



Salesforce, Inc. (NYSE: CRM)

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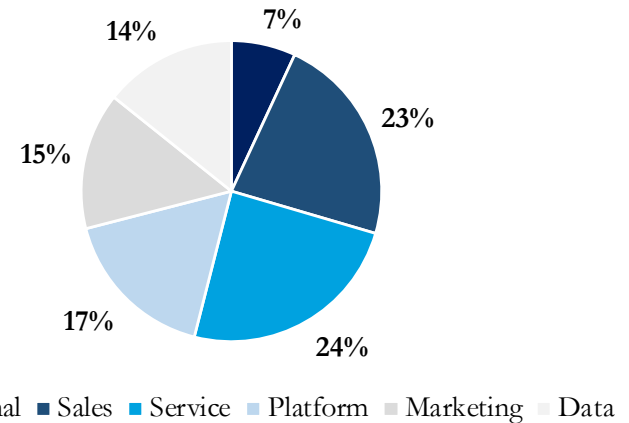
Company Overview

Salesforce's Customer 360 platform provides an unmatched suite of products for companies of all sizes to benefit from

Company Description

- Salesforce (CRM) is a B2B software applications company with a focus on customer relationship management
- Became first SaaS system to be built from scratch after its founding by Marc Benioff in 1999
- AI-powered **Customer 360 platform** enables single shared view of customers across systems, apps, and devices
- Full suite of products offer scalable and flexible solutions, leading to a 92% customer retention rate
- Strategy of combining **organic innovation** with **M&A** highlighted in Genie development and Tableau acquisition

Revenue by Segment



Business Segments

Professional	Sales	Service	Platform	Marketing	Data
<ul style="list-style-type: none"> • Guide partners towards long-term success at Salesforce • Implement projects 35% faster 	<ul style="list-style-type: none"> • Sales Cloud centralizes customer data to improve efficiency • Up to 29% increase in company sales 	<ul style="list-style-type: none"> • Real-time AI and human interaction with customers • 27% reduction in company support costs 	<ul style="list-style-type: none"> • Low-code tools to build apps and personalize customer experience • 25% decrease in IT costs 	<ul style="list-style-type: none"> • Optimizes one-on-one customer journey with multiple channels • 31% boost in engagement 	<ul style="list-style-type: none"> • Tableau offers best-in-class analytics • Mulesoft integration delivers 27% faster process automation



Investment Overview

Salesforce is a first-in-class customer relationship management company trading at an attractive valuation

- 1 Salesforce will continue to expand margins as they integrate their past acquisitions
- 2 Salesforce TAM continues to increase at a high rate, and they will continue to pick up market share given their product superiority
- 3 Salesforce has high switching costs and an opportunity to dramatically increase revenue through its existing customers

Recommendation: **BUY**

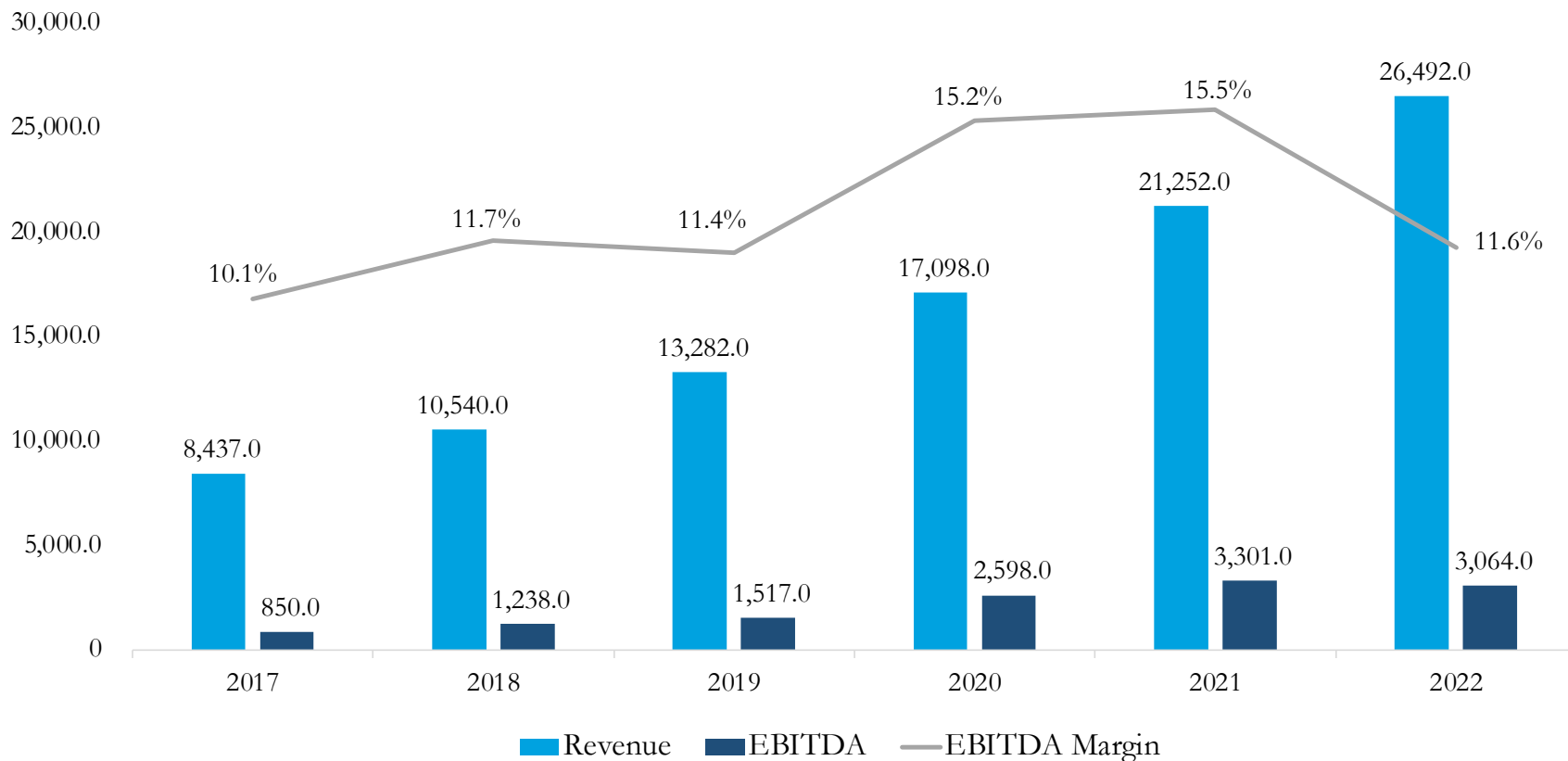
Price Target: \$221.93

Upside: 44%

Consistent Revenue Growth

Salesforce has displayed steady growth and is well-positioned for future success based on its unmatched offering of products

\$ in millions

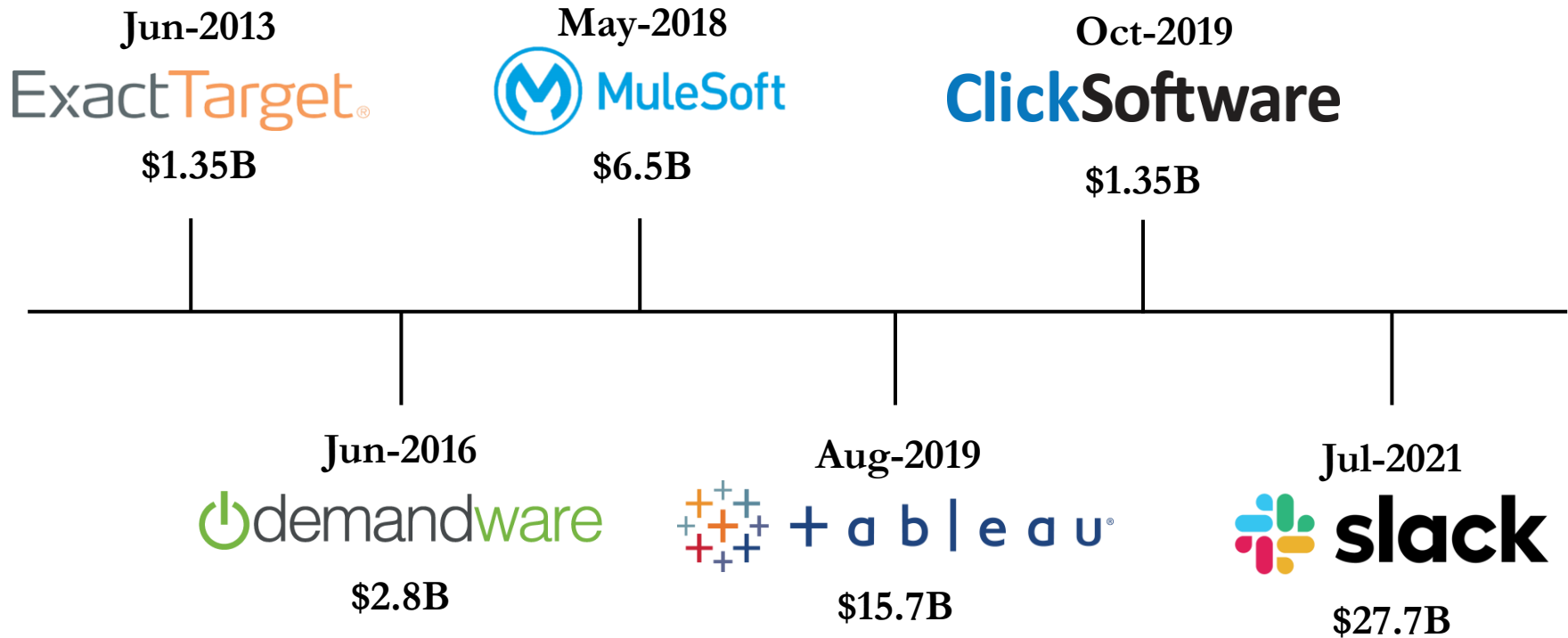


Revenue CAGR: 25.7%

EBITDA CAGR: 29.2%

Acquisition History

Salesforce has a history of acquisitions that seek to both improve their current products and expand into new areas

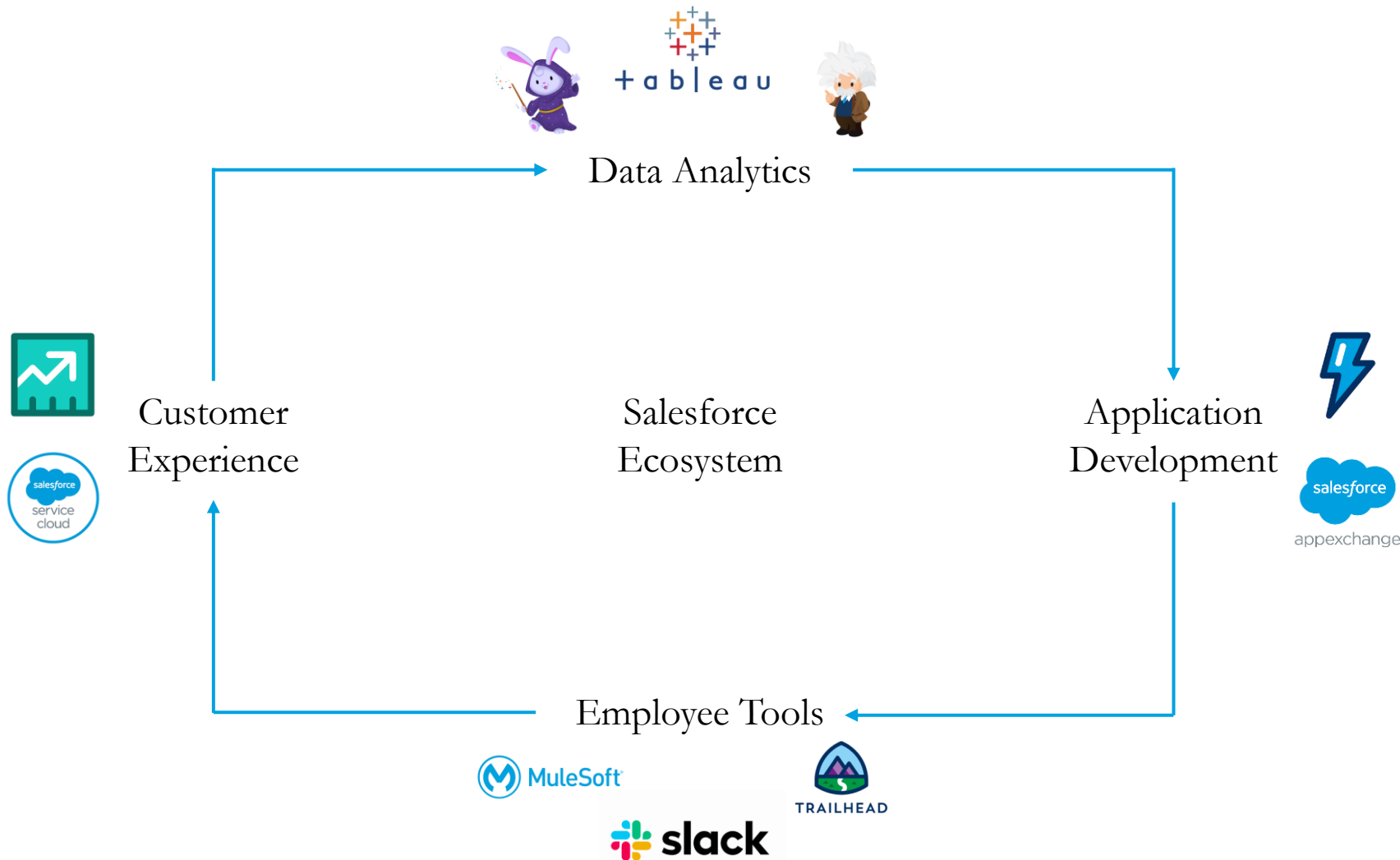




How Will These Acquisitions Fit Within the Salesforce Ecosystem?

Synergy Created by New Acquisitions

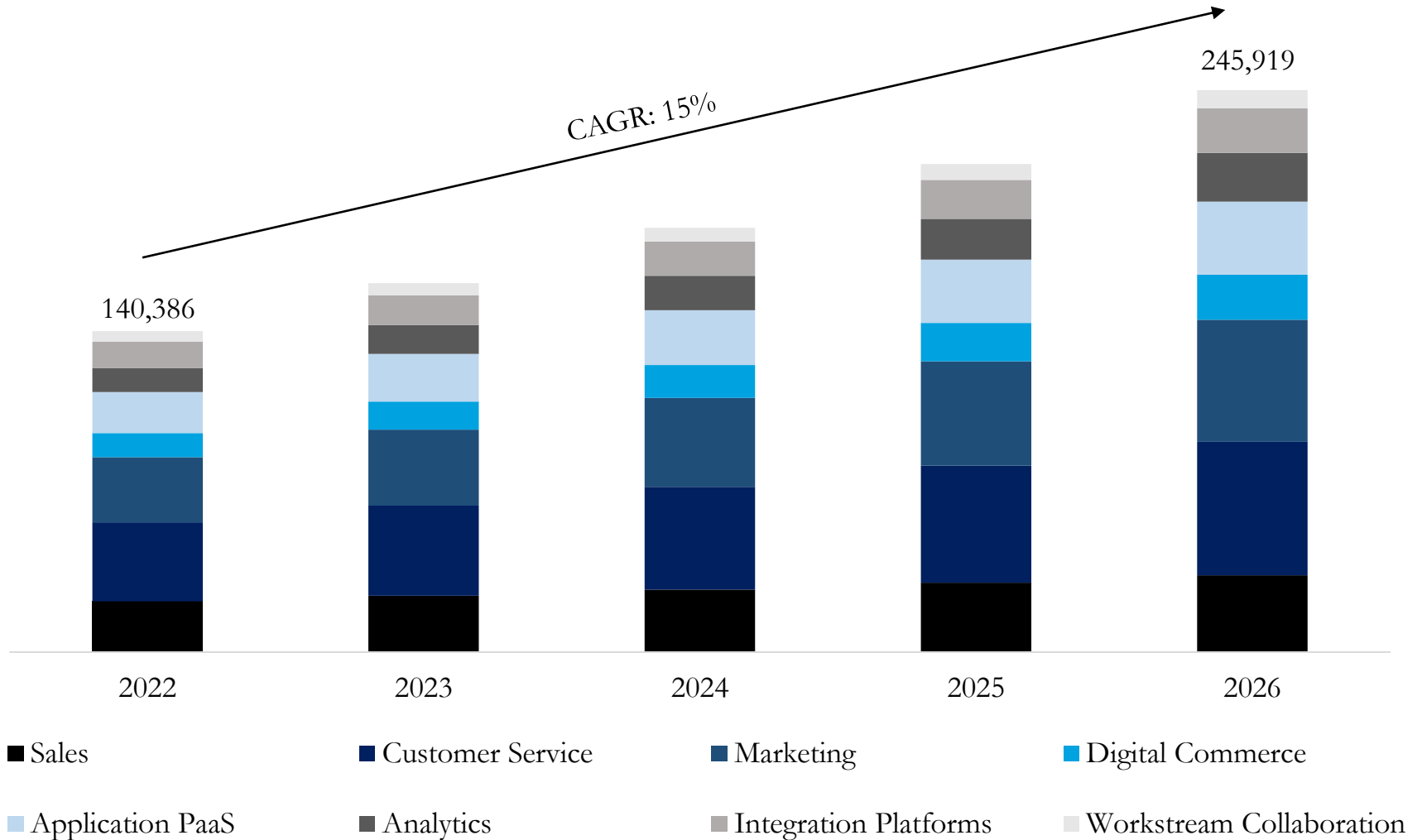
As Slack, Tableau, and MuleSoft are fully integrated, Salesforce will expand margins and increase value for their customers





Dominant Player in Fast-Growing Software Space

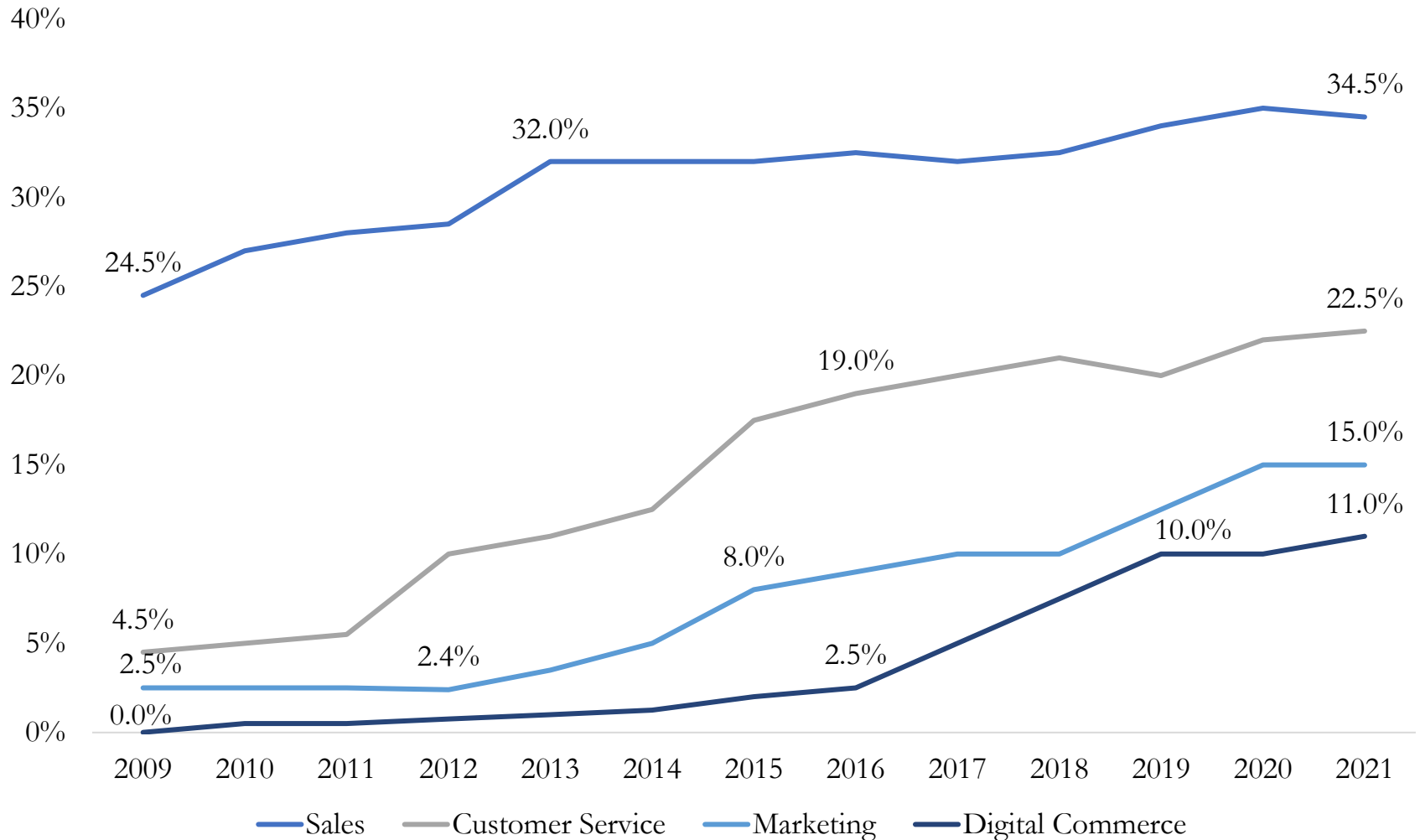
The TAM for Salesforce is forecasted to grow at a high rate, with growth predicted in all sectors of the software industry



Dominant Player in Fast-Growing Software Space

Salesforce is seeing dramatic market share growth across all of its data clouds, driving top-line growth

Salesforce Market Share by Segment





Why Are Salesforce's Products Superior to its Competitors?

Product Superiority

Comparison among top 5 CRM players' product offerings highlights Salesforce's superior, comprehensive suite of products



Sales



Service



Marketing



eCommerce



Communities



Collaboration



Platform



Integration



Industries



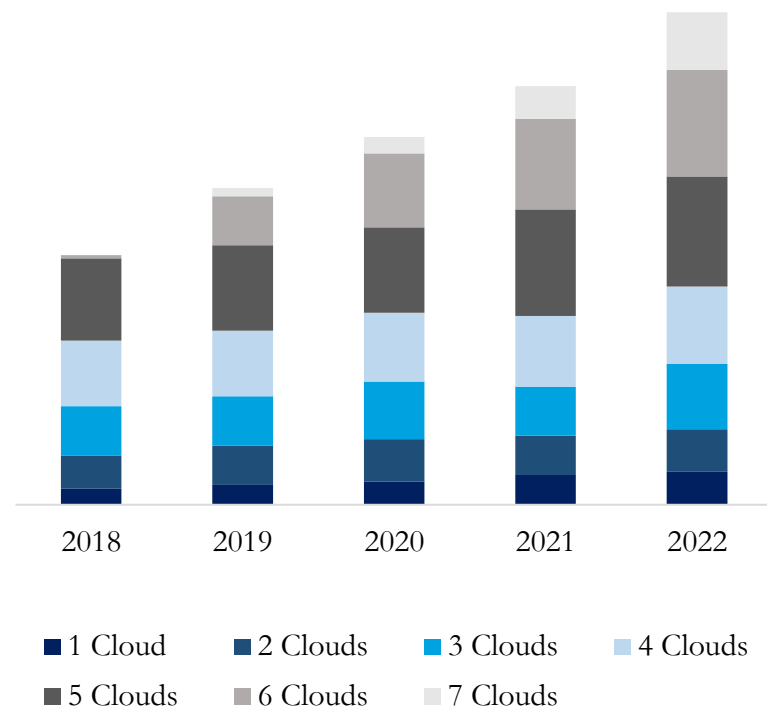
High Switching Costs

Salesforce has developed high switching costs due to the challenges of replacing Salesforce products with other solutions

Deeply Embedded Customer Relationships

- As of 2021, **90% of Fortune 500 companies** are Salesforce customers
- Many of these companies depend on Salesforce for their everyday operations, so switching to other products would be incredibly difficult
- Dan Romanoff, Morningstar equity analyst, believes this switching costs moat is highest in their Sales Cloud but can be found in all four clouds
- Customers are reluctant to switch away because of the “**time, expense, and risk** of implementing new applications” and “retraining the workforce”
- Companies will continue using Salesforce products in order to keep processes and data intact

Multi-Cloud Adoption: Customer Count



Morningstar: IT managers “jeopardize their own careers by pushing to switch from a leading solution that is functioning well and meeting their corporate needs”

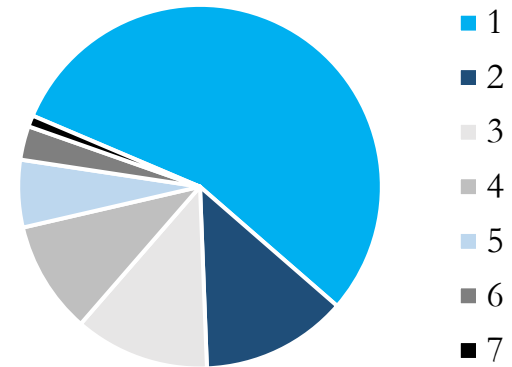
Existing Customer Opportunities

It is very common for Salesforce customers to increase the number of clouds they use, which dramatically increases revenue

Key Facts

- As of 2022, over **150,000** companies, across multiple industries, are using Salesforce to grow their business, and the retention rate for these customers is over 92%
- Customers with 4+ Clouds Represent 20% of Salesforce's customers, and generate more than **85%** of the Company's Annual Recurring Revenue (ARR)
- Customers that are already using Salesforce already have a **trusted** relationship with the company, and are easy to persuade to buy more cloud that add onto their current one

Clouds per Customer Within Salesforce



Average ARR per Cloud

Average ARR	Number of Clouds	Customer Attrition Rate
3x	2	11%
9x	3	11%
24x	4	6%
72x	5	5%
220x	6	4%
> 300x	7	2%

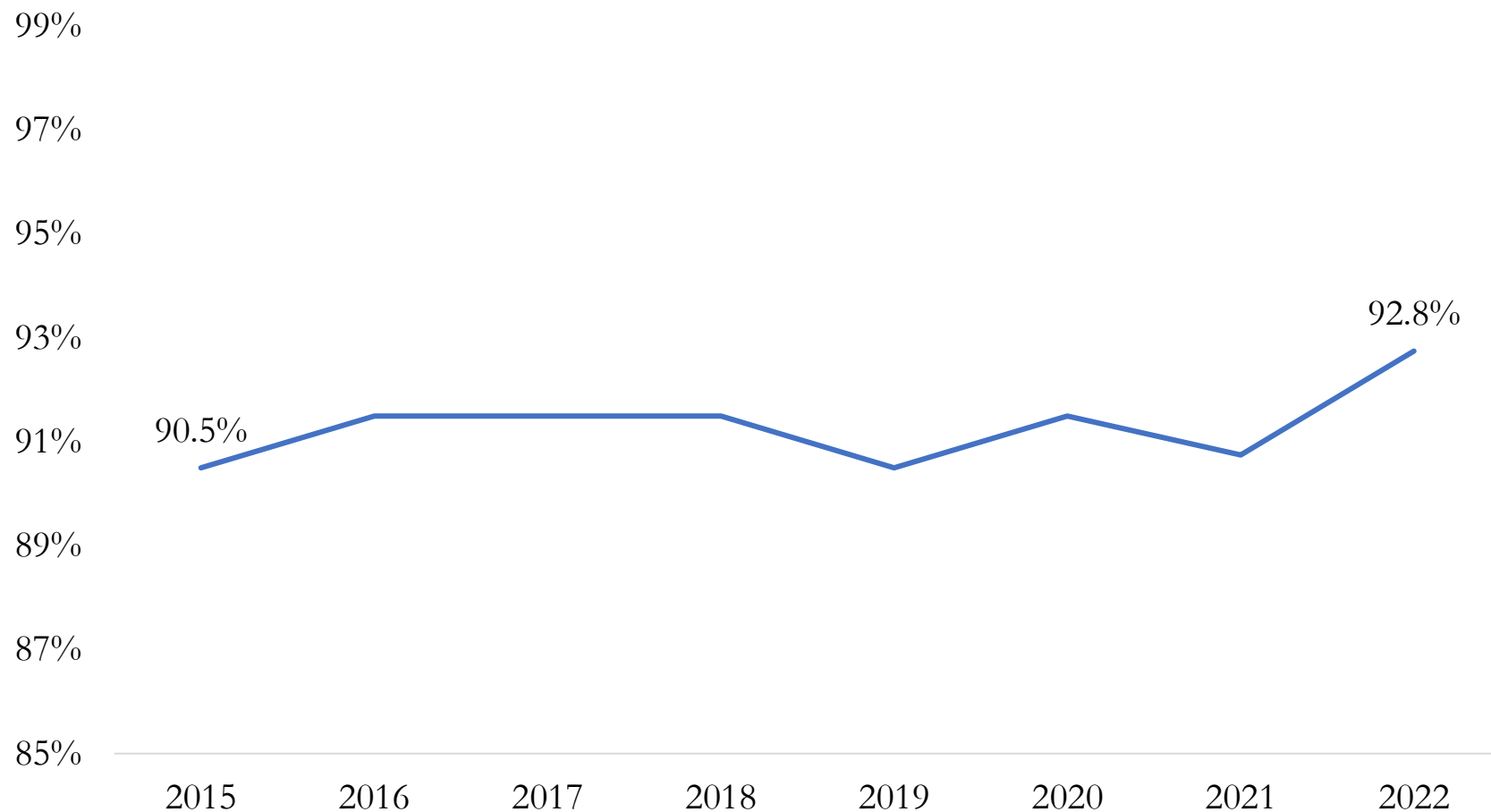
Historical Cloud Growth By Cohort

Year Joined	ARR Growth Since Joining	# of Clouds When Joined	Current # of Clouds
2021	1.2x	2.3	2.8
2016	3.0x	1.7	4.1
2011	9.0x	1.4	5.1
2006	47.7x	1.2	5.8

Historical Customer Stickiness

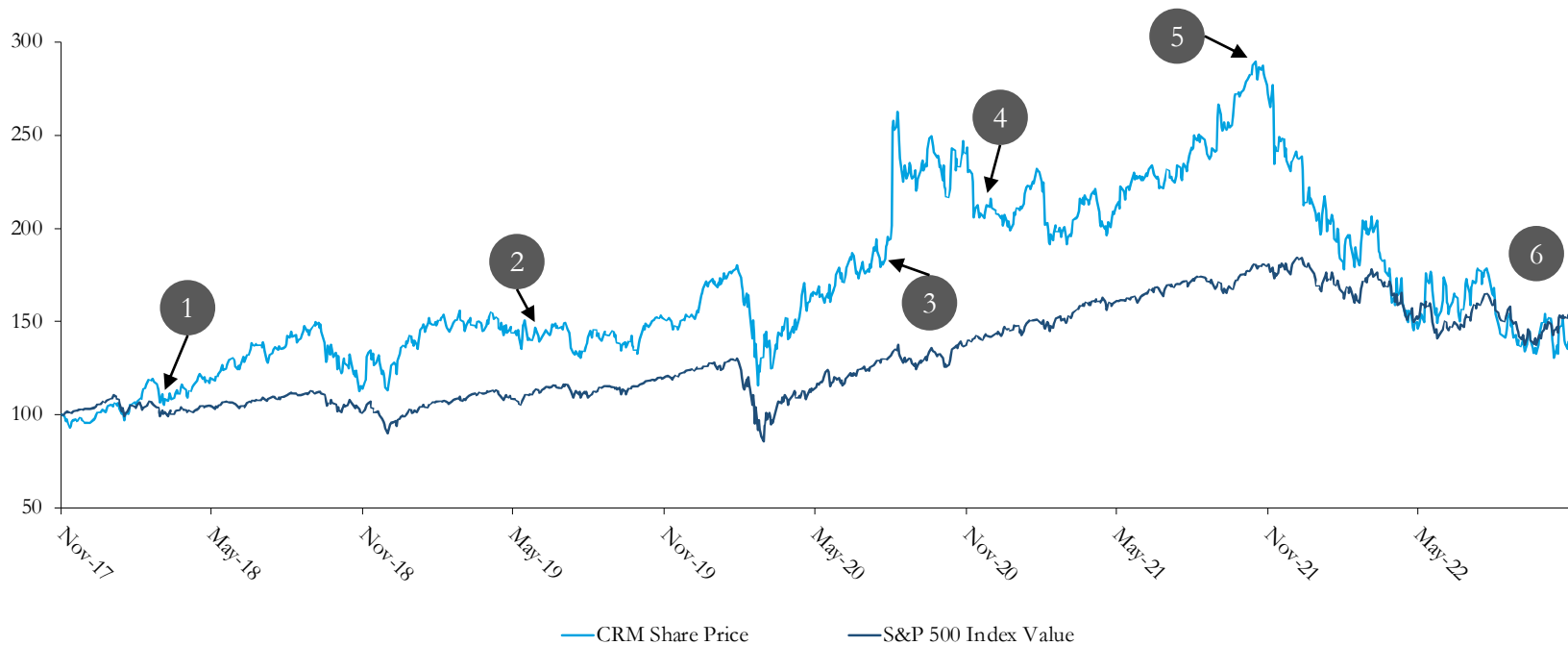
Salesforce has a high customer retention rate, translating to greater cloud usage and recurring revenue

Customer Retention Rate



Annotated Stock Chart

The broader technology selloff presents an opportunity to buy Salesforce at an attractive valuation



- 1 Acquisition of MuleSoft Integration Platform announced
- 2 Salesforce announces acquisition of Tableau
- 3 Stock soars following Q2 FY21 earnings release
- 4 Largest acquisition in Salesforce history, Slack, is announced
- 5 CRM stock reaches all-time high, broader tech selloff begins
- 6 Stock currently trading about 50% below all-time high of \$311.75

DCF - Base



Continued revenue growth along with margin expansion provides significant upside

DCF Analysis

\$ in millions

	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034	FY2035
	1/31/23	1/31/24	1/31/25	1/31/26	1/31/27	1/31/28	1/31/29	1/31/30	1/31/31	1/31/32	1/31/33	1/31/34	1/31/35
Revenue	\$ 30,674	\$ 35,531	\$ 41,175	\$ 47,739	\$ 55,373	\$ 62,678	\$ 69,499	\$ 75,740	\$ 81,351	\$ 86,322	\$ 90,675	\$ 94,446	\$ 97,687
Revenue Growth	15.8%	15.8%	15.9%	15.9%	16.0%	13.2%	10.9%	9.0%	7.4%	6.1%	5.0%	4.2%	3.4%
COGS	\$ (7,037)	\$ (7,942)	\$ (8,932)	\$ (10,014)	\$ (11,266)	\$ (12,758)	\$ (14,077)	\$ (15,266)	\$ (16,315)	\$ (17,226)	\$ (18,004)	\$ (18,658)	\$ (19,201)
Gross Profit	\$ 23,637	\$ 27,589	\$ 32,244	\$ 37,724	\$ 44,107	\$ 49,919	\$ 55,422	\$ 60,474	\$ 65,035	\$ 69,096	\$ 72,671	\$ 75,788	\$ 78,487
Gross Profit Margin	77%	78%	78%	79%	80%	80%	80%	80%	80%	80%	80%	80%	80%
Re&D	\$ (5,047)	\$ (5,704)	\$ (6,446)	\$ (7,282)	\$ (8,225)	\$ (9,310)	\$ (10,324)	\$ (11,251)	\$ (12,084)	\$ (12,822)	\$ (13,469)	\$ (14,029)	\$ (14,511)
S&M	\$ (13,420)	\$ (15,189)	\$ (17,190)	\$ (19,453)	\$ (22,010)	\$ (24,287)	\$ (26,236)	\$ (27,834)	\$ (29,082)	\$ (29,996)	\$ (30,602)	\$ (30,931)	\$ (31,015)
G&A	\$ (2,962)	\$ (3,378)	\$ (3,853)	\$ (4,395)	\$ (5,015)	\$ (5,551)	\$ (6,016)	\$ (6,405)	\$ (6,717)	\$ (6,955)	\$ (7,124)	\$ (7,232)	\$ (7,284)
EBIT	\$ 2,208	\$ 3,318	\$ 4,755	\$ 6,594	\$ 8,856	\$ 10,771	\$ 12,846	\$ 14,985	\$ 17,152	\$ 19,323	\$ 21,476	\$ 23,597	\$ 25,676
EBIT Margin	7%	9%	12%	14%	16%	17%	18%	20%	21%	22%	24%	25%	26%
NOPAT	\$ 3,319	\$ 4,221	\$ 5,610	\$ 7,359	\$ 9,490	\$ 11,331	\$ 13,278	\$ 15,248	\$ 17,213	\$ 19,152	\$ 21,049	\$ 22,894	\$ 24,683
D&A	\$ 785	\$ 909	\$ 1,054	\$ 1,222	\$ 1,417	\$ 1,604	\$ 1,779	\$ 1,938	\$ 2,082	\$ 2,209	\$ 2,321	\$ 2,417	\$ 2,500
Capex	\$ 767	\$ 888	\$ 1,029	\$ 1,193	\$ 1,384	\$ 1,567	\$ 1,737	\$ 1,893	\$ 2,034	\$ 2,158	\$ 2,267	\$ 2,361	\$ 2,442
Change in NWC	\$ (1,083)	\$ (1,456)	\$ (1,676)	\$ (1,930)	\$ (2,222)	\$ (2,075)	\$ (1,885)	\$ (1,669)	\$ (1,444)	\$ (1,222)	\$ (1,011)	\$ (817)	\$ (643)
Acquisition Costs	\$ 417	\$ 1,279	\$ 1,334	\$ 1,392	\$ 1,453	\$ 1,234	\$ 1,368	\$ 1,491	\$ 1,601	\$ 1,699	\$ 1,785	\$ 1,859	\$ 1,923
UFCF	\$ 4,004	\$ 4,419	\$ 5,977	\$ 7,925	\$ 10,292	\$ 12,210	\$ 13,836	\$ 15,471	\$ 17,104	\$ 18,726	\$ 20,329	\$ 21,909	\$ 23,462
PV of UFCF	\$ 3,974	\$ 4,162	\$ 5,147	\$ 6,241	\$ 7,411	\$ 8,041	\$ 8,332	\$ 8,520	\$ 8,614	\$ 8,624	\$ 8,561	\$ 8,437	\$ 8,262
Adj. PV	\$ 684	\$ 4,162	\$ 5,147	\$ 6,241	\$ 7,411	\$ 8,041	\$ 8,332	\$ 8,520	\$ 8,614	\$ 8,624	\$ 8,561	\$ 8,437	\$ 8,262

Terminal Value	
Perpetuity Growth Method	
2035 FCF	\$ 23,462
Perpetuity Growth Rate	3.00%
Terminal Value	\$ 369,289
Share Price	\$ 213.85

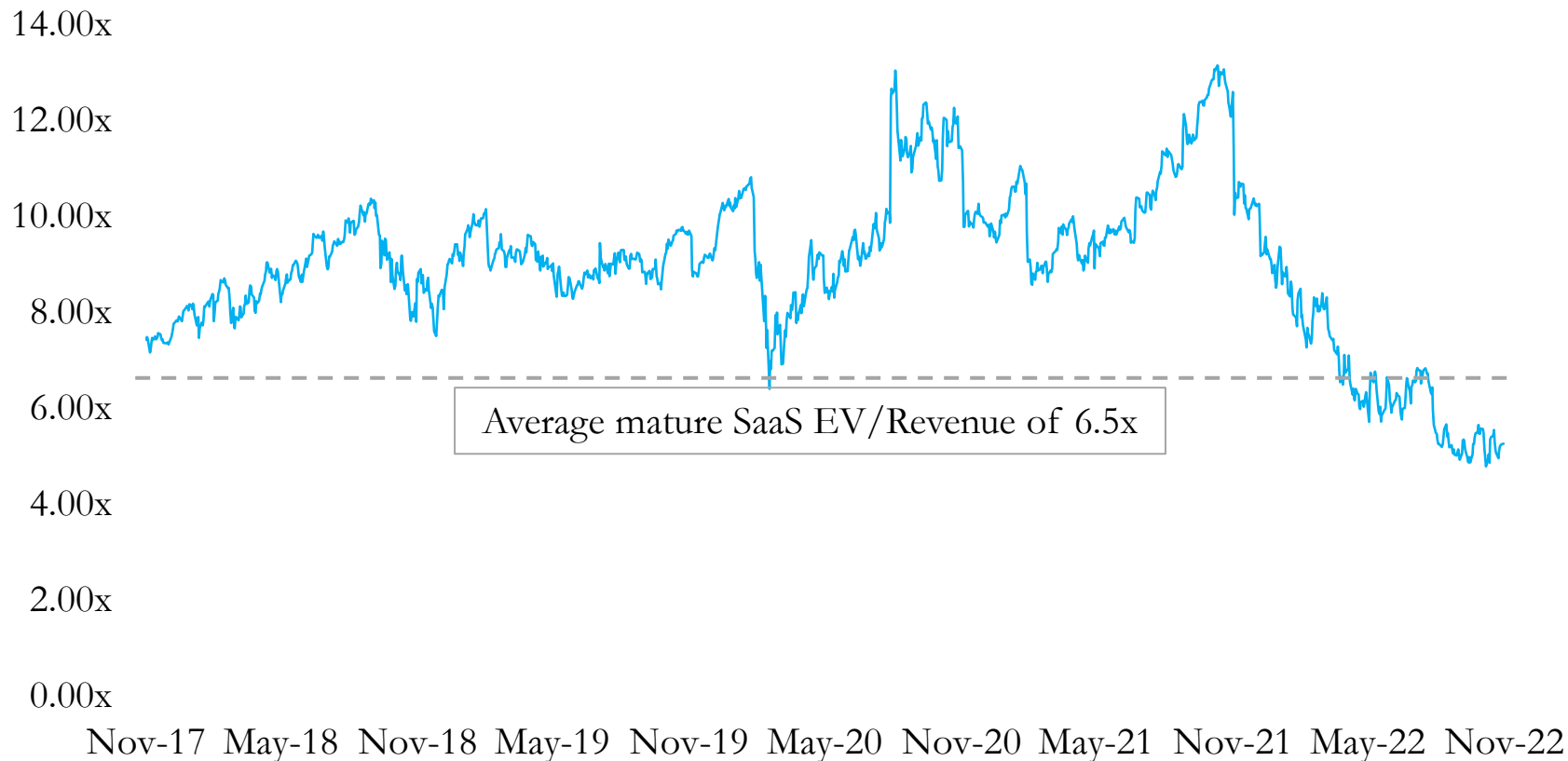
Blended Share Price	
Perpetuity Growth Method	80%
Exit Multiple Method	20%
Blended Share Price	\$ 221.96

Terminal Value	
Exit Multiple Method	
2035 Revenue	\$ 97,687
EV/Revenue	5x
Terminal Value	\$ 488,437.02
Share Price	\$ 254.43

Multiples At All-Time Low (TBU)

EV/Revenue multiples are at all time lows and trade below the average mature SaaS multiple

TEV/LTM Revenue





Multiples At All-Time Low (TBU)

Multiples remain low and will continue to decrease as Salesforce shifts focus from growth to value

Company	Market Cap (\$bn)	Gross Margin (LTM)	EBITDA Margin (LTM)	EV/EBITDA (LTM)	EV/Revenue (LTM)	P/E
Microsoft	1,798,168	68.3%	48.7%	17.44x	8.71x	25.97x
Workday	37,568	72.2%	3.1%	115.3x	6.29x	-187.75x
Oracle	214,965	77.8%	41.7%	15.43x	6.7x	37.96x
ServiceNow	80,521	77.9%	9.8%	98.06x	11.15x	403.15x
Intuit	107,130	82.2%	25.5%	33.32x	8.75x	52.21x
SAP	121,605	72.1%	20.9%	17.92x	3.98x	38.63x
Adobe	153,817	87.8%	39.1%	22.3x	8.88x	32.63x
Salesforce	147,892	72.6%	8.4%	42.8x	5.07x	274.74x
Low	37,568	68.3%	3.1%	15.43x	3.98x	-187.75x
Median	114,368	75.0%	23.2%	25.62x	7.71x	38.30x
Mean	393,326	75.1%	24.9%	49.58x	7.60x	61.70x
High	1,798,168	87.8%	48.7%	115.30x	11.15x	403.15x

Primary Discovery

Two former employees highlighted Salesforce's competitive advantages of high switching costs and app-building capabilities

Scott McCorkle

Former CEO, Salesforce Marketing Cloud (2013-2016)

- 25 years of experience in emerging marketing technology
- Current CEO of enterprise software company MetaCX



Shift in Strategies:

- Salesforce is now getting credit for expanding its margins, which is different from their past success based on growth
- Would never count Salesforce out, as they are the “fastest growing enterprise software company ever”

Comparison to Competitors:

- Competitors “could not give an enterprise a full suite of products”
- Salesforce Platform, which enables companies to build apps, is their key advantage

Chuck Dietrich

Former Vice President, Salesforce (2000-2009)

- General Manager of Salesforce's mobile initiatives
- Founder of software companies SlideRocket and MileIQ



Switching Costs:

- Switching costs of leaving Salesforce are very high because it is embedded in many companies' operations
- Companies “would need to unplug all applications to switch”

App Development:

- “Tons of companies have built their whole business on the Salesforce Platform”
- Salesforce App Exchange is the leading enterprise cloud marketplace



Investment Overview

Salesforce is a first-in-class customer relationship management company trading at an attractive valuation

- 1 Salesforce will continue to expand margins as they integrate their past acquisitions
- 2 Salesforce TAM continues to increase at a high rate, and they will continue to pick up market share given their product superiority
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Recommendation: **BUY**

Price Target: \$221.93

Upside: 44%



Appendix

Management Team

The Management Team at Salesforce has incredible experience and success within the software industry



Marc Benioff

Chair, Co-Founder, and Co-CEO

- Founded Salesforce in 1999 after spending 13 years at Oracle, where he was the youngest VP in company history
- Named “Innovator of the Decade” by Forbes, the Business CEO of 2020 by CNN, and is recognized as one of the World’s Greatest Leaders by Fortune



Bret Taylor

Co-CEO

- Became Co-CEO in November of 2021, after previously holding the position of Chief Operating Officer and Chief Product Officer
- Co-created Google Maps, then went onto serving as the Chief Technology Officer of Facebook during its IPO in 2012

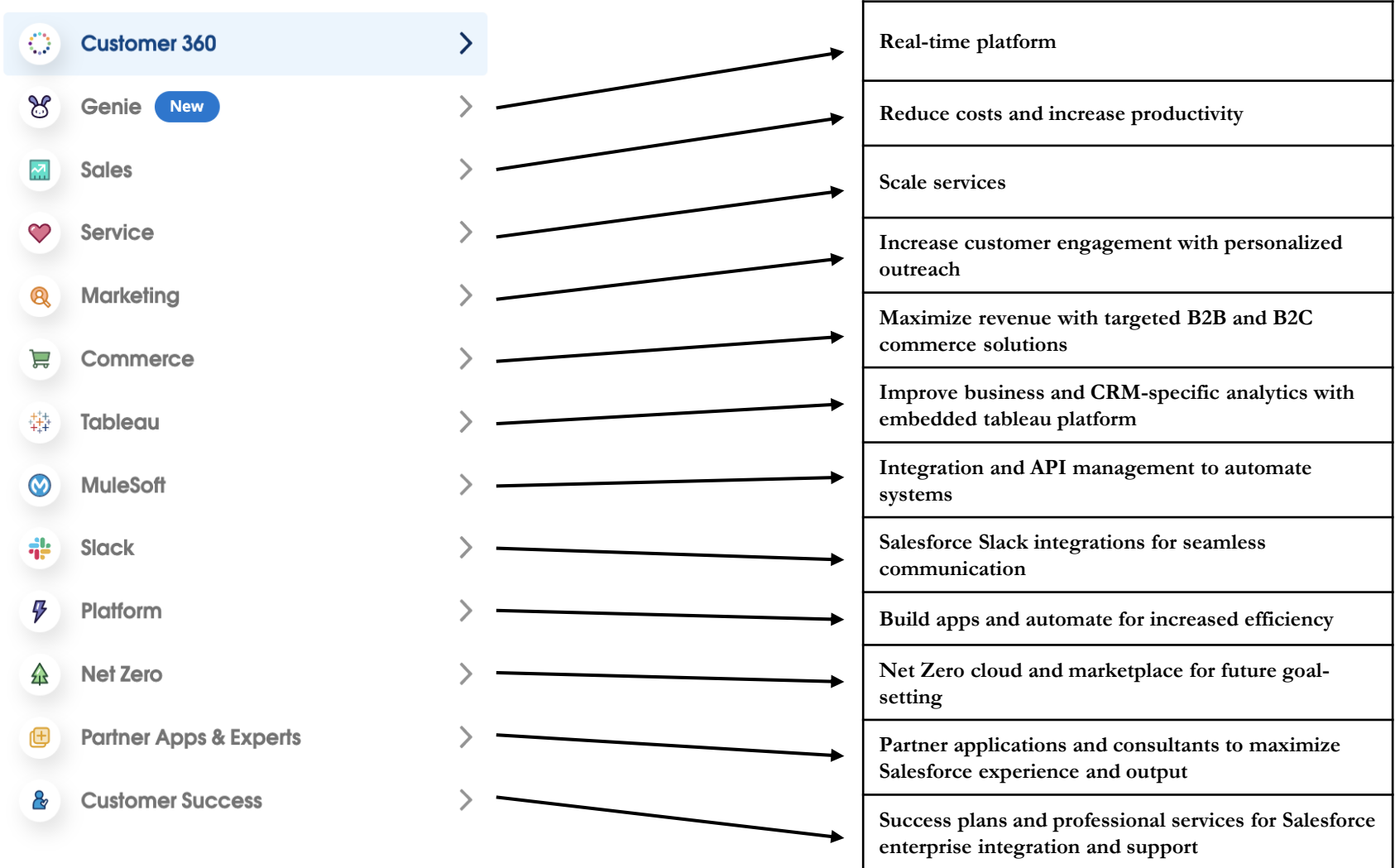


Parker Harris

Co-Founder and CTO

- Co-founded Salesforce after creating his own software company, Left Coast Software, at which he developed his cloud-computing skills
- Drives the vision and architecture for Salesforce, and is on the board of Directors for the Company

Salesforce Product Suite | Customer 360

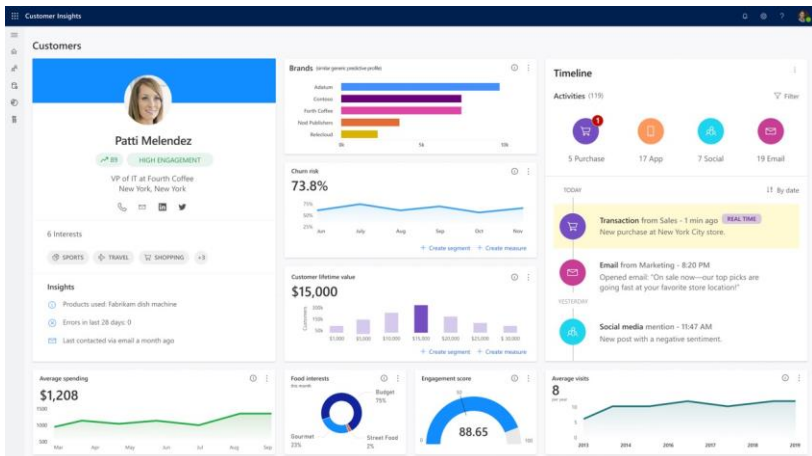


Salesforce Product Suite

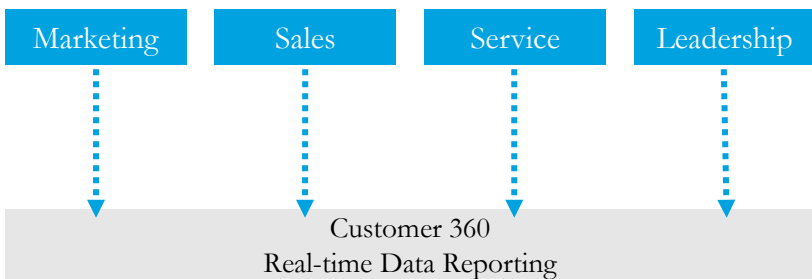
Salesforce is famous for Customer 360, a platform that encompasses all of Salesforce's available products, Genie, a revolutionary data platform, and its development platform

Customer 360

Customer 360 provides teams with Salesforce's entire product and services portfolio as well as a shared view of every customer, increasing team efficiency and customer-relationship success



Data Pathways



Genie

Genie harmonizes all of a company's customer data into unique profiles, allowing companies to see all the information on a customer, across all the various data platforms, in one location, in real-time



- Seen as potentially the **greatest** Salesforce innovation ever, as it makes Salesforce the **first** platform ever for **real-time** customer innovation
- Input **billions** of data faster than ever, and harmonize the data, meaning it puts it into terms already understood by other Salesforce Services

Salesforce Platform

Salesforce platform application allows individuals to build apps and even companies with drag and drop simplicity

- Billion dollar **companies** have been built using the Salesforce Platform, for example nCino, a fintech company valued at over **\$6 billion** dollars was created entirely on the application
- The Salesforce Platform is language **agnostic**, it accepts any code and allows the app to be created in the customers preferred language

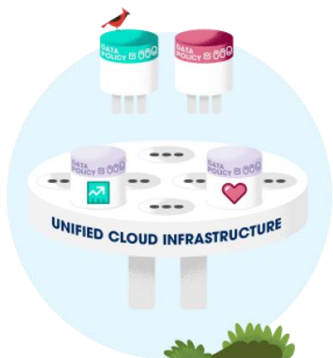


HyperForce

HyperForce will allow Salesforce to penetrate less-developed markets and further develop these potential revenue pipelines both legally and rapidly

Product Overview

HyperForce unifies the information from data clouds by partnering with the help of public cloud partners like AWS and Microsoft Azure

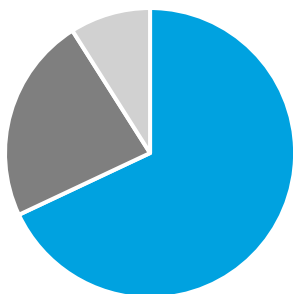


Opportunities through HyperForce

- 1 Large Increase In Data Scaling
- 2 Rapid Deployment of Resources In Public Cloud
- 3 Implementation Time Dramatically Reduced
- 4 Increased Data Storage Options

Potential Market Penetration

Salesforce Revenue by Geography



- Americas
- Europe
- Asia Pacific

Asia Pacific and Europe make up less than a third of Salesforce total revenues, and these regions, especially the EU, are known for having strict data residency laws



The creation of the HyperForce EU Operating Zone will enable storage and processing of data solely within the EU, helping attract and retain customers



Salesforce is continuing to invest in HyperForce in Fiscal Year 2023 as it seeks to make it available in more regions throughout the world

Though Salesforce faces some risks, they are well positioned to respond to threats.

1

Acquisitions

- Salesforce continues to acquire companies at rapid pace
- Acquisitions remain at a premium to market value
- Unpredictable management team

Response

- Valuations have plummeted recently so any acquisitions shouldn't be as expensive anyways
- Continued acquisitions also create opportunity for outsized growth

2

Innovator's Dilemma

- Despite their innovation, Salesforce runs their platform on legacy technology
- Risk of displacement by new technology, impacting long term growth

Response

- Salesforce's switching costs are too high for customers to switch to unproven technology
- Company has shown a long history on continuing to innovate

3

Integration Risk

- Past acquisitions are still being integrated into their platform with chance the products may not work as well as expected
- Integration should increase margins, but haven't fully finished integrating to hard to know now

Response

- Operating margins will still decrease even if integration costs remain high
- Management has demonstrated commitment to increasing margins