



# Salesforce.com

Price: \$83.13

Market Cap: \$59.27B

52 Week Range: \$66.43 - \$86.42

Matt Freda & Jordan Shover



# Presentation Summary

- Company Overview
- Industry Overview
- Recent Performance
- Investment Thesis
- Catalysts
- Valuation
- Analyst Recommendations
- Risks
- Q&A



# Company Overview I

- American cloud computing company, earning most of its revenue through customer relations management software
  - Analyzes data about customer history with a company in order to improve business relationships with customers, specifically focusing on customer retention and ultimately driving sales growth
- Sector: Technology
- Industry: Application Software
- Headquarters: San Francisco, CA
- Founded: February, 1999



# Company Overview II

- Market leader in SaaS and PaaS cloud offerings
- Generates over 90% of revenue from subscription and support revenue (PaaS and SaaS)
- Cloud model means customers do not need to buy, install, update, or maintain dedicated hardware or software to use Salesforce's products
- Salesforce has a diversified customer base that includes smaller firms and multinationals across all sectors
- Turned first GAAP profit in company history in the previous quarter

# Industry Overview

- Software industry is a highly cyclical business
- Consists of companies engaged in developing and marketing system and application software
- Includes developers of operating systems, word processors, spreadsheet applications, CAD and database engines
- Recently, cloud-platform vendors have been building out increasing numbers of AI tool sets
  - “The emerging ability to effectively automate image recognition, natural language processing, speech recognition, and even decision making represents a foundational technology capable of sustaining massive new market opportunities.”

# Recent Performance

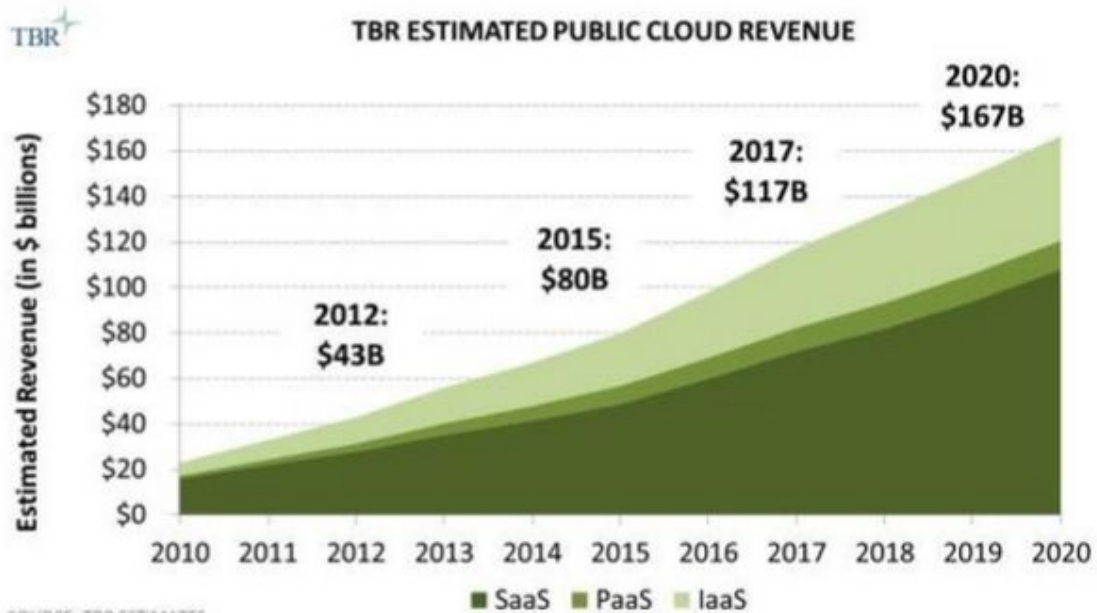


# Investment Thesis

- Continued growth in cloud computing market and cloud-based CRM
- Comparative strength of “Einstein” AI System built through 2016 acquisitions is starting to materialize
- Continued sales pipeline growth



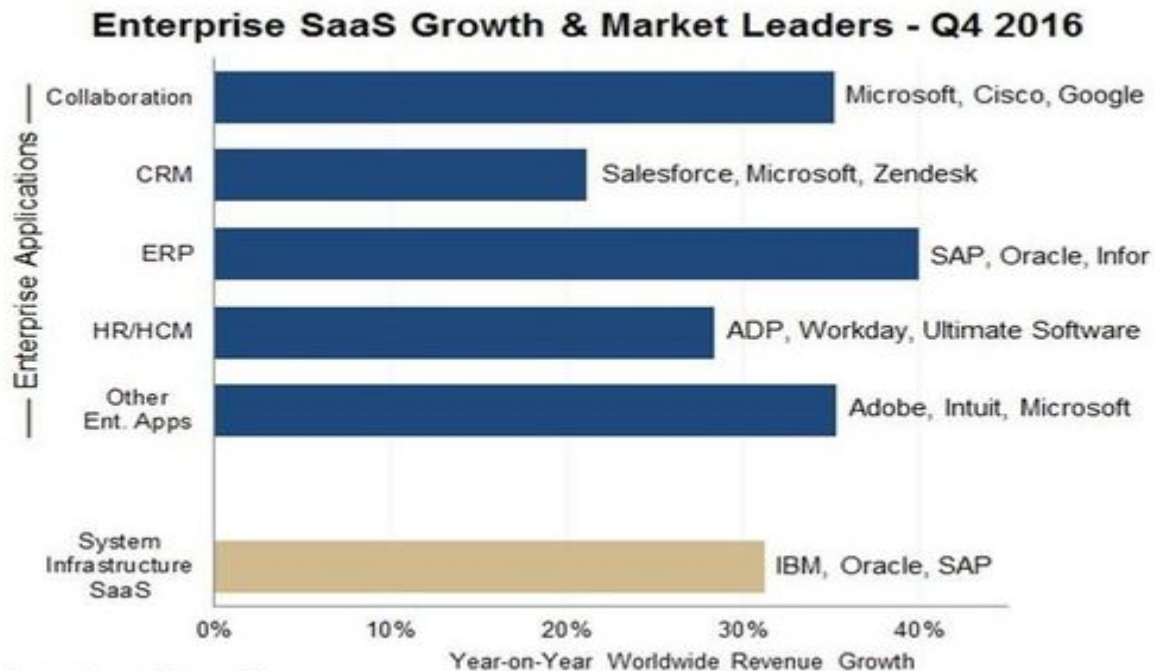
# Catalyst I



SOURCE: TBR ESTIMATES



# Catalyst I - Cont.



# Catalyst II

- Salesforce made 13 acquisitions in 2016 to boost AI potential
- In Q4 earnings call, management stated that Einstein was already having a material impact on performance
- Einstein is a part of the CRM platform and not a standalone product

# Catalyst III

- Salesforce posting quicker revenue growth than competitors (Oracle, IBM)
- Continuous raising of forward guidance for revenue
- Recent expansion into Asia-Pacific region



# Relative Valuation I

Ticker	CRM US EQUITY	MSFT US EQUITY	SAP US EQUITY	ORCL US EQUITY	Average
	Salesforce.Com Inc	Microsoft Corp	Sap Se-Sponsored Adr	Oracle Corp	
<b>Market Cap (Bil)</b>	<b>58.81</b>	501.90	118.16	181.05	<b>214.98</b>
<b>Enterprise Value (Bil)</b>	<b>58.61</b>	464.09	114.55	176.07	<b>203.33</b>
<b>Price (\$)</b>	<b>83.13</b>	64.95	96.18	44.00	<b>72.07</b>
<b><u>Liquidity</u></b>					
Current Ratio	<b>0.83</b>	2.35	1.20	3.74	<b>2.03</b>
Quick Ratio	<b>0.74</b>	2.22	1.09	3.57	<b>1.91</b>
Cash Ratio	<b>0.30</b>	1.91	0.40	3.26	<b>1.47</b>
<b><u>Asset Management</u></b>					
Inventory Turnover	<b>#N/A N/A</b>	14.35	<b>#N/A N/A</b>	24.55	<b>19.45</b>
Receivables Turnover	<b>2.95</b>	5.94	3.66	9.90	<b>5.61</b>
Total Asset Turnover	<b>0.55</b>	0.42	0.52	0.33	<b>0.45</b>
Book Value per Share (\$)	<b>10.60</b>	8.90	<b>#N/A Field Not Applicable</b>	12.30	<b>10.60</b>
<b><u>Leverage</u></b>					
Debt-to-Equity	<b>26.78</b>	74.57	30.68	91.77	<b>55.95</b>
Long-Term Debt Ratio	<b>26.78</b>	56.65	24.39	83.92	<b>47.93</b>
Interest Coverage Ratio	<b>#N/A N/A</b>	<b>#N/A N/A</b>	22.98	13.32	<b>18.15</b>
Debt-to-EBITDA	<b>2.88</b>	3.11	1.27	3.62	<b>2.72</b>

# Relative Valuation II

	Salesforce.Com Inc	Microsoft Corp	Sap Se-Sponsored Adr	Oracle Corp	Average
<b><u>Profitability</u></b>					
Revenue (Bil)	7.76	65.50	18.42	28.33	30.00
EBITDA (Bil)	0.70	26.80	6.40	15.11	12.25
Diluted EPS (\$)	0.26	2.10	#N/A Field Not Applicable	2.07	1.48
Profit Margin (%)	2.14	19.69	16.53	24.03	15.60
Operating Margin (%)	0.77	23.65	23.28	34.02	20.43
ROA	1.18	8.29	8.48	7.74	6.42
ROE	2.87	23.03	14.63	18.48	14.76
ROIC	2.44	11.90	11.30	10.19	8.96
Free Cash Flow (mil)	1,698.24	24,982.00	3,628.00	12,372.00	10,670.06
<b><u>Market Values</u></b>					
Trailing P/E	#N/A N/A	31.32	#N/A Field Not Applicable	20.06	25.69
Forward P/E	64.64	21.33	21.40	15.92	30.82
PEG	2.58	2.47	1.75	1.81	2.15
EV/EBITDA	80.06	12.18	#N/A Field Not Applicable	9.88	34.04
P/S	6.82	5.93	#N/A Field Not Applicable	4.84	5.86
P/B	7.84	7.30	#N/A Field Not Applicable	3.58	6.24
P/CF	26.39	13.86	#N/A Field Not Applicable	13.55	17.93
Long Term Growth Rate (%)	25.53	8.84	12.03	9.22	13.90

# Valuation II - Normalization S&P 500

S&P 500 Normalization	P/E	P/S	P/CF	EEPS_NXT_YR
Salesforce.Com Inc Historical Multiple	102.33	7.75	32.52	
Benchmark Historical Multiple	17.76	1.62	9.75	
Ratio	5.76	4.80	3.34	
Benchmark Current Multiple	21.45	2.05	12.89	
Implied Salesforce.Com Inc Multiple	123.54	9.82	43.00	
Per Share Values	0.26	12.20	3.14	1.64
Implied Share Price	\$32.12	\$119.78	\$135.18	
<b>Average Implied Share Price</b>	<b>\$95.69</b>			
Current Share Price	\$83.13			
<b>Premium to Current Price</b>	<b>15.1%</b>			

# Analyst Recommendations

<b>salesforce.com Inc</b>		
<b>Consensus Rating</b>		<b>4.72</b>
<b>Buys</b>	<b>89.4%</b>	<b>42</b>
<b>Holds</b>	<b>8.5%</b>	<b>4</b>
<b>Sells</b>	<b>2.1%</b>	<b>1</b>
<b>12M Tgt Px</b>	<b>37/49</b>	<b>96.19</b>
<b>Last Price</b>		<b>83.13</b>
<b>Pricing Currency</b>		<b>USD</b>
<b>Return Potential</b>		<b>15.7%</b>
<b>LTM Return</b>		<b>8.9%</b>

# Risks

- Aggressive M&A does not solve issue with slowing revenue growth
- AI use remains stagnant after making a bold push to expand AI capabilities
- Strong competitor AI offerings
- Stagnant growth in foreign markets



Questions?

