

salesforce.com, Inc. (CRM)
\$139.46 (As of 03/19/20)

Price Target (6-12 Months): **\$146.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 03/11/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:D

Value: D

Growth: C

Momentum: D

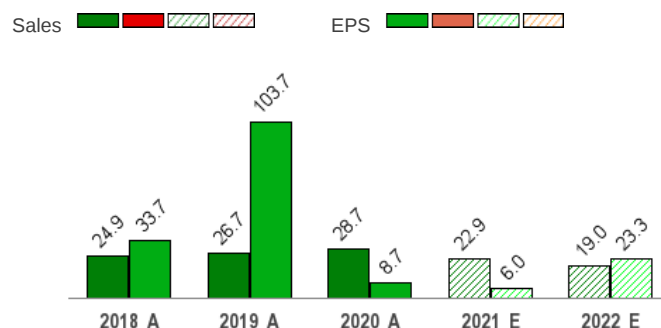
Summary

Salesforce has been benefiting from a robust demand environment as customers are undergoing a major digital transformation. The rapid adoption of its cloud-based solutions is driving demand for its products. Continued deal wins in the international market is another growth driver. Furthermore, Salesforce's recent acquisition of Tableau positions the company to be a leader in business analytics for actionable results in everything from operations to HR. However, stiff competition from Oracle and Microsoft is a concern. Besides, increasing investments in international expansions and data centers are an overhang on near-term profitability. Shares of the company have underperformed the industry in the past year.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	\$195.72 - \$115.29
20 Day Average Volume (sh)	10,347,110
Market Cap	\$124.8 B
YTD Price Change	-14.3%
Beta	1.07
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Computer - Software
Zacks Industry Rank	Top 17% (44 out of 254)

Sales and EPS Growth Rates (Y/Y %)


Last EPS Surprise	20.0%
Last Sales Surprise	2.1%
EPS F1 Est- 4 week change	4.0%
Expected Report Date	06/02/2020
Earnings ESP	0.0%
P/E TTM	46.5
P/E F1	44.0
PEG F1	2.0
P/S TTM	7.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	5,784 E	6,043 E	6,325 E	6,717 E	25,016 E
2021	4,866 E	5,071 E	5,356 E	5,697 E	21,016 E
2020	3,737 A	3,997 A	4,513 A	4,851 A	17,098 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.87 E	\$0.95 E	\$1.03 E	\$1.06 E	\$3.91 E
2021	\$0.70 E	\$0.75 E	\$0.84 E	\$0.86 E	\$3.17 E
2020	\$0.93 A	\$0.66 A	\$0.75 A	\$0.66 A	\$2.99 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/19/2020. The reports text is as of 03/20/2020.

Overview

Headquartered in San Francisco, salesforce.com, founded in 1999, is the leading provider of on-demand Customer Relationship Management (CRM) software, which enables organizations to better manage critical operations, such as sales force automation, customer service and support, marketing automation, document management, analytics and custom application development.

Salesforce is currently the largest CRM vendor in the world with a market share of nearly 20% according to reports of Gartner, a global research and advisory firm. Its nearest rival, SAP is way behind at a market share of around 8%. About 90% of the Fortune 100 companies uses at least one Salesforce software.

The company has leveraged its expertise in on-demand software to increase the scale of operations. It also offers a technology platform for customers and developers to build and run business applications.

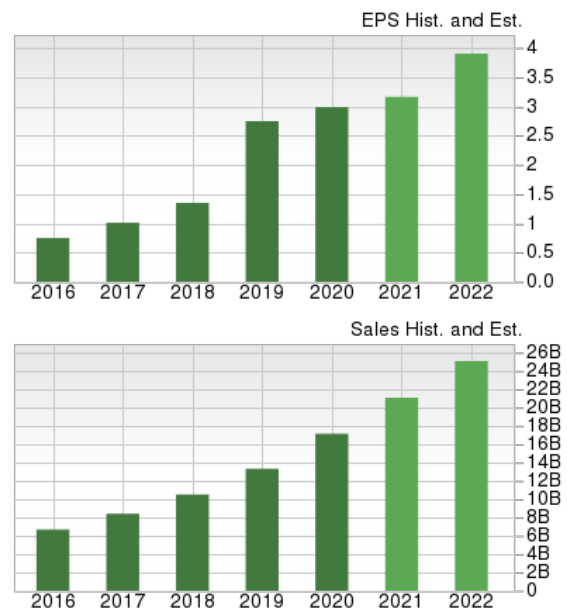
Salesforce helps companies of every size and industry to connect with their customers in new ways through existing and emerging technologies including cloud, mobile, social, IoT and artificial intelligence (AI).

Rapid digital transformation and the company's sustained focus on introducing more aligned products as per customer needs is driving its revenues higher. Over the last five years, Salesforce's annual revenues have tripled from \$5.4 billion in fiscal 2015 to \$17.1 billion in fiscal 2020.

There are two main revenue streams — Subscription and Support and Professional Services & Other.

Subscription revenues comprise subscription fees from customers, accessing the company's enterprise cloud computing services (Cloud Services), software licenses and subscription fees recognized from customers for additional support beyond the standard support lent by the company. This segment accounted for more than 94% of Salesforce's fiscal 2020 revenues.

Professional Services & Other revenues consist of fees that the company derives from consulting and implementation services and training. This segment accounted for the remaining 6% of Salesforce's fiscal 2020 revenues.



Reasons To Buy:

▲ salesforce is the world's leading Customer Relationship Management (CRM) company, in the Software-as-a-Service (SaaS) enterprise application market. The company dominates the market owing to its strong clientele. Per IDC's Worldwide Semiannual Software Tracker, salesforce remained the #1 CRM providers for the sixth straight year, demonstrating the attractiveness of its cloud-based solutions. The company cemented its overall market share position and inflated its revenue base more than any other CRM vendor, the firm added. Management intends to double the company's top line by fiscal year 2024 with a revenue target of \$34-\$35 billion, thus making it the fastest enterprise software entity to attain that milestone.

The company's diverse cloud offerings, clientele strength, strategic acquisitions and partnerships are key drivers.

▲ salesforce's on-demand SaaS business model underscores its focus on sales force automation, marketing, customer responsiveness and support, improved personnel collaboration within an organization, software tools for developers, social media monitoring and marketing, and other social enterprise areas. The company has various SaaS applications and platforms to serve its focus areas. SaaS deployments are easy and help to reduce ownership costs for customers. The company's ability to provide an integrated solution for customers' business problems is the key growth driver. According to IDC estimates, spending on public cloud services will grow from \$229 billion in 2019 to nearly \$500 billion by 2023, at a CAGR of 23%. Per a ResearchAndMarkets.com report, the global CRM software market, valued at \$25.5 billion in 2018, is projected to reach \$36.53 billion at a CAGR of 9.4% through 2022. With its SaaS-based CRM and social enterprise applications, we think that salesforce is well-positioned to lead the market.

▲ Acquisitions have been one of key growth strategies, strengthening the company's position in the CRM solution-providing space. Notably, buyouts of Tableau, ClickSoftware, Mulesoft, Datorama and CloudCraze over the last couple of years have been immensely lucrative for the company. The acquisition of Tableau is in sync with the company's strategy to diversify beyond its customer relationship management and provide more data insights to the clients. Tableau buyout contributed \$652 million to Salesforce's fiscal 2020 revenues. Additionally, the company, on February 25 announced entering agreement to acquire tech start-up Vlocity which builds cloud and mobile software on Salesforce platform. Vlocity acquisition is believed to help Salesforce enhance its capabilities and expand customer base across the communications, media, healthcare, energy, insurance and financial services, and entertainment industries. We believe that salesforce's sustained focus on expanding its business through strategic acquisitions and investments will drive growth over the long run.

▲ salesforce's partnership agreements with the likes of Amazon and Alphabet for the firms' cloud services have been helping it expand its international operations. The company announced at its Dreamforce event that it entered into a partnership with Apple, which will help it offer new apps for iPhones and iPads. A redesigned salesforce mobile app will be developed exclusively for iOS, featuring Face ID, Siri shortcuts as well as Apple's business chat. salesforce also expanded its global strategic alliance with Amazon Web Services to focus on new product integrations that will simplify secure data sharing and synchronizing across AWS and salesforce services.

▲ In keeping with its strategy of growing in Europe, in Aug 2015 Salesforce's investment arm, Salesforce Ventures, announced its decision to invest \$100 million specifically in European start-ups. Over the past few years, salesforce has invested in several start-ups, be it through acquisitions or partnerships. In Europe, the company opened its first data center in the U.K. in Aug 2014. In 2015, salesforce opened two more datacenters, one each in France and Germany. The opening of data centers in these countries has helped salesforce to reach local small and medium businesses as well as government agencies. The initiatives are helping Salesforce generating higher revenues from the European region. Notably, in fiscal 2020, salesforce's revenues from Europe increased over 34% year over year and accounted for 20% of the total revenue. We believe expansion in Europe would enable salesforce to diversify its international revenues, going forward.

Reasons To Sell:

- ▼ Increased focus on acquisitions could negatively impact salesforce's balance sheet in the form of a high level of goodwill, which totaled \$25 billion, or approximately 45% of its total assets as of Jan 31, 2020. Furthermore, frequent acquisitions add to integration risks, which may dilute earnings.
- ▼ salesforce faces stiff competition from Microsoft Corp. and Oracle in the cloud-based CRM market. Oracle has strengthened its cloud position through various strategic acquisitions. Microsoft has also added various key companies like LinkedIn to its portfolio to beef up its Dynamic CRM platform. Additionally, Microsoft offers special pricing for its Dynamics CRM Online service, which is helping it to snatch salesforce's customers. Competition is expected to intensify further, as Microsoft Dynamics CRM software (code-named Titan) gains ground. Titan has been designed to offer direct competition to salesforce's on-demand CRM software model. Moreover, IBM is strengthening its grip on the cloud computing software market with its web-based collaboration software for businesses, including contact management, instant messaging and file sharing programs. Further, the tie-up of Microsoft and Adobe, which aims to boost the sales and marketing capabilities of both companies, is a significant threat to the king of CRM.
- ▼ salesforce's home market in the United States has hit a saturation point, causing slower growth of its cloud software. There is still a lot of room for salesforce's growth in the international quarters. It still generates only about 30% of total revenues from international operations, which is lower than its rivals like Microsoft or Oracle composition of around 50%. Therefore, the company is investing heavily in global expansion, which is an overhang on its margins.
- ▼ We note that the salesforce currently has a trailing 12 month P/E ratio of 130.2. This level compares unfavorably to some extent with what the industry saw over the last year. Hence, valuation looks significantly stretched from a P/E perspective.

Stiff competition, currency fluctuations and an increase in investments for international expansions and data centers could negatively impact near-term profitability.

Last Earnings Report

Salesforce Q4 Earnings Beat Estimates

Salesforce delivered better-than-expected results for fourth-quarter fiscal 2020. The company's fiscal fourth-quarter non-GAAP earnings of 66 cents per share beat the Zacks Consensus Estimate by 20%. Nonetheless, quarterly earnings declined 6% from the year-ago quarter's level of 70 cents, as benefits of higher revenues were more than offset by elevated operating expenses.

Salesforce's fiscal fourth-quarter revenues of \$4.85 billion jumped 35% year over year, surpassing the Zacks Consensus Estimate of \$4.75 billion. Moreover, the top-line figure improved 34% in constant currency (cc). The company also noted that the acquisition Tableau in August 2019 contributed \$344 million to its quarterly revenues. Excluding the sales of acquired businesses, total revenues were up 22% year over year.

The enterprise cloud computing solutions provider has been benefiting from a robust demand environment as customers are undergoing a major digital transformation. The rapid adoption of its cloud-based solutions led to the better-than-expected performance during the fiscal fourth quarter.

Quarter in Detail

Coming to the company's business segments, revenues at Subscription and Support increased about 35% from the year-earlier period to \$4.56 billion. Professional Services and Other revenues climbed 26% to \$288 million.

Sales Cloud revenues grew 17% year over year to \$1.23 billion. Revenues from Service Cloud, one of the company's largest and the fastest-growing businesses, also improved 26% to \$1.22 billion. Moreover, Marketing & Commerce Cloud revenues jumped 28% to \$690 million. Salesforce Platform and Other revenues surged 74% to \$1.43 billion.

Geographically, the company registered revenue growth of 32% in the Americas (70% of total revenues), 28% in the Asia Pacific (9%), and 49% in Europe and Middle East Asia or EMEA (21%) on a year-over-year basis.

Salesforce's non-GAAP gross profit came in at \$3.85 billion, up 40% from the prior-year quarter. Additionally, gross margin expanded 280 basis points (bps) to 79.4%.

Salesforce posted non-GAAP operating income of \$745 million, up 25% year over year. However, operating margin shrunk 100 basis points (bps) to 15.5% due to elevated operating expenses as a percentage of revenues. Operating expenses flared up 46% year over year to \$3.67 billion. As a percentage of revenues, operating expenses expanded 570 bps to 75.6% from the year-ago period's 69.9%.

Salesforce exited fiscal 2020 with cash, cash equivalents and marketable securities of \$7.9 billion compared with the \$4.3 billion recorded at the end of fiscal 2019. The company generated operating cash flow of \$1.63 billion in the fiscal fourth quarter and \$4.33 billion for fiscal 2020.

As of Jan 31, 2020, total unearned revenues were \$10.66 billion, up 24% on a year-over-year basis.

Guidance

Buoyed by better-than-anticipated fiscal fourth-quarter top-line performance, Salesforce raised its revenue guidance ranges for the first quarter and fiscal 2021. For fiscal 2021, revenues are now predicted between \$21 billion and \$21.1 billion compared with the earlier expectation of \$20.8-\$20.9 billion, marking 22-23% year-on-year growth.

The company expects its full-fiscal GAAP and non-GAAP earnings per share to come in at 12-14 cents and \$3.16-\$3.18, respectively. It assumes non-GAAP operating margin to expand 125 bps on a year-over-year basis to 18.1%.

Operating cash flow is expected to increase approximately 20% year over year or come in more than \$5.1 billion. The company assumes capital expenditure to be approximately 4% of fiscal 2021 revenues.

Coming to the fiscal first quarter, revenues are guided between \$4.875 billion and \$4.885 billion, higher than the previous guidance \$4.8-\$4.835 billion. The updated revenue outlook indicates a 30-31% growth from the prior-year reported number.

Furthermore, Salesforce anticipates non-GAAP earnings per share in the band of 70-71 cents for the fiscal first quarter.

Quarter Ending 01/2020

Report Date	Feb 25, 2020
Sales Surprise	2.07%
EPS Surprise	20.00%
Quarterly EPS	0.66
Annual EPS (TTM)	3.00

Recent News

On Feb 25, Salesforce announced entering into an agreement to acquire Vlocity, Inc. for \$1.33 billion.

On Feb 25, Salesforce announced that the company's co-CEO Keith Block has resigned from his post.

On Dec 12, 2019, salesforce announced that Salesforce President and Chief Product Officer Bret Taylor has been appointed President and Chief Operating Officer.

On Nov 19, 2019, salesforce and AWS announced an expansion of their global strategic partnership. Automobili Lamborghini is using Salesforce Blockchain to quickly and securely authenticate heritage Lamborghini cars.

On Nov 18, 2019, salesforce and Apple announced the launch of the redesigned Salesforce Mobile App and new Trailhead GO learning app.

Valuation

Salesforce shares plunged 9.8% in the past six months and 16.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector have fallen 67% and 14.2% in the past 6 months, respectively. Over the past year, while the Zacks sub-industry inched up 0.6%, the sector is down 13.2%.

The S&P 500 Index has declined 19.4% in the past six months and 16.7% in the past year.

The stock is currently trading at 5.78X forward 12-month sales, which compares to 5.7X for the Zacks sub-industry, 2.72X for the Zacks sector and 2.58X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 9.81X and as low as 4.43X with a 5-year median of 6.44X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$146 price target reflects 6.07X forward 12-month sales.

The table below shows summary valuation data for CRM.

Valuation Multiples - CRM					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	5.78	5.70	2.72	2.58
	5-Year High	9.81	7.22	3.58	3.43
	5-Year Low	4.43	3.88	2.30	2.54
	5-Year Median	6.44	5.34	3.02	3.00
EV/Sales TTM	Current	6.93	5.90	3.21	2.40
	5-Year High	10.32	8.11	4.45	3.46
	5-Year Low	5.00	3.19	2.54	2.14
	5-Year Median	7.82	5.39	3.53	2.82
EV/EBITDA TTM	Current	29.14	13.89	9.32	8.87
	5-Year High	60.06	19.07	12.84	12.88
	5-Year Low	25.85	7.49	7.60	8.31
	5-Year Median	48.79	12.14	10.60	10.79

As of 03/19/2020

Industry Analysis Zacks Industry Rank: Top 17% (44 out of 254)



Top Peers

Microsoft Corporation (MSFT)	Outperform
SAP SE (SAP)	Outperform
Atlassian Corporation PLC (TEAM)	Outperform
Adobe Systems Incorporated (ADBE)	Neutral
HubSpot, Inc. (HUBS)	Neutral
International Business Machines Corporation (IBM)	Neutral
ServiceNow, Inc. (NOW)	Neutral
Oracle Corporation (ORCL)	Neutral

Industry Comparison Industry: Computer - Software				Industry Peers		
	CRM Neutral	X Industry	S&P 500	ADBE Neutral	MSFT Outperform	ORCL Neutral
VGM Score	D	-	-	C	D	B
Market Cap	124.82 B	1.25 B	16.45 B	148.61 B	1,085.46 B	142.13 B
# of Analysts	15	4	13	12	14	13
Dividend Yield	0.00%	0.00%	2.67%	0.00%	1.43%	2.13%
Value Score	D	-	-	D	D	B
Cash/Price	0.06	0.12	0.06	0.03	0.11	0.18
EV/EBITDA	32.16	15.25	10.36	36.24	17.60	9.50
PEG Ratio	2.03	1.92	1.49	1.92	1.92	1.19
Price/Book (P/B)	3.65	3.64	2.16	14.20	9.86	9.55
Price/Cash Flow (P/CF)	31.88	16.32	8.92	37.55	22.46	10.22
P/E (F1)	43.99	22.16	13.12	31.26	25.42	11.60
Price/Sales (P/S)	7.30	3.28	1.72	12.74	8.09	3.57
Earnings Yield	2.27%	4.34%	7.54%	3.20%	3.93%	8.63%
Debt/Equity	0.08	0.16	0.70	0.39	0.64	3.31
Cash Flow (\$/share)	4.37	1.20	7.01	8.19	6.35	4.41
Growth Score	C	-	-	A	C	D
Hist. EPS Growth (3-5 yrs)	126.79%	11.15%	10.85%	48.86%	17.68%	7.82%
Proj. EPS Growth (F1/F0)	5.93%	13.31%	4.90%	25.00%	18.21%	10.40%
Curr. Cash Flow Growth	36.39%	11.19%	6.03%	27.62%	19.70%	-0.35%
Hist. Cash Flow Growth (3-5 yrs)	40.05%	8.71%	8.55%	41.64%	11.99%	-1.03%
Current Ratio	1.08	1.50	1.23	1.23	2.80	2.12
Debt/Capital	7.31%	20.16%	42.57%	28.21%	39.05%	76.82%
Net Margin	0.74%	6.55%	11.57%	27.72%	33.02%	27.06%
Return on Equity	3.61%	11.82%	16.74%	33.54%	40.41%	64.68%
Sales/Assets	0.40	0.64	0.54	0.57	0.48	0.39
Proj. Sales Growth (F1/F0)	22.92%	5.92%	3.13%	16.45%	12.73%	0.51%
Momentum Score	D	-	-	D	F	A
Daily Price Chg	5.46%	1.65%	1.03%	4.38%	1.65%	-4.65%
1 Week Price Chg	-9.93%	-10.82%	-11.01%	-0.38%	-1.70%	1.18%
4 Week Price Chg	-27.88%	-29.81%	-33.45%	-18.85%	-22.62%	-18.81%
12 Week Price Chg	-15.23%	-27.01%	-30.67%	-7.15%	-10.06%	-15.87%
52 Week Price Chg	-16.47%	-17.74%	-23.69%	16.40%	18.71%	-16.60%
20 Day Average Volume	10,347,110	131,145	3,981,936	5,353,656	72,971,568	20,804,578
(F1) EPS Est 1 week change	0.00%	0.00%	-0.01%	0.26%	-0.03%	0.35%
(F1) EPS Est 4 week change	4.01%	0.00%	-0.85%	-0.07%	-0.43%	0.69%
(F1) EPS Est 12 week change	4.61%	0.00%	-1.70%	0.01%	4.93%	0.69%
(Q1) EPS Est Mthly Chg	19.06%	-0.18%	-0.88%	-0.50%	-1.39%	0.69%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	C
Momentum Score	D
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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