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Salesforce.com Inc CRM ★★★★★

Rating as of Jun 1, 2020

Quote Stock Analysis News Price vs Fair Value Trailing Returns Financials Valuation Operating Performance

Show Full Chart >

Market Closed

Quote Key Ratios Short Interest



\$176.36 ↑1.57 | 0.90%

174.00×3	Ask/Size 176.09×4	Day Range 172.68 – 177.52	Volume / Avg 5.7 Mil / 8.1 Mil
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Year Range 115.29 – 195.72	Forward Div Yield —	Market Cap 158.5274 Bil	Investment Style Large Growth
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Price/Sales 8.52	Beta (5-Year) 1.08	Consensus Forward P/E 59.88	Price/Book 4.59
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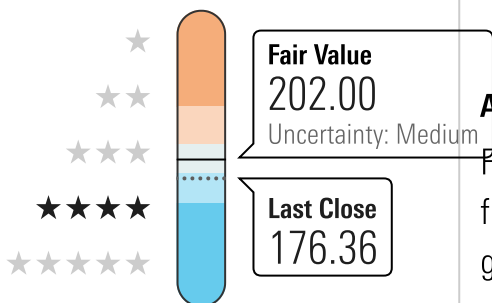
USD | New York Stock Exchange |
Last close prices updated as of Jun 01, 2020, 6:45 PM EST |
BATS BZX Real-Time Price

Morningstar's Analysis ⓘ

Summary Competitors Bulls Say/Bears Say

Valuation Feb 26, 2020
Currency in USD

CRM is Undervalued at a 13% Discount.



1-Star Price

Salesforce Shows Coronavirus Symptoms With a Reasonable Quarter and Lower Outlook; Maintain \$202 FVE

Dan Romanoff
Analyst

Analyst Note | by Dan Romanoff Updated May 29, 2020

For the first quarter, Salesforce reported mixed results on headline figures relative to our and Street expectations as well as its own guidance. Guidance was light for the second quarter and full year measures were guided down as well. All things considered in the face the COVID-19 pandemic, we think results are solid, with a lowered

> 272.70

Economic Moat

Wide

Trend: Positive

5-Star Price

< 141.40

Stewardship

Standard

outlook prudent and generally consistent with peers. On the call management noted that the month of April ended better than anticipated at the beginning of that month. Mark Benioff, CEO, proclaimed "I'm already really inspired by the bookings numbers that I started to see and the pipeline numbers. So we're quite optimistic." We think this is a harbinger of an acceleration in the broad digital transformation effort that is already underway, as companies are confronted with the reality that they lack the flexibility to quickly shift to remote work. We are maintaining our fair value estimate of \$202 for wide-moat Salesforce and view shares as attractive

Revenue grew 30% year over year to both guidance and our estimate, but strength in the sales cloud and professional marketing clouds, as well as platform for the quarter.

[Analyst Note](#)[Business Strategy and Outlook](#)[Economic Moat](#)[Fair Value and Profit Drivers](#)[Risk and Uncertainty](#)[Stewardship](#)[Close Full Analysis](#)

After building margin momentum last margin surprised to the downside, at 18.2% a year ago. We expected a modest small acquisitions in the last year. However,

million in one-time costs for guaranteed partial commissions, lease impairments, penalties for event cancellations, COVID-19 related donations, all of which were offset by \$75 million in savings from lower travel and entertainment expenses. For the year management believes it can maintain flat margins compared with fiscal 2020. Non-GAAP EPS was \$0.70, which was in line with guidance and was aided by investment gains and a tax benefit.

Business Strategy and Outlook | by Dan Romanoff [Updated Feb 26, 2020](#)

We believe Salesforce.com represents one of best long-term growth stories in software. Even as revenue growth seems likely to dip below 20% for the first time at some point in the next several years, we believe ongoing margin expansion should continue to compound earnings growth of more than 20% annually for much longer.

After introducing the software-as-a-service model to the world, Salesforce.com has assembled a front-office empire that it can build on for years to come, in our view. Sales Cloud represents the original

salesforce automation product, which streamlined process management for sales leads and opportunities, contact and account data, process tracking, approvals, and territory tracking. Salesforce.com's critical differentiator was that the software was accessed through a web browser and delivered over the Internet, thus inventing the SaaS software delivery model. Service Cloud brought in customer service applications, and Marketing Cloud delivers marketing automation solutions. These solutions encompass nearly all aspects of customer acquisition and retention and, in our view, are mission critical. Salesforce Platform also offers customers a platform-as-a-service solution, complete with the AppExchange, as a way to rapidly create and distribute apps. We believe this further strengthens the substantial community of Salesforce users.

In our view, Salesforce will benefit further from natural cross-selling among its clouds, upselling more robust features within product lines, pricing actions, international growth, and continued acquisitions. Salesforce is widely considered a leader in each of its served markets, which is attractive on its own, but the tight integration among the solutions and the natural fit they have with one another makes for a powerful value proposition, in our view. To that end, more than half of enterprise customers use multiple clouds. Further, customer retention has gradually improved over time and is better than 90%, which we expect to grind higher still in the coming years.

Economic Moat | by Dan Romanoff [Updated Feb 26, 2020](#)

For Salesforce.com overall, we assign a wide moat rating arising primarily from switching costs, with support from a network effect as well.

Salesforce.com revolutionized the software industry in 2000 with the release of its salesforce automation, or SFA, application. The feature set was generally similar to those offered by peers: streamlined process management for sales leads and opportunities, contact and account data, process tracking, approvals, and territory tracking.

Salesforce.com's critical differentiator was that the software was accessed through a web browser and delivered over the Internet. Taken for granted now, this was a novel concept during the Internet bubble. The company paved the way for the software industry as it exists now

by first selling the concept of software as a service to prospective customers and then selling the actual SFA product.

The SaaS business model, and Salesforce's SFA application, rose in popularity as customers were able to avoid high up-front costs and lengthy installations or potentially painful upgrade cycles, were always running the latest version, had more predictable operating expenses and capital outlays, and were running modern best-of-breed applications. Further, the SaaS vendors benefited from more predictable revenue streams, the elimination of piracy, and supporting only one product version. Thus, a new way to consume software was born, with all parties benefiting.

Salesforce.com remains the clear leader in salesforce automation (Sales Cloud). The company has gone from no product to 33% market share over the last 20 years. Customers and industry observers alike view Salesforce.com as the clear front-runner in a category that increases the productivity of sales representatives. In other words, this is mission-critical software that helps drive revenue for users. We believe this segment enjoys a wide moat--indeed the widest moat as a stand-alone product among Salesforce.com's four cloud solutions. A variety of industry data points clearly indicate the Sales Cloud SFA solution is a best-of-breed solution, which by itself creates a certain amount of organizational inertia, as IT managers and executives engage in self-serving behavior. That is, they can jeopardize their own careers by pushing to switch from a leading solution that is functioning well and meeting their corporate needs. We believe customers are also reluctant to switch away from Sales Cloud because of the time, expense, and risk of implementing new applications and migrating data and the time, expense, and lost productivity of retraining the workforce on a new platform. SFA is a revenue-driving initiative and therefore is critical to users. The organizational risk of making a change is high, in our view.

There is a school of thought that asserts switching costs are lower on SaaS software solutions. We do not subscribe to that position. While it may be easier to physically switch from one vendor to another in a SaaS model, the data generally do not show increased churn as the industry has shifted from on-premises perpetual licenses to cloud-delivered SaaS solutions. We attribute the lack of customer churn in SaaS in general to easier integration with existing applications and infrastructure, best-of-

breed solutions, the time, expense, and risk of moving mission-critical data, and the retraining of the workforce to learn a new application. We think these same considerations drive highly recurring revenue for Salesforce.com. Along those lines, we believe the company's retention has improved modestly over time, from 88% to approximately 92%, but has remained relatively stable for nearly 20 years. In fact, nearly all other SaaS companies we have analyzed demonstrate similar such retention.

The SaaS model, and indeed the company's initial SFA solution were both envisioned as an SMB product. As the company added features and continually honed the product and would-be buyers became more comfortable with SaaS, it evolved into an enterprise class product. As the original salesforce automation product added features, the use cases similarly grew. Salesforce.com ultimately separated out products into separate "clouds" (suites). The company currently offers four different clouds: Sales Cloud, Service Cloud, Marketing and Commerce Cloud, and Salesforce Platform and Other. Salesforce is generally considered a leader in each. That said, the lines between the company's clouds are at times blurry, as similar features can be found in multiple clouds.

In our view, Service Cloud is a natural extension of the Sales Cloud and is a clear example of two segments offering some similar features. Service Cloud includes a set of solutions aimed at helping an enterprise deliver customer service and support at scale. Customer service is another mission-critical function that directly helps a company attract and retain customers and therefore also is associated with driving revenue. We believe that Salesforce.com enjoys a wide moat based on switching costs here as well for the same reasons as its SFA offering. In addition to being a best-of-breed product, customers are reluctant to invest the time and expense of converting a critical revenue-driving function from one application to another, including the implementation and retraining of the workforce, in our view. We think the organizational risk is high for the revenue-driving function that Service Cloud covers. It is more expensive to find a new customer than it is to retain an existing customer.

Salesforce.com discusses Marketing Cloud and Commerce Cloud as one segment for now likely based on the underlying size of each offering. As

a business segment, it is the company's smallest and represents 15% of revenue. Marketing Cloud involves marketing automation, or the ability to create mass-customized cross-platform campaigns to targeted audiences, and by itself represents another natural extension of SFA. While we do not see Commerce Cloud as a clear add-on to SFA, we do see a more obvious relation to Marketing, as it enables an e-commerce engine driven by data and analytics. Digital Marketing is more dynamic in our view, as it is a newer category that has been somewhat fluid in its evolution as leading stand-alone products have become standard features of a good digital marketing platform. There are more contenders, a variety of point solutions, and no single clear leader. Adobe's Digital Experience suite seems to have a narrow but growing lead, with Salesforce right there as well. IBM, SAS, Oracle, and SAP should be thought of as other leading competitors. The company's solution suite has been assembled less organically and more by acquisitions in a niche that has seen a wide variety of private and public company takeouts in the last decade. Key acquisitions for the company include ExactTarget, Buddy Media, Radian6, and a variety of smaller deals. As a stand-alone solution, Salesforce.com's Marketing Cloud benefits from a narrow moat driven by high switching costs, in our opinion. Again, the time, expense, and riskiness of migrating data and applications away from already leading solutions, along with organizational inertia, help keep customer relationships sticky. While we believe the company's overall moat is strengthened by offering Marketing Cloud alongside the other clouds, because it has been assembled largely by acquisitions in a niche that is rapidly evolving, we do not believe it has established a wide moat.

Commerce Cloud is based on the July 2016 acquisition of Demandware and generates 15%-20% of the combined Marketing and Commerce Cloud. At the time of the acquisition, we believe Demandware was the leading independent platform that allowed customers to easily launch and manage multiple e-commerce sites, initiate marketing campaigns more quickly, and improve e-commerce site traffic. We believe Salesforce.com has since bolstered platform functionality. Like the industry that Marketing Cloud operates within, we believe Commerce Cloud is also a newer niche market that has evolved over the last several years. It is also the smallest market represented by each of the company's clouds. Because Salesforce.com moved into a young and

evolving space with the acquisition of the generally strong Demandware platform, we believe it has a narrow moat supported by switching costs.

Salesforce Platform and other includes the May 2018 acquisition of MuleSoft. MuleSoft slides into this segment naturally in that it helps customers solve a major pain point: integrating data and applications across platforms. We believe this segment enjoys a wide moat supported by high switching costs and a network effect. Application development platforms are sticky in that they serve as the core platform on which businesses and processes are built, and switching could be highly disruptive and expensive for developers. The company was early to the market with a cloud-based application development platform for customers. Use of the platform provided the low-investment benefits of a SaaS product, allowed for immediate and smooth integration with Salesforce.com's solutions, and also allowed developers to sell (or give away) the applications they developed on the company's AppExchange.

The AppExchange was not just a novel concept at the time (it predated Apple's App Store by two years), it was revolutionary and by itself was very enticing to developers. A variety of publicly traded companies started out as apps developed on the platform and initially distributed on the AppExchange. In the early years, the popularity of the SFA product attracted developers, Salesforce.com provided a robust and easy-to-use application development platform, and developers created additional applications often built as add-ons to various Salesforce.com solutions. We believe these dynamics allow Salesforce to continue to benefit from network effects. That is, as more customers adopt any of the company's solutions, the AppExchange provides an ever-expanding audience, which makes the AppExchange incrementally more attractive to developers, thus perpetuating a virtuous cycle.

In our opinion, the strength of these clouds is important but should not overshadow the importance of all the solutions being offered under one umbrella by Salesforce. We believe customers value Salesforce.com's discrete clouds as stand-alone solutions, but the various clouds are highly complementary and are tightly integrated with one another, making the complete set of solutions more compelling. Customers are also looking to consolidate vendors. These factors combine to reinforce our wide moat assertion. As the company offers a wider set of related

and best-in-class solutions, we believe it becomes more deeply entrenched in its customers as they adopt multiple clouds.

Fair Value and Profit Drivers | by Dan Romanoff [Updated Feb 26, 2020](#)

Our fair value estimate for Salesforce.com is \$202 per share, which implies a fiscal 2021 enterprise value/sales, or EV/S, multiple of 9 times, adjusted price/earnings, or P/E, multiple of 64 times, and a 2% free cash flow yield.

We model a five-year compound annual growth rate, or CAGR, for total revenue of 18% over the next five years, which we think will be driven by strength in platform and marketing in particular. We also see revenues decelerating during this time outside of any major acquisitions. We forecast non-GAAP operating margin expanding from 17% in fiscal 2021 to the mid 20% area in fiscal 2025, which we think is consistent with management's goal for 125 basis points to 150 basis points of annual margin expansion and is driven by operating leverage.

We believe the underlying markets are large and growing. According to management, the total addressable market will grow to \$143 billion by 2022, with compound annual growth rates for the markets served by Salesforce.com's various clouds generally ranging from 10% to 14%. In our view the company will benefit from natural cross-selling of solutions among the clouds. To help support a decade of strong growth, we model \$1 billion of acquisitions annually, even while acknowledging that this is likely to be a volatile figure.

Risk and Uncertainty | by Dan Romanoff [Updated Feb 26, 2020](#)

Consistent with most large software companies, we assign Salesforce.com a medium fair value uncertainty rating. From a big picture perspective, we believe Marc Benioff will be difficult to replace. He pioneered the software industry, co-founded the company, and led it to be a dominant force with a broad portfolio of sales and marketing related solutions.

We believe the most important metric for Salesforce.com investors is revenue growth. Therefore, continued deceleration in the Sales Cloud, or growth that does not materialize as expected in Service, Marketing,

and Commerce Clouds, or the Salesforce Platform would likely have an adverse impact on the stock in our view.

To help drive growth, Salesforce.com has also been acquisitive. While we do not believe acquisitions have been transformative, the company has certainly made some larger acquisitions in order to help establish an immediate or larger presence in a particular solution. Investors have been concerned at times about rich valuations, as was the case most recently with MuleSoft. We believe the company is likely to continue to make acquisitions, and occasionally will pursue a larger deal. In these situations, valuation and integration will remain risks.

Building on the acquisition-driven risks, Salesforce.com is likely to face new competitors as it continues to acquire its way into markets the company was not previously serving. The Demandware acquisition drove entry into a completely new area and brought a wide variety of competitors the company did not previously come across.

Stewardship | by Dan Romanoff [Updated Feb 26, 2020](#)

We assign Salesforce a Standard stewardship rating. The company has grown to have a market capitalization of greater than \$100 billion, with revenue well in excess of \$10 billion and positive and expanding GAAP operating margins, and is now considered a software industry bellwether. Balancing the obvious positives is our belief that margins are subscale for a company of this size.

After spending 13 years at Oracle in various leadership roles in sales and product development, Marc Benioff cofounded Salesforce.com in 1999 with the "end of software" mission statement. In 2000, the company released the original version of its of salesforce automation product and offered it solely in a SaaS model. This delivery model revolutionized the industry, and 20 years after forming the company, while Benioff has yet to fully achieve his goal of ending the on-premises software model, it is clear he has steered the industry along the path he envisioned. In its early years, Salesforce.com had to sell the idea of SaaS before selling the salesforce automation product.

Founding the company and changing the industry might have been enough for some visionaries, but not for Benioff. As the company's SFA product came to be the market leader, he recognized the need for

additional pillars of growth. Under his direction, the company was the first to offer a SaaS platform for software engineers to develop applications on. Previously, an expensive on-premises development platform was required, leaving access in the hands of larger enterprises. Salesforce.com was first to market with another important disruptive offering in the form of the Salesforce Platform, which created the platform-as-a-Service category.

Other new offerings were more straightforward extensions of the original SFA solution. Service Cloud and Marketing Cloud are most clearly related and serve as natural upselling and cross-selling opportunities for the company. Salesforce.com had various offerings in these areas for some time, but larger acquisitions were used to gain traction and help define new segments. Commerce Cloud is another offering created through acquisition. The persistent search for the next growth leg has paid off, as Service Cloud is now nearly as big as Sales Cloud but is growing considerably faster, and Salesforce Platform and other combined with Marketing Cloud and Commerce Cloud are larger than Sales Cloud yet still growing approximately 3 times as fast as Sales Cloud. The company is now a clear leader in its Service Cloud markets and is also considered to a leader in PaaS, Marketing Cloud, and Commerce Cloud.

Part of the price of entry into large and rapidly growing markets has been the larger acquisitions Salesforce.com has made, including ExactTarget, Demandware, MuleSoft, and Tableau. While we applaud the company's strategic acquisitions and focus on growth initiatives, the acquisition price has often been steep, with MuleSoft checking in at a staggering 22 times trailing sales. Further, the size of these larger acquisitions has grown, with the May 2018 MuleSoft deal at \$6.5 billion at a time when Salesforce.com's market cap was near \$85 billion, and the 2019 Tableau deal at \$15.7 billion at a time when the company's market cap was near \$125 billion. We do not believe these were transformative deals, but they were relatively large.

As the company has grown in prominence and made acquisitions, it has also brought in additional leadership talent. While we note how critical Benioff has been to the success of the company thus far, we take comfort in our belief that Salesforce.com has developed a deep bench

of leadership talent. Benioff is 54 and likely to be around for years to come, in our view.

Salesforce.com's board has 12 members, 10 of whom are independent, with Benioff serving as chairman. Independent directors are generally well qualified and come from a variety of high-profile executive leadership backgrounds. Board member compensation consists of a typical fee of approximately \$50,000 annually as well as in excess of \$500,000 in stock awards, which skews high, in our opinion.

Benioff owns 5% of shares, with insiders overall owning 6%. Compensation for the five named executives is generally in line with other large-cap technology peers and skews toward equity incentives, which clearly aligns management with shareholders. Overall, we see good stewardship, with several items noted preventing us from awarding an Exemplary rating.

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Company Profile

Business Description

Salesforce.com provides enterprise cloud computing solutions, including Sales Cloud, the company's main customer relationship management software-as-a-service product. Salesforce.com also offers Service Cloud for customer support, Marketing Cloud for digital marketing campaigns, Commerce Cloud as an e-commerce engine, the Salesforce Platform, which allows enterprises to build applications, and other solutions, such as MuleSoft for data integration.

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Sector

Industry

Technology

Software - Application

Most Recent Earnings

Jan 31, 2020

Fiscal Year End

Jan 31, 2021

Stock Type

Speculative Growth

Employees

49,000

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Reasonable Quarter, Lower Outlook For Salesforce

We are maintaining our fair value estimate of \$202 for wide-moat Salesforce and view shares as attractive.

Dan Romanoff

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