



### Investment Summary:

- Future growth in revenue
- Shift in base customer
- Recent acquisition of MuleSoft
- Advanced artificial intelligence platform
- Strong leadership

### Investment Summary:

We recommend a BUY for Salesforce.com. Salesforce's primary source of revenue is expected to experience substantial growth, which we believe will drive the future growth of the company. In addition, we believe that Salesforce is in a strong position to succeed in this emerging market. Salesforce experienced an increase of 26% in revenue in 2018, which we believe will be sustainable in the coming years. This will not only be attainable by its future growth in revenue, but we believe that Salesforce has the strength to produce a massive shift its in base customer. This, when combined with their recent acquisition of MuleSoft, will create more fresh opportunities for Salesforce to expand their business and increase their revenue. Also, we anticipate that Salesforce is improving their products along with increasing their efficiency in the advanced artificial intelligence platform. This improvement, when combined with recent acquisitions, places Salesforce in an excellent position to exceed. Finally, Salesforce has strong leadership and we predict that this leadership will lead the company to success despite any unforeseeable market conditions.

### Business Description:

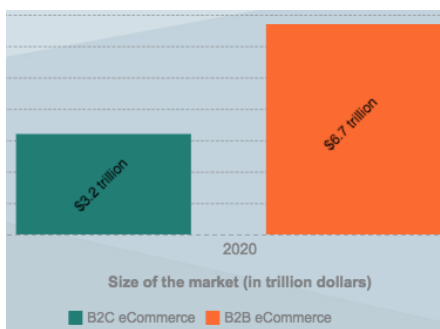
Salesforce, Inc. is a well-known cloud computing company and is dominated by its Customer Relationship Management (CRM) software. A CRM system helps companies stay connected to customers, streamlines processes, and improves profitability. Salesforce offers this software to assist companies in sales, customer service, business development, recruiting, marketing, and other key areas that help drive success. Salesforce sells CRM software to a variety of companies with varying sizes and in almost all the major worldwide industries. Salesforce generates revenue through a subscription basis and is based on the following two business segments:

- Subscription and support – 93% of total revenue
- Professional services and other – 7% of total revenue

Overall, this subscription-based software empowers their customers, or businesses, to connect with their customers in a whole new style.

### Competitors/Industry Overview:

**IT Sector Overview:** The enterprise software industry is a massively growing industry. Currently, in the informational technology (IT) sector, we are encountering a massive shift from focusing on business to consumer (such as Apple supplying software for consumers cellular phones and computers) to a strong focus on business to business (B2B) software. This can be seen throughout the industry with



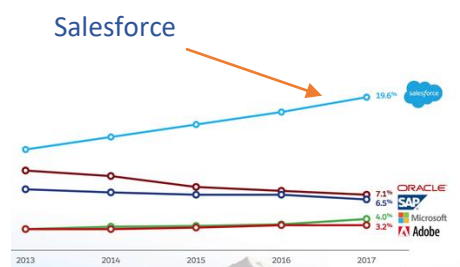


companies aligning to expand their connectability, especially using the cloud. A great example of this was recently shown with the alliance of Microsoft, Adobe, and SAP. These three companies understand the importance of the future of B2B and shows where the industry is heading in terms of software and the cloud.

**CRM Industry Overview:** The enterprise software industry is comprised of the following four segments:

- Operating system (OS)
- Enterprise Resource Planning (ERP)
- Database Management Software (DBMS)
- Customer Relationship Management (CRM)

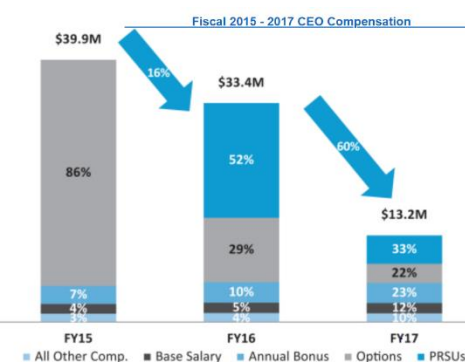
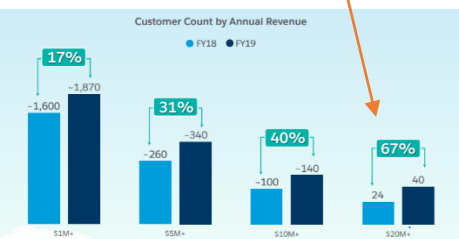
Of these four segments, Customer Relationship Management (CRM) software is the fastest growing segment and is expected to see a 14% annual growth rate from 2015 to 2021 (graph shown on the right). This CRM software is designed to complement cloud computing by increasing efficiencies through different areas of business and by connecting various departments within the same company. Since the importance of the cloud is still relatively new, a good portion of the CRM popularity is projected to take place in the next 5 years. A graph of the expected revenue increases in the CRM market is shown on the left. This graph solidifies the outlook of the CRM industry and supports how Salesforce is in an excellent position to succeed. In addition to this positive outlook, Salesforce has been making major advancements in the cloud industry. For example, in November of 2017, Salesforce and Google formed a strategic partnership that has been operating well. In this partnership, Google supplies the cloud platform as they are one of the most experienced suppliers in the cloud space. With Google providing the cloud, Salesforce can focus on the software to compliment the cloud. This partnership has provided Salesforce the opportunity to expand their business in the CRM market. In fact, Salesforce has expanded their lead as the #1 competitor in the CRM, controlling roughly 20% of the market (graph shown on the left). This recent increase of Salesforce's market capitalization has been contributed to the increase in the CRM market share as well as its partnership with Google.



**Competitors:** Some of Salesforce's nearest competitors in the CRM market include Oracle, SAP, Microsoft, Adobe, along with many others. This market has seen rapid advancements and is projected to continue to increase. However, despite this projected increase, Salesforce has been the only company amongst its competitors to see a major increase in market share in the CRM industry. Both the partnership with Google and its advanced software have contributed to this growth. On a wider scale, Salesforce makes up 2.6% of the market capitalization in the IT sector in the



67% Growth in  
Large Corporations



S&P 500, which included a recent increase with the latest addition of the communication sector.

**Changes in Customer Base:** As we previously discussed, the supply side of the IT industry has had companies like Microsoft, Adobe, SAP, Salesforce, and Google shifting their focus toward a business to business approach. While these companies have made major changes, the demand side of the IT industry has been slowly catching up. To date, many large businesses have invested heavily in cloud computing and have prompted changes in the industry, which we have seen with the Salesforce and Google alliance. We predict that many of the large corporations will continue to invest in cloud computing and will be a large driver of Salesforce's revenue. The graph on the left shows the projected increase in the number of customers in cloud computing based on size. We believe that Salesforce will see a 67% growth in the number of large corporation customers based on heavy investing in this space. This can be seen with the recent acquisition of the company MuleSoft, which is their largest acquisition to date. MuleSoft has revolutionary technology that expands the connectability between many different platforms. We believe that this acquisition will give Salesforce the upper hand in the CRM industry and will promote growth in the large corporation cloud space going forward, as many large corporations have numerous platforms. In fact, Salesforce has seen over a 50% increase in earnings since acquiring MuleSoft. We believe that this will continue to drive increases in earnings and will provide Salesforce a competitive advantage going forward.

### CEO – Mark Benioff:

The CEO of Salesforce, Mark Benioff, is a major factor why we believe the company will continue the track of success. Mark Benioff is an extremely talented individual and has knowledge in a wide array of facets including programming, marketing, sales, and product development. Benioff was employed and gained experience at Oracle for 13 years prior to starting Salesforce and held many executive positions at that company. In 1999, Benioff founded Salesforce and has grown the company to its current 106 billion market cap. Benioff is very determined to have Salesforce succeed which can be shown by the reduced wage he has personally taken over the past few years. In addition, Benioff owns 4.26% of the company shares which shows how passionate and confident he is in his company. Finally, Salesforce has a very strong board of directors, with 83% of the board being independent. Overall, Benioff and the board of directors are a key reason why we believe Salesforce will continue to succeed.



## Salesforce



## Financial Analysis:

The stock price of Salesforce has seen incredible growth since its IPO in 2004. This growth in the stock price has been primarily due to the increase in cloud computing and can be seen in the graph on the left. This high market cap is primarily based on the future outlook for the company. Salesforce has been very focused on expanding their business in preparation for the boom of the CRM market. In the past, they spent a considerable portion of their revenue on R&D, marketing, and sales. This spending shows what focus Salesforce has towards the future outlook of their company. So far, it has clearly worked. With the details discussed in the industry overview section, it is clear that Salesforce is in a great position to excel in the future. Not only do they have great alliances and acquisitions, but they hold a majority share of this emerging CRM market. While it appears that this spending was a clever move by the management of Salesforce, it also had a negative impact on the earnings of the company. Salesforce has had a very volatile balance sheet in the past and even recorded a net loss three years ago. This explains why some of their ratios are skewed including a very high price-to-earnings ratio. However, we believe that this expansion spending is an approach of the past. We feel that the company is going to experience a shift financially, with a stronger focus on the earnings as opposed to the expansion spending. Salesforce CFO, Mark Hawkins, stated that they are expecting an increase to \$23 billion in revenue by 2022 which will be powered by volume-driven increases from new customers, upgrades, and additional subscriptions. We predict that Salesforce will not increase their future spending by this same proportion again which will result in a stronger net income.

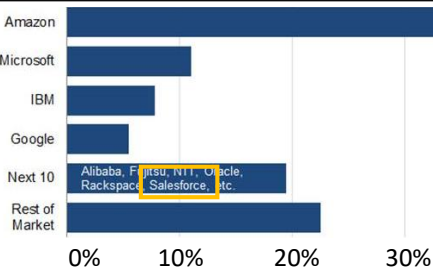


## Artificial Intelligence:

Salesforce benefits from the artificial intelligence sector, which is specific to Salesforce, and is called the Einstein Platform. The Einstein Platform is an advanced set of AI capabilities that are embedded across the entire Salesforce platform. This program automatically discovers relevant insights, predicts future behavior, proactively recommends the best next actions, and automates tasks. The platform aids users by delivering more than three billion predictions and insights on a daily basis. These insights include diagnostics on the company's customers and aids the company in becoming more efficient. An excellent example of how this Einstein platform performs is with a company called Lids. Lids sends emails out regularly to its customers with promotions and other news. The Einstein platform increased its customer's opened email rates from 10% to 71%. It accomplished this through personalized emails and improved product recommendations. This example shows how effective this AI system is and how revolutionary this system will be for Salesforce.



### Cloud Infrastructure Market Share



### Risks:

For the most part, Salesforce looks to be an innovative and logical investment opportunity. They are positioned in the cloud computing industry which is becoming a vital piece for businesses who want to stay competitive and customer service driven. While the future of cloud computing and Salesforce looks very bright, there is a major risk involving Salesforce's competition. With Microsoft and Amazon holding large amounts in the cloud industry and with additional amounts of capital on hand, we could potentially see them invest heavier in the software side of the cloud industry. If this were to happen, they would become major competitors with Salesforce and would possibly have the stronger hand as they are the main providers for cloud infrastructure. In addition, startups are always a risk when discussing technology companies. New companies are developing innovative technology every day which could bring in additional competition in the CRM space.

### Valuation:

Model:	1 Yr Price	% Split
EV/Sales	\$176.68	60%
DCF	\$168.29	40%



Target Price:

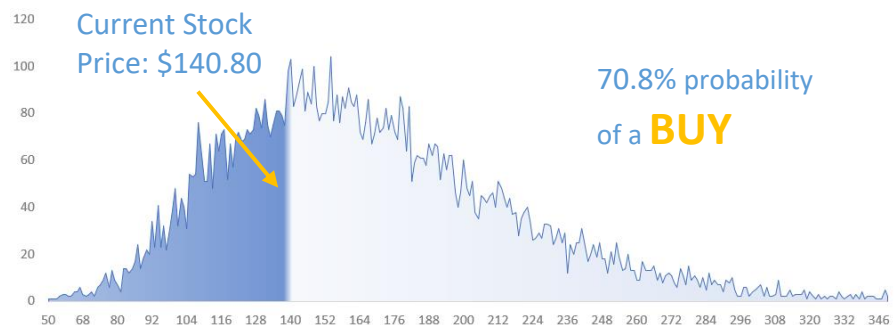
\$173.33

Adjusted for  
the following:

- Revenue Growth
- Acquisition Impact
- Focus on Large Corporations
- Artificial Intelligence
- CEO – Marc Benioff
- Competition

**DCF/Enterprise Model:** When valuing Salesforce, we utilized a 60/40 split between EV/Sales and a 5-year DCF model. We chose to allocate a higher weight to the EV/Sales enterprise model since Salesforce is a high growth company and doesn't have a stable balance sheet. The EV/Sales gave us an opportunity to compare Salesforce to other high-growth technology companies. This comparison gave us a more accurate, intrinsic value rather than using other types of enterprise models. Our results showed an intrinsic value of \$169.29 using the DCF model and \$176.68 using EV/Sales. After combining the two models, we arrived at a target price of \$173.33, which would result in an upside potential of 27.88%.

**Monte Carlo Simulation:** In addition to the model listed above, we opted to perform a Monte Carlo simulation on the future stock price of Salesforce. We accounted for factors that align with our investment thesis which include the following: revenue growth, change in customer base, the CEO, artificial intelligence, competition, and acquisitions/alliances. With these factors in place, we found an intrinsic value of \$167.84, an upside potential of 23.83%, and a 70.8% probability of a buy.





## Peer Analysis:

We performed a peer analysis of Salesforce by comparing its financials with other high growth technology companies. These results support our reasoning that Salesforce is shifting from an expansion stage to a heavier focus on earnings. This can be seen by the higher EBITDA margin, higher earnings per share, and a lower percentage of R&D/Sales.

Company Name:	Market Cap:	Rev Growth YoY%:	EBITDA Margin:	ESP 2019-Q2:	R&D/Sales:
Salesforce.com, Inc.	102.55B	24.88%	9.43%	0.71	14.82%
Workday Inc.	26.18B	36.12%	-5.07%	0.31	42.49%
Tableau Software Inc.	8.03B	6.06%	-16.67%	0.00	38.10%
Guidewire Software Inc.	6.78B	28.54%	4.28%	0.25	25.97%

## Ownership of Shares:

Salesforce's ownership of shares information is listed below:

Holder Name	% Out
FMR LLC	11.84%
Vanguard Group Inc	6.88%
BlackRock Inc	5.90%
T Rowe Price Group	4.89%
Benioff Marc R	4.26%

Type of Holder	% Out
Institutional Holding	92.13%
Insider Holding	4.81%
Other	3.06%