

salesforce.com, Inc. (CRM)
\$185.27 (As of 01/21/20)

Price Target (6-12 Months): **\$195.00**

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: F

Growth: D

Momentum: B

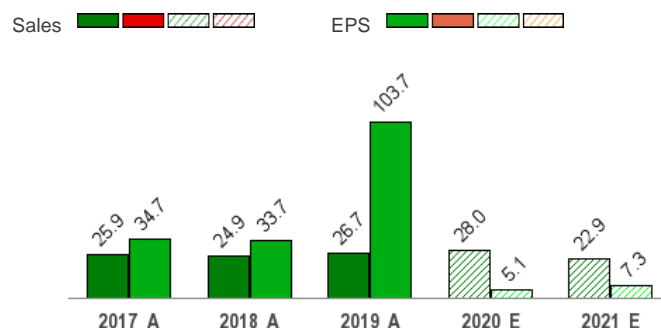
Summary

salesforce is gaining from growth in its cloud offerings. The company is benefiting immensely from an expanding partner ecosystem, which is contributing to business wins and boosting its presence globally. Deal wins in the international market is a growth driver. Rapid adoption of its diverse cloud offerings, given an upsurge in demand for digital transformation, is a key catalyst. Additionally, acquisitions like MuleSoft, Tableau, ClickSoftware and Salesforce.org are significant revenue growth drivers. However, stiff competition from Oracle and Microsoft is a concern. Persistence of unfavorable currency fluctuations is a key headwind. Besides, increasing investments in international expansions and data centers are an overhang on profitability.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	\$186.00 - \$137.87
20 Day Average Volume (sh)	4,229,437
Market Cap	\$164.3 B
YTD Price Change	13.9%
Beta	1.22
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Computer - Software
Zacks Industry Rank	Top 26% (66 out of 255)

Sales and EPS Growth Rates (Y/Y %)


Last EPS Surprise	13.6%
Last Sales Surprise	1.7%
EPS F1 Est- 4 week change	0.1%
Expected Report Date	03/02/2020
Earnings ESP	0.0%
P/E TTM	60.9
P/E F1	64.1
PEG F1	3.0
P/S TTM	10.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	4,820 E	5,081 E	5,373 E	5,596 E	20,893 E
2020	3,737 A	3,997 A	4,513 A	4,750 E	17,000 E
2019	3,006 A	3,281 A	3,392 A	3,603 A	13,282 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.69 E	\$0.77 E	\$0.84 E	\$0.83 E	\$3.10 E
2020	\$0.93 A	\$0.66 A	\$0.75 A	\$0.55 E	\$2.89 E
2019	\$0.74 A	\$0.71 A	\$0.61 A	\$0.70 A	\$2.75 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 01/21/2020. The reports text is as of 01/22/2020.

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.

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 other 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).

Salesforce generated revenues worth \$13.3 billion in fiscal 2019. There are two main revenue streams — Subscription and Support and Professional Services & Other.

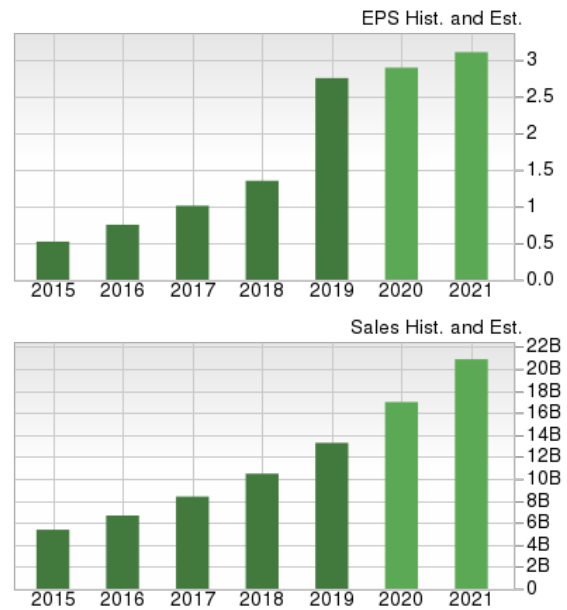
Subscription revenues comprise subscription fees from customers, accessing the company's enterprise cloud computing services (Cloud Services), software licenses and subscription fees recognized from customers for additional support beyond the standard support lent by the company. This segment accounted for more than 93% of Salesforce's fiscal 2019 revenues.

The company's subscription and support revenues are disaggregated into four core offerings — Sales Cloud, Service Cloud, Marketing and Commerce Cloud, and Salesforce Platform and Other.

Professional Services & Other revenues consist of fees that the company derives from consulting and implementation services and training. Consulting and implementation engagements typically generate one-time payments. Training includes classes on implementation, usability and administration of service provided by the company that are billed per session. This segment accounted for the remaining 7% of Salesforce's fiscal 2019 revenues.

Geographically, in fiscal 2019, the Americas contributed approximately 71% of total revenue, Europe accounted for roughly 19%, while Asia Pacific contributed the remaining 10%.

Salesforce faces increased competition within the on-demand CRM market from Microsoft Corp., SAP, Adobe, International Business Management (IBM), Google and Oracle.



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. 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. Notably, in fiscal 2019, salesforce's revenues from Europe increased over 33% year over year and accounted for 19% 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 50% of its total assets as of Oct 31, 2019. Furthermore, acquisitions add to integration risks, which may dilute earnings. Also, frequent acquisitions are a distraction for management and may impact organic growth. It also makes comparisons more difficult over the long term.
- ▼ 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 137.24. 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 Q3 Earnings Beat Estimates

salesforce.com delivered third-quarter fiscal 2020 non-GAAP earnings of 75 cents per share, beating the Zacks Consensus Estimate by 13.64% and also the year-ago quarterly figure by 23%.

Meanwhile, revenues of \$4.51 billion surged 33% year over year and also surpassed the Zacks Consensus Estimate of \$4.436 billion. Moreover, the top line improved 34% in constant currency (cc). While the acquisition of Salesforce.org contributed \$80 million to the company's revenue stream, Tableau buyout generated \$327 million. Excluding the acquired revenues from Tableau and Salesforce.org, total revenues grew 21% in dollars and 22% at cc.

However, adverse foreign exchange volatility is a persistent challenge. The company experienced FX headwinds of approximately \$29 million in the third quarter.

It is benefiting from a robust demand environment as customers are undergoing a major digital transformation. The rapid adoption of its cloud-based solutions led to better-than-expected results.

Quarter in Detail

Coming to the company's business segments, revenues at Subscription and Support rose about 34% from the year-earlier period to \$4.24 billion. Professional Services and Other revenues climbed 22% to \$274 million.

Sales Cloud revenues ascended 15% year over year to \$1.17 billion. Revenues from Service Cloud, one of the company's largest and the fastest-growing businesses, also improved 24% to \$1.14 billion. Moreover, Marketing & Commerce Cloud revenues jumped 32% to \$640 million.

salesforce's Platform and Other revenues soared 73% to \$1.29 billion. Tableau contributed nearly \$308 million while MuleSoft revenues of \$185 million grew 77% year over year.

Geographically, the company witnessed revenue growth of 33% in the Americas (71% of total revenues), 28% in the Asia Pacific (10%) and 42% in Europe (19%) on a year-over-year basis at cc. Year-over-year growth in the Americas and the EMEA is driven by the acquisition of Tableau.

Operating Details

salesforce's non-GAAP gross profit came in at \$3.59 billion, up 37.7% from the prior-year quarter. Additionally, gross margin expanded 260 basis points (bps) to 79.5%.

salesforce posted non-GAAP operating income of \$874 million, up 52.8% year over year. Operating margin also expanded 250 bps to 19.4%

Balance Sheet & Cash Flow

salesforce exited the reported quarter with cash, cash equivalents and marketable securities of \$6.53 billion compared with \$6.04 billion in the prior reported quarter.

As of Oct 31, 2019, total unearned revenues were \$6.858 billion, up 27.6% on a year-over-year basis.

salesforce generated operating cash flow of \$298 million, down from \$437 million sequentially.

Guidance

For fiscal 2020, revenues are predicted between \$16.99 billion and \$17 billion compared with the earlier expectation between \$16.75 and \$16.9 billion, marking 28% growth year over year. Tableau is envisioned to generate \$650 million while around \$220 million is anticipated to be contributed by Salesforce.org. Excluding these integrations, growth is likely to be around 21%.

The company forecasts more than \$160 million of foreign exchange headwinds in the full fiscal.

The company raised its full-fiscal earnings per share outlook to \$2.89-\$2.90 from the \$2.82-\$2.84 range envisioned earlier.

It assumes non-GAAP operating margins of 16.6% to contract 50 bps on a year-over-year basis. Excluding the impact of these consolidations, the company expects non-GAAP operating margin to expand more than 150 bps.

Operating cash flow is expected to increase 22-23% year over year.

Coming to the fiscal fourth quarter, Tableau and Salesforce.org are likely to contribute approximately \$320 million and \$80 million, respectively, to revenues. Revenues are guided between \$4.743 billion and \$4.753 billion, indicating 32% growth from the prior-year reported number.

However, non-GAAP earnings per share are estimated in the band of 54-55 cents for the fiscal fourth quarter.

Coming to first-quarter fiscal 2021, revenues are projected between \$4.800 billion and \$4.835 billion, suggesting 28-29% growth from the year-ago reported figure.

For fiscal 2021, revenues are expected between \$20.8 billion and \$20.9 billion, implying 22-23% growth from the year-earlier reported figure.

Quarter Ending **10/2019**

Report Date	Dec 03, 2019
Sales Surprise	1.73%
EPS Surprise	13.64%
Quarterly EPS	0.75
Annual EPS (TTM)	3.04

Recent News

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.

On Oct 16, 2019, salesforce announced that Waters Corporation has selected its CRM platform to build deeper customer relationships, and provide superior service and scale internationally.

On Oct 10, 2019, salesforce introduced Lightning Order Management, a new solution that integrates commerce, fulfillment and customer service. This solution allows companies to provide a hassle-free shopping experience to customers.

The company also announced that international fashion brand Esprit is set to deploy Salesforce Commerce Cloud, Marketing Cloud and Einstein to create AI-powered e-commerce and marketing platforms that effortlessly connect across mobile, social, web and more. This will help Esprit to offer more personalized and efficient omnichannel shopping experiences to its customers.

Valuation

salesforce shares rallied 18.6% in the past six months and 23.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector have gained 12.7% and 15.8% in the past 6 months, respectively. Over the past year, the Zacks sub-industry and the sector are up 42.2% and 34.5%, respectively.

The S&P 500 Index has risen 11.2% in the past 6 months and 25% in the past year.

The stock is currently trading at 7.9X forward 12-month sales, which compares to 7.36X for the Zacks sub-industry, 3.74X for the Zacks sector and 3.56X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 8.15X and as low as 4.43X with a 5-year median of 6.39X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$195 price target reflects 8.3X 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 F 12M	Current	7.9	7.36	3.74	3.56
	5-Year High	8.15	7.36	3.74	3.56
	5-Year Low	4.43	3.88	2.3	2.54
	5-Year Median	6.39	5.29	3.01	3
EV/Sales TTM	Current	10.29	7.67	4.4	3.33
	5-Year High	10.29	7.67	4.4	3.33
	5-Year Low	5	3.19	2.56	2.16
	5-Year Median	7.75	5.25	3.45	2.8
EV/EBITDA TTM	Current	46.08	18.45	12.71	12.38
	5-Year High	58.43	18.45	12.71	12.86
	5-Year Low	33.53	7.75	7.68	8.48
	5-Year Median	49.01	11.99	10.52	10.67

As of 01/21/2020

Industry Analysis Zacks Industry Rank: Top 26% (66 out of 255)



Top Peers

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

Industry Comparison Industry: Computer - Software				Industry Peers		
	CRM Neutral	X Industry	S&P 500	ADBE Neutral	MSFT Neutral	ORCL Neutral
VGM Score	D	-	-	D	C	C
Market Cap	164.33 B	2.08 B	24.43 B	169.43 B	1,270.20 B	177.13 B
# of Analysts	16	3.5	13	13	14	13
Dividend Yield	0.00%	0.00%	1.75%	0.00%	1.23%	1.74%
Value Score	F	-	-	D	D	B
Cash/Price	0.04	0.10	0.04	0.02	0.11	0.16
EV/EBITDA	57.13	22.23	14.00	51.47	20.79	11.60
PEG Ratio	2.95	2.28	2.06	2.20	2.61	1.46
Price/Book (P/B)	4.94	5.64	3.39	16.09	11.98	10.94
Price/Cash Flow (P/CF)	49.82	27.71	13.69	49.79	26.21	12.52
P/E (F1)	64.11	33.48	19.00	35.72	31.08	14.20
Price/Sales (P/S)	10.37	4.83	2.68	15.17	9.78	4.47
Earnings Yield	1.56%	2.79%	5.26%	2.80%	3.22%	7.04%
Debt/Equity	0.16	0.16	0.72	0.09	0.69	3.13
Cash Flow (\$/share)	3.72	1.01	6.94	7.03	6.35	4.41
Growth Score	D	-	-	B	B	D
Hist. EPS Growth (3-5 yrs)	141.24%	9.51%	10.60%	52.77%	16.25%	6.17%
Proj. EPS Growth (F1/F0)	5.18%	12.12%	7.57%	24.51%	12.80%	10.47%
Curr. Cash Flow Growth	66.28%	7.45%	14.00%	9.54%	19.70%	-0.35%
Hist. Cash Flow Growth (3-5 yrs)	41.18%	8.09%	9.00%	37.38%	11.99%	-1.03%
Current Ratio	1.05	1.49	1.23	0.79	2.85	2.37
Debt/Capital	13.87%	18.28%	42.99%	8.59%	40.81%	75.79%
Net Margin	4.64%	6.51%	11.15%	26.42%	31.66%	27.62%
Return on Equity	5.37%	12.23%	17.16%	31.47%	39.14%	56.86%
Sales/Assets	0.43	0.65	0.55	0.56	0.48	0.37
Proj. Sales Growth (F1/F0)	27.93%	7.04%	4.05%	17.68%	11.33%	1.07%
Momentum Score	B	-	-	D	A	D
Daily Price Chg	1.67%	0.00%	-0.27%	0.07%	-0.36%	0.16%
1 Week Price Chg	1.13%	1.32%	2.29%	2.92%	3.57%	1.25%
4 Week Price Chg	13.49%	6.49%	2.13%	6.18%	5.79%	3.33%
12 Week Price Chg	19.46%	15.76%	6.99%	28.94%	16.57%	0.77%
52 Week Price Chg	24.38%	34.46%	21.25%	43.53%	57.55%	12.83%
20 Day Average Volume	4,229,437	82,678	1,415,064	1,636,796	18,916,950	8,444,768
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.08%	0.00%	0.00%	0.02%	0.12%	0.00%
(F1) EPS Est 12 week change	2.59%	0.03%	-0.34%	0.24%	2.61%	-0.02%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.22%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	F
Growth Score	C
Momentum Score	B
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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