.00%	23.45%	22.83%	22.21%	21.77%	21.64%	21.41%	21.24%	21.23%	21.22%
Depreciation & amortization	13.39%	12.45%	12.08%	8.03%	6.41%	5.02%	3.72%	2.75%	4.79%	3.82%	2.86%	2.55%	2.38%
<b>Gross Profit</b>	<b>74.41%</b>	<b>73.48%</b>	<b>73.34%</b>	<b>76.00%</b>	<b>76.55%</b>	<b>77.17%</b>	<b>77.79%</b>	<b>78.23%</b>	<b>78.36%</b>	<b>78.59%</b>	<b>78.76%</b>	<b>78.77%</b>	<b>78.78%</b>
Operating Expenses:													
Research & development	16.93%	16.85%	16.12%	16.62%	16.62%	16.62%	16.62%	16.62%	16.62%	16.62%	16.62%	16.62%	16.62%
Marketing & sales	45.52%	44.75%	43.14%	41.14%	40.64%	40.14%	39.64%	39.14%	38.64%	38.14%	37.64%	37.14%	36.64%
General & administrative	9.82%	9.81%	8.14%	7.14%	6.89%	6.64%	6.39%	6.14%	5.89%	5.64%	5.39%	5.14%	5.09%
Restructuring	-	-	20.34%	21.16%	-	-	-	-	-	-	-	-	-
Other expenses	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Operating Expenses</b>	<b>72.27%</b>	<b>71.41%</b>	<b>70.05%</b>	<b>67.41%</b>	<b>64.16%</b>	<b>63.41%</b>	<b>62.66%</b>	<b>61.91%</b>	<b>61.16%</b>	<b>60.41%</b>	<b>59.66%</b>	<b>58.91%</b>	<b>58.36%</b>
Operating Income (Loss)	2.14%	2.07%	3.29%	8.60%	12.40%	13.76%	15.13%		17.20%	18.19%	19.10%	19.86%	20.42%
Investment income	-	-	-	0.55%	0.50%	0.45%	0.40%	0.36%	0.33%	0.30%	0.28%	0.27%	0.26%
Interest expense													
Gains (losses) on strategic investments, net	10.21%	4.57%	-0.76%	-	-	-	-	-	-	-	-	-	-
Other income (expense)	-0.30%	-0.86%	0.42%	-	-	-	-	-	-	-	-	-	-
Gain on sales of land & building improvements	-	-	-	-	-	-	-	-	-	-	-	-	-
Gains from acquisitions of strategic investments	-	-	-	-	-	-	-	-	-	-	-	-	-
Income (loss) before provision for (benefit from) i	12.05%	5.78%	2.11%	8.74%	12.55%	13.90%	15.26%		17.02%	18.06%	19.01%	19.80%	20.37%
Provision for (benefit from) income taxes	-7.11%	0.33%	1.44%	1.83%	2.64%	2.92%	3.20%	3.45%	3.57%	3.79%	3.99%	4.16%	4.28%
<b>Net income (loss)</b>	<b>19.16%</b>	<b>5.45%</b>	<b>0.66%</b>	<b>6.90%</b>	<b>9.91%</b>	<b>10.98%</b>	<b>12.05%</b>	<b>12.97%</b>	<b>13.45%</b>	<b>14.27%</b>	<b>15.02%</b>	<b>15.64%</b>	<b>16.09%</b>



## Salesforce

## Common Size Balance Sheet

Fiscal Years Ending Jan. 31	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
<b>Assets</b>													
Current Assets:	29.15%	20.63%	22.38%	26.04%	30.32%	35.41%	40.94%	34.86%	75.93%	85.44%	95.43%	105.99%	117.42%
Cash & cash equivalents	27.16%	19.15%	17.52%	16.48%	15.16%	13.53%	12.06%	10.86%	9.84%	8.95%	8.40%	8.04%	7.83%
Marketable securities	27.16%	19.15%	17.52%	16.48%	15.16%	13.53%	12.06%	10.86%	9.84%	8.95%	8.40%	8.04%	7.83%
Accounts receivable, net	36.64%	36.76%	34.30%	35.90%	35.90%	35.90%	35.90%		35.90%	35.90%	35.90%	35.90%	35.90%
Costs capitalized to obtain revenue contracts, net	5.39%	5.49%	5.66%	5.52%	5.52%	5.52%	5.52%	5.52%	5.52%	5.52%	5.52%	5.52%	5.52%
Prepaid expenses & other current assets	4.66%	4.23%	4.33%	4.41%	4.41%	4.41%	4.41%	4.41%	4.41%	4.41%	4.41%	4.41%	4.41%
Total Current Assets	103.00%	86.25%	84.19%	88.34%	91.30%	94.76%	98.82%	55.64%	131.59%	140.21%	149.65%	159.84%	171.07%
Non -Current Assets:													
Marketable securities, noncurrent	-	-	-	-	-	-	-	-	-	-	-	-	-
Property & equipment, gross	20.77%	19.69%	20.43%	21.03%	21.16%	20.70%	20.29%	20.11%	20.07%	20.10%	20.70%	21.59%	22.78%
Less accumulated depreciation & amortization	9.20%	9.06%	8.62%	10.45%	11.58%	12.00%	12.16%		4.28%	7.13%	9.34%	11.18%	12.91%
Property & equipment, net	11.57%	10.63%	11.81%	10.58%	9.58%	8.71%	8.13%	20.11%	15.79%	12.97%	11.37%	10.41%	9.87%
Operating lease right-of-use assets, net	15.08%	10.87%	9.22%	8.61%	7.79%	7.08%	6.61%	16.36%	12.84%	10.54%	9.24%	8.46%	8.03%
Noncurrent costs capitalized to obtain revenue contracts, net	8.07%	8.84%	8.60%	8.50%	8.50%	8.50%	8.50%	8.50%	8.50%	8.50%	8.50%	8.50%	8.50%
Strategic investments	18.39%	18.06%	14.90%	14.02%	12.90%	11.51%	10.26%		0.00%	0.00%	0.00%	0.00%	0.00%
Goodwill	123.84%	180.95%	154.91%	140.94%	125.34%	108.14%	93.19%	81.12%	71.06%	62.50%	56.75%	52.46%	49.41%
Intangible assets acquired through business combinations, net	19.36%	33.89%	22.73%	15.25%	9.44%	5.13%	2.52%	1.17%	0.51%	0.00%	0.00%	0.00%	0.00%
Deferred tax assets & other assets, net	12.67%	9.90%	8.93%	8.29%	7.52%	6.62%	5.82%	5.16%	4.61%	4.14%	3.83%	3.61%	3.47%
Total Non-Current Assets	208.98%	273.14%	231.10%	206.20%	181.07%	155.69%	135.04%		113.32%	98.65%	89.69%	83.44%	79.29%
<b>Total Assets</b>	311.98%	359.39%	315.29%	294.54%	272.37%	250.46%	233.86%	55.64%	244.90%	238.86%	239.35%	243.29%	250.36%
<b>Liabilities and stockholders' equity</b>													
Current Liabilities:													
Accounts payable, accrued expenses & other liabilities	20.49%	20.66%	21.51%	20.89%	20.89%	20.89%	20.89%	20.89%	20.89%	20.89%	20.89%	20.89%	20.89%
Operating lease liabilities, current	3.60%	2.59%	1.88%	2.00%	1.81%	1.64%	1.53%	3.80%	2.98%	2.45%	2.14%	1.96%	1.86%
Unearned revenue	59.32%	58.99%	55.42%	57.91%	57.91%	57.91%	57.91%		57.91%	57.91%	57.91%	57.91%	57.91%
Current portion of debt	-	-	29.03%	30.91%	31.33%	32.26%	33.59%	30.64%	38.58%	39.83%	41.15%	42.47%	43.65%
Total current liabilities	83.42%	82.24%	82.58%	84.45%	83.90%	83.37%	82.96%	26.77%	84.08%	83.33%	82.90%	82.63%	82.47%
Non- Current Liabilities:													
Deferred revenue, noncurrent	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-current Debt	12.58%	39.98%	30.04%	29.10%	26.23%	23.31%	20.91%	16.60%	18.31%	16.63%	15.60%	14.88%	14.41%
Noncurrent operating lease liabilities	13.37%	10.20%	9.24%	7.82%	7.07%	6.43%	6.01%	14.85%	11.66%	9.58%	8.39%	7.68%	7.29%
Other noncurrent liabilities	7.36%	7.53%	7.28%	6.68%	5.87%	5.05%	4.38%	0.00%	3.67%	3.20%	2.91%	2.70%	2.57%
Total non-current liabilities	33.31%	57.72%	46.56%	43.60%	39.17%	34.78%	31.29%	31.46%	33.65%	29.40%	26.90%	25.27%	24.27%
<b>Total liabilities</b>	116.73%	139.96%	129.15%	128.05%	123.07%	118.15%	114.25%	58.22%	117.72%	112.73%	109.80%	107.90%	106.74%
Stockholders' equity													
Treasury stock, at cost	-	-	12.76%	23.22%	30.97%	35.63%	38.38%	33.41%	29.26%	25.74%	23.37%	21.60%	20.35%
Additional paid in capital	167.52%	192.21%	175.58%	161.59%	145.35%	126.83%	110.51%	96.64%	84.65%	74.46%	67.61%	62.50%	58.87%
Accumulated other comprehensive loss	-0.20%	-0.63%	-0.87%	-0.80%	-0.71%	-0.61%	-0.53%	-0.46%	-0.40%	-0.35%	-0.32%	-0.30%	-0.28%
Retained earnings	27.92%	27.85%	24.19%	28.91%	35.63%	41.72%	48.01%	54.76%	61.41%	68.28%	77.02%	86.84%	97.89%
<b>Total stockholders' equity</b>	195.24%	219.43%	186.14%	166.49%	149.30%	132.31%	119.62%	117.54%	116.40%	116.65%	120.94%	127.44%	136.13%
<b>Total liabilities and stockholders' equity</b>	311.98%	359.39%	315.29%	294.54%	272.37%	250.46%	233.86%	175.76%	234.13%	229.38%	230.74%	235.33%	242.87%

Salesforce  
Value Driver Estimation

Fiscal Years Ending Jan. 31	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
<b>NOPLAT:</b>													
Revenues	21,252	26,492	31,352	34,460	38,750	44,910	52,115	59,870	68,351	77,713	85,585	92,584	98,289
Cost of revenues	5,438	7,026	8,360	8,269	9,085	10,255	11,573	13,034	14,790	16,635	18,182	19,660	20,861
Research & development	3,598	4,465	5,055	5,728	6,441	7,466	8,663		11,362	12,919	14,227	15,391	16,339
Marketing & sales	9,674	11,855	13,526	14,178	15,749	18,028	20,660	23,435	26,413	29,642	32,216	34,388	36,015
General & administrative	2,087	2,598	2,553	2,462	2,671	2,983	3,332	3,678	4,028	4,385	4,616	4,762	5,006
Plus implied interest on operating leases	136	123	123	126	128	135	147	417	373	349	337	333	336
<b>EBITA</b>	<b>591</b>	<b>671</b>	<b>1,981</b>	<b>3,950</b>	<b>4,932</b>	<b>6,314</b>	<b>8,034</b>		<b>12,132</b>	<b>14,482</b>	<b>16,680</b>	<b>18,718</b>	<b>20,403</b>
Provision for income taxes:	(1,511)	88	452	632	1,021	1,311	1,670	2,065	2,443	2,948	3,417	3,849	4,204
Add: Tax shield on interest expense	-	-	-	42	41	41	43	46	104	98	93	91	91
Add: Tax shield on operating lease interest	(63)	39	85	38	39	41	44		112	105	101	100	101
Less: Tax on investment income	-	-	-	57	58	60	63	65	67	69	72	74	77
Less: Gain (losses) on strategic investments	(1,007)	389	(165)	-	-	-	-	-	-	-	-	-	-
Less: Other income (expense)	(64)	(227)	131	-	-	-	-	-	-	-	-	-	-
Less: Gains (Loss) other	-	-	-	-	-	-	-		-	-	-	-	-
<b>Total Adjusted Taxes</b>	<b>(503)</b>	<b>(35)</b>	<b>571</b>	<b>656</b>	<b>1,042</b>	<b>1,332</b>	<b>1,695</b>	<b>2,047</b>	<b>2,592</b>	<b>3,081</b>	<b>3,540</b>	<b>3,966</b>	<b>4,319</b>
Change in deferred Taxes	(1,736)	302	(422)	-	-	-	-	-	-	-	-	-	-
<b>NOPLAT:</b>	<b>(642)</b>	<b>1,007</b>	<b>988</b>	<b>3,294</b>	<b>3,890</b>	<b>4,982</b>	<b>6,339</b>	<b>(2,047)</b>	<b>9,539</b>	<b>11,400</b>	<b>13,140</b>	<b>14,752</b>	<b>16,084</b>
<b>Invested Capital (IC):</b>													
Operating Current Assets													
Normal Cash	3,592	4,477	5,298	5,824	6,549	7,590	8,807	10,118	11,551	13,133	14,463	15,646	16,610
Accounts receivable, net	7,786	9,739	10,755	12,372	13,911	16,123	18,710	-	24,539	27,900	30,726	33,239	35,287
Costs capitalized to obtain revenue contracts, net	1,146	1,454	1,776	1,901	2,137	2,477	2,874		3,770	4,286	4,720	5,106	5,421
Prepaid expenses & other current assets	991	1,120	1,356	1,518	1,707	1,978	2,296	2,637	3,011	3,423	3,770	4,079	4,330
<b>Total operating current assets</b>	<b>13,515</b>	<b>16,790</b>	<b>19,185</b>	<b>21,614</b>	<b>24,304</b>	<b>28,168</b>	<b>32,687</b>	<b>12,755</b>	<b>42,871</b>	<b>48,742</b>	<b>53,679</b>	<b>58,070</b>	<b>61,648</b>
Operating Current Liabilities													
Accounts payable, accrued expenses & other liabilities	4,355	5,474	6,743	7,198	8,094	9,381	10,885	12,505	14,277	16,232	17,876	19,339	20,530
Unearned revenue	12,607	15,628	17,376	19,957	22,441	26,008	30,181	-	39,583	45,005	49,563	53,617	56,921
<b>Total operating current liabilities</b>	<b>16,962</b>	<b>21,102</b>	<b>24,119</b>	<b>27,155</b>	<b>30,534</b>	<b>35,389</b>	<b>41,066</b>	<b>12,505</b>	<b>53,860</b>	<b>61,237</b>	<b>67,440</b>	<b>72,956</b>	<b>77,451</b>
<b>Net operating working capital</b>	<b>(3,447)</b>	<b>(4,312)</b>	<b>(4,934)</b>	<b>(5,541)</b>	<b>(6,230)</b>	<b>(7,221)</b>	<b>(8,379)</b>	<b>250</b>	<b>(10,990)</b>	<b>(12,495)</b>	<b>(13,760)</b>	<b>(14,886)</b>	<b>(15,803)</b>
<b>Non-Current operating assets</b>													
Property & equipment, net	2,459	2,815	3,702	3,648	3,711	3,911	4,238	12,042	10,793	10,077	9,728	9,634	9,704
Operating lease right-of-use assets, net	3,204	2,880	2,890	2,966	3,018	3,180	3,447	9,792	8,777	8,195	7,911	7,835	7,891
Noncurrent costs capitalized to obtain revenue contracts, net	1,715	2,342	2,697	2,931	3,295	3,819	4,432	5,091	5,813	6,609	7,278	7,874	8,359
Intangible assets acquired through business combinations, net	4,114	8,978	7,125	5,256	3,659	2,304	1,314	698	349	-	-	-	-
<b>Total non-current operating assets</b>	<b>11,492</b>	<b>17,015</b>	<b>16,414</b>	<b>14,800</b>	<b>13,684</b>	<b>13,214</b>	<b>13,431</b>	<b>27,623</b>	<b>25,732</b>	<b>24,880</b>	<b>24,916</b>	<b>25,343</b>	<b>25,954</b>
<b>Non-Current operating liabilities</b>													
Deferred revenue, noncurrent	-	-	-	-	-	-	-	-	-	-	-	-	-
Other noncurrent liabilities	1,565	1,995	2,283	2,303	2,274	2,266	2,281	-	2,510	2,485	2,488	2,504	2,526
<b>Invested Capital</b>	<b>6,480</b>	<b>10,708</b>	<b>9,197</b>	<b>6,957</b>	<b>5,180</b>	<b>3,727</b>	<b>2,771</b>	<b>27,873</b>	<b>12,232</b>	<b>9,901</b>	<b>8,668</b>	<b>7,953</b>	<b>7,624</b>
Beginning IC	7,020	6,480	10,708	9,197	6,957	5,180	3,727	2,771	27,873	12,232	9,901	8,668	7,953
<b>ROIC</b>	<b>-9.14%</b>	<b>15.54%</b>	<b>9.23%</b>	<b>35.82%</b>	<b>55.91%</b>	<b>96.17%</b>	<b>170.08%</b>	<b>-73.87%</b>	<b>34.22%</b>	<b>93.20%</b>	<b>132.72%</b>	<b>170.19%</b>	<b>202.24%</b>
<b>Economic Profit (EP):</b>													
Beginning IC	7,020	6,480	10,708	9,197	6,957	5,180	3,727	2,771	27,873	12,232	9,901	8,668	7,953
x (ROIC - WACC)	-19%	5%	-1%	26%	46%	86%	160%	-84%	24%	83%	123%	160%	192%
<b>EP</b>	<b>(1,358)</b>	<b>346</b>	<b>(104)</b>	<b>2,356</b>	<b>3,180</b>	<b>4,453</b>	<b>5,959</b>	<b>(2,329)</b>	<b>6,696</b>	<b>10,153</b>	<b>12,131</b>	<b>13,868</b>	<b>15,273</b>

## Salesforce

### Weighted Average Cost of Capital (WACC) Estimation

#### Cost of Equity:

Risk-Free Rate	3.43%
Beta	1.32
Equity Risk Premium	5.50%
<b>Cost of Equity</b>	<b>10.69%</b>

#### ASSUMPTIONS:

10-yr treasury bond

Avg of 1,3,5 year weekly beta

Henry Fund Estimate

#### Cost of Debt:

Risk-Free Rate	3.43%
Implied Default Premium	0.83%
Pre-Tax Cost of Debt	4.26%
Marginal Tax Rate	24%
<b>After-Tax Cost of Debt</b>	<b>3.25%</b>

10-yr treasury bond

YTM on company's 20yr bond

#### Market Value of Common Equity:

Total Shares Outstanding	1,000,000,000.00
Current Stock Price	\$199.78
<b>MV of Equity</b>	<b>199,780,000,000</b>

#### MV Weights

93.41%

#### Market Value of Debt:

Short-Term Debt	
Current Portion of LTD	1,182,000,000.00
Long-Term Debt	9,419,000,000.00
PV of Operating Leases	3,487,000,000.00
<b>MV of Total Debt</b>	<b>14,088,000,000</b>

6.587241%

#### Market Value of the Firm

213,868,000,000

100.00%

#### Estimated WACC

10.20%

**Salesforce**

*Discounted Cash Flow (DCF) and Economic Profit (EP) Valuation Models*

Key Inputs:

CV Growth of NOPLAT	4.50%
CV Year ROIC	202.24%
WACC	10.20%
Cost of Equity	10.69%

<i>Fiscal Years Ending Jan. 31</i>	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
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**DCF Model:**

Free Cash Flow (FCF)	5534.8	5666.9	6434.0	7295.9	-27149.2	25180.8	13731.3	14373.5	15466.9	16412.3
Continuing Value (CV)										275,896.74
PV of FCF	5022.5	4666.4	4807.7	4947.1	-16705.2	14059.8	6957.3	6608.6	6453.1	115110.1

Value of Operating Assets:	151927.6
Non-Operating Adjustments	
Excess Cash	1717.6
Marketable Securities	5492.0
Strategic Investments	4672.0
Current Debt	-1182.0
Non-Current Debt	-9419.0
Operating Leases	-3487.0
PV of ESOP	-1995.0
Value of Equity	147726.1
Shares Outstanding	981.0
Intrinsic Value of Last FYE	\$ 150.59
<b>Implied Price as of Today</b>	<b>\$ 151.81</b>

**EP Model:**

Economic Profit (EP)	2356.1	3180.3	4453.2	5959.1	-2329.2	6696.1	10152.7	12130.6	13867.8	15272.7
Continuing Value (CV)										267943.9
PV of EP	2138.0	2618.8	3327.6	4040.7	-1433.2	3738.8	5144.1	5577.4	5786.0	111792.0

Total PV of EP	142730.2
Invested Capital (last FYE)	9197.4
Value of Operating Assets:	151927.6
Non-Operating Adjustments	
Excess Cash	1717.6
Marketable Securities	5492.0
Strategic Investments	4672.0
Current Debt	-1182.0
Non-Current Debt	-9419.0
Operating Leases	-3487.0
PV of ESOP	-1995.0
Value of Equity	147726.1
Shares Outstanding	981.0
Intrinsic Value of Last FYE	\$ 150.59
<b>Implied Price as of Today</b>	<b>\$ 151.81</b>

## Salesforce

### Relative Valuation Models

Ticker	Company	Price	EPS 2023E	EPS 2024E	P/E 23	P/E 24
SAP SE	SAP	\$126.54	\$5.81	\$6.72	21.78	18.83
ORCL	Oracle	\$93.92	\$2.91	\$3.92	32.27	23.96
MSFT	Microsoft	\$287.23	\$9.23	\$10.61	31.12	27.07
GOOG	Alphabet	\$104.91	\$5.13	\$6.10	20.45	17.20
NOW	ServiceNow	\$464.49	\$2.10	\$3.14	221.19	147.93
ADBE	Adobe	\$380.08	\$11.04	\$12.69	34.43	29.95
Average					60.21	44.16

CRM	Salesforce	\$199.78	2.44	4.00	81.8	49.9
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### Implied Relative Value:

P/E (EPS23)                      \$ 147.07

P/E (EPS24)                      \$ 176.74



**Salesforce***Present Value of Operating Lease Obligations*

<b>Fiscal Years Ending Jan. 31</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Year 1	196.5	289.5	356.5	463.2	610.9	778.0
Year 2	189.8	267.4	319.9	413.4	540.4	658.0
Year 3	160.5	224.4	251.6	332.1	400.7	466.0
Year 4	129.7	186.9	202.5	266.3	298.6	369.0
Year 5	119.0	186.4	189.4	241.3	277.0	314.0
Thereafter	587.5	1124.4	998.8	1202.8	1155.6	1610.0
Total Minimum Payments	1383.1	2279.0	2318.8	2919.1	3283.3	4195.0
Less: Cumulative Interest	249.6	457.2	422.3	516.5	525.4	712.2
<b>PV of Minimum Payments</b>	<b>1133.4</b>	<b>1821.8</b>	<b>1896.6</b>	<b>2402.7</b>	<b>2758.0</b>	<b>3482.8</b>
<b>Implied Interest in Year 1 Payment</b>		<b>48.2</b>	<b>77.5</b>	<b>80.7</b>	<b>102.2</b>	<b>117.4</b>
Pre-Tax Cost of Debt	4.26%	4.26%	4.26%	4.26%	4.26%	4.26%
Years Implied by Year 6 Payment	4.9	6.0	5.3	5.0	4.2	5.1
Expected Obligation in Year 6 & Beyond	119.027	186.385	189.43	241.3	277.032	314
<b>Present Value of Lease Payments</b>						
PV of Year 1	188.5	277.7	342.0	444.3	586.0	746.2
PV of Year 2	174.6	246.0	294.3	380.4	497.2	605.4
PV of Year 3	141.7	198.0	222.1	293.1	353.6	411.2
PV of Year 4	109.8	158.2	171.4	225.4	252.8	312.3
PV of Year 5	96.6	151.3	153.8	195.9	224.9	254.9
PV of 6 & beyond	422.2	790.5	713.0	863.6	843.4	1152.6
Capitalized PV of Payments	1133.4	1821.8	1896.6	2402.7	2758.0	3482.8

## Salesforce

### 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):	4.42
Expected Annual Number of Options Exercised:	5

Current Average Strike Price:	\$ 122.38
Cost of Equity:	10.69%
Current Stock Price:	\$199.78

<b>Fiscal Years Ending Jan. 31</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>	<b>2029E</b>	<b>2030E</b>	<b>2031E</b>	<b>2032E</b>	<b>2033E</b>
Increase in Shares Outstanding:	5	5	5	5	2					
Average Strike Price:	\$ 122.38	\$ 122.38	\$ 122.38	\$ 122.38	\$ 122.38					
<b>Increase in Common Stock Account:</b>	<b>637</b>	<b>637</b>	<b>637</b>	<b>637</b>	<b>267</b>	-	-	-	-	-
Share Repurchases (\$)	4,000	4,000	4,000	4,000						
Expected Price of Repurchased Shares:	\$ 199.78	\$ 221.14	\$ 244.78	\$ 270.94	\$ 299.91	\$ 331.97	\$ 367.45	\$ 406.73	\$ 450.21	\$ 498.34
<b>Number of Shares Repurchased:</b>	<b>20</b>	<b>18</b>	<b>16</b>	<b>15</b>	-	-	-	-	-	-
Shares Outstanding (beginning of the year)	981	966	953	942	933	935	935	935	935	935
Plus: Shares Issued Through ESOP	5	5	5	5	2	0	0	0	0	0
Less: Shares Repurchased in Treasury	20	18	16	15	-	-	-	-	-	-
<b>Shares Outstanding (end of the year)</b>	<b>966</b>	<b>953</b>	<b>942</b>	<b>933</b>	<b>935</b>	<b>935</b>	<b>935</b>	<b>935</b>	<b>935</b>	<b>935</b>

## Salesforce

### Valuation of Options Granted under ESOP

Current Stock Price	\$199.78
Risk Free Rate	3.43%
Current Dividend Yield	0.00%
Annualized St. Dev. of Stock Returns	37.00%

Range of Outstanding Options	Number of Shares	Average Exercise Price	Average Remaining Life (yrs)	B-S Option Price	Value of Options Granted
Range 1	4	82.60	2.50	\$ 125.39	\$ 502
Range 2	1	140.34	4.40	\$ 97.08	\$ 97
Range 3	4	154.14	4.00	\$ 87.28	\$ 349
Range 4	3	162.03	3.70	\$ 81.09	\$ 243
Range 5	4	211.42	4.90	\$ 71.21	\$ 285
Range 6	7	224.52	5.80	\$ 74.17	\$ 519
Range 7				\$	-
Range 8				\$	-
Range 9				\$	-
Total	23	\$ 122.38	4.42	\$ 107.03	\$ 1,995

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Key Management Ratios

Fiscal Years Ending Jan. 31	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
<b>Liquidity Ratios:</b>																				
Current Ratio (Current Assets/Current Liab)	0.44	0.53	0.56	0.59	0.80	0.71	0.75	0.88	0.62	0.65	0.69	0.74	0.80	0.86	0.96	1.12	1.24	1.36	1.48	1.60
Quick Ratio (Cash+Mk securities + AR) /Current Liab	0.55	0.66	0.68	0.74	0.83	0.82	0.95	1.11	0.93	0.90	0.93	0.97	1.02	1.07	1.71	1.45	1.56	1.69	1.81	1.95
Operating Cash Flow Ratio (Op CF/Current Liab)	0.22	0.27	0.29	0.30	0.27	0.30	0.29	0.27	0.28	0.27	0.22	0.27	0.29	0.30		0.30	0.29	0.27	0.28	0.27
<b>Asset-Management Ratios:</b>																				
Asset Turnover (Net Sales/Avg Total Assets)		0.54	0.57	0.55	0.54	0.51	0.40	0.35	0.33	0.32	0.34	0.37	0.41	0.44		0.68	0.44	0.44	0.43	0.42
Receivables Turnover (Net Sales/ Avg Accounts Receivable)		3.29	3.03	2.95	2.95	3.00	3.08	3.04	3.02	3.06	2.98	2.95	2.99	2.99	6.40	5.57	2.96	2.92	2.89	2.87
<b>Financial Leverage Ratios:</b>																				
Debt Ratio (Total Liabilities/Total Assets)	0.67	0.63	0.61	0.57	0.55	0.49	0.39	0.37	0.39	0.41	0.43	0.45	0.47	0.49	1.05	0.48	0.47	0.46	0.44	0.43
Deb to Equity Ratio (Total Debt/ Shareholder's Equity)	0.62	0.34	0.26	0.27	0.18	0.20	0.08	0.06	0.18	0.18	0.20	0.20	0.20	0.20	0.16	0.18	0.16	0.15	0.13	0.12
Interest Coverage Ratio (Operating Income/ Interest Expenses)	-3.71	-1.99	1.59	0.72	2.71	3.47	-	-	-	-	21.17	35.44	44.85	54.73		33.81	43.19	52.58	60.51	66.16
<b>Profitability Ratios:</b>																				
Return on Equity (NI/Beg TSE)	-8.65%	-1.19%	3.59%	1.70%	11.82%	0.81%	12.02%	3.48%	0.36%		4.08%	6.70%	8.52%	10.57%		13.06%	13.94%	14.18%	13.99%	13.40%
Return on Assets (NI/Avg Total Assets)	-2.65%	-0.40%	1.18%	0.66%	4.29%	0.29%	6.71%	1.79%	0.21%		2.37%	3.71%	4.52%	5.36%	10.01%	9.16%	6.28%	6.58%	6.73%	6.71%
Operating Margin (Operating Income/Sales)	-7.03%	-2.71%	1.72%	0.77%	2.25%	4.03%	1.74%	2.14%	2.07%		3.29%	8.60%	12.40%	13.76%	15.13%	16.32%	17.20%	18.19%	19.10%	19.86%
Net Margin (NI/Sales)	-5.70%	-4.89%	-0.71%	2.14%	1.22%	8.36%	0.74%	19.16%	5.45%		0.66%	6.90%	9.91%	10.98%	12.05%	12.97%	13.45%	14.27%	15.02%	15.64%
<b>Payout Policy Ratios:</b>																				
Total Payout Ratio ((Divs. + Repurchases)/NI)										19.23	1.68	1.04	0.81	0.64	0.00	0.00	0.00	0.00	0.00	0.00

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Sensitivity Tables

Equity Risk Premium	Beta						
	151.81	1.02	1.12	1.22	1.32	1.42	1.52
	4.75%	273.66	238.31	210.30	187.58	168.79	153.02
	5.00%	253.61	221.06	195.20	174.17	156.76	142.12
	5.25%	236.03	205.89	181.88	162.33	146.12	132.47
	5.50%	220.49	192.45	170.06	151.81	136.65	123.88
	5.75%	206.65	180.46	159.51	142.39	128.17	116.17
	6.00%	194.27	169.70	150.02	133.92	120.53	109.24
	6.25%	183.12	160.00	141.45	126.27	113.63	102.95

M&S Expense	COGS - Subscription and Support						
	151.81	17.00%	17.50%	18.00%	17.83%	19.00%	19.50%
	38.00%	183.45	179.71	175.98	177.25	168.50	164.77
	39.00%	175.36	171.62	167.88	169.15	160.41	156.67
	40.00%	167.26	163.52	159.79	161.06	152.31	148.57
	41.14%	158.03	154.29	150.56	151.83	143.08	139.35
	42.00%	151.07	147.33	143.59	144.86	136.12	132.38
	42.50%	147.02	143.28	139.55	140.82	132.07	128.34
	43.00%	142.97	139.23	135.50	136.77	128.02	124.29

WACC	CV Growth of NOPLAT						
	151.81	3.75%	4.00%	4.25%	4.50%	4.75%	5.00%
	9.00%	178.23	185.16	192.81	201.32	210.82	221.51
	9.50%	159.57	165.07	171.10	177.73	185.05	193.19
	10.00%	143.98	148.43	153.25	158.52	164.29	170.64
	10.20%	138.45	142.54	146.98	151.81	157.08	162.85
	10.50%	130.78	134.42	138.34	142.60	147.22	152.26
	11.00%	119.47	122.48	125.71	129.20	132.96	137.03
	11.50%	109.68	112.20	114.89	117.77	120.87	124.21

R&D Expense	Cost of Debt						
	151.81	4.00%	4.25%	4.50%	4.72%	5.00%	5.25%
	15.00%	165.25	164.96	164.67	164.41	164.09	163.81
	15.50%	161.19	160.91	160.63	160.38	160.07	159.80
	16.00%	157.13	156.86	156.59	156.36	156.06	155.79
	16.62%	152.10	151.84	151.58	151.36	151.07	150.82
	17.00%	149.01	148.76	148.51	148.30	148.02	147.77
	17.50%	144.95	144.72	144.48	144.27	144.00	143.77
	18.00%	140.90	140.67	140.44	140.24	139.98	139.76