

## Description

**Salesforce.com** provides cloud-based Customer Relationship Management (CRM) solutions to businesses. It is used for sales, marketing, and customer support. The company also offers e-commerce analytics, social media tools, and consulting services for deployment, training, and design, and integration.

2017 segment revenues break out as follows:

- **Sales Cloud** (33.9%): CRM tool (Customer Relationship Management)
- **Service Cloud** (27.5%) : tools for client service and support
- **Marketing Cloud** (12.9%) : tools for customer interactions
- **Other** (18.4%): includes commerce tools, analytical tools, IoT solutions, etc.
- **Professional services** (7.3%): consulting services for deployment, training, and design, and integration

## Recent Developments

- Acquired e-Commerce platform Demandware in 2017 and Mulesoft, a provider of PaaS (Platform as a Service) solutions, in March 2018.
- 4Q earnings showed strong results and billings growth. CEO Marc Benioff stated this was “perhaps our best quarter ever.” Q1 billing guidance was below expectations, though.

## Investment Case

**Salesforce.com** continues to deliver strong billings growth and faces ample room to grow via international development and an expanding product ecosystem. Valuation is high (low 50s 1-year forward P/E) but decreasing, as top-line continues to grow and margins improve.

The main risk to stock price is a deceleration in billings growth, the most closely-watched metric.

November 1, 2018

**Sector** Information Technology  
**Industry** Software & Services  
**Mkt Cap (\$bn)** 85.0

**Price** 116.10  
**1Y Range** 83.00 - 128.87  
**200 D Histo Volatility** 21%

(in USD MM)

**Revenue** 10'480  
**EBITDA** 988  
**EBITDA Margin** 9.4%  
**1 Year Fwd. P/E** 52.0  
**Dividend Yield** 0.00%

### 5 Year Price Action



Source : Bloomberg

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## SWOT Analysis

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### Strengths

- Extensive CRM offering: sales, marketing, customer support, social media
- First-mover, innovator, disruptor and leader in digital transformation
- Scalable business
- Large customer base across various industries
- Flexible subscription offering that allows for a variety of customers from small businesses to large enterprises
- Strong sales force
- Consolidates the industry, expands its ecosystems
- Strong leadership with CEO Marc Benioff

### Weaknesses

- Strong competition (Oracle, Microsoft, SAP, etc.)
- Generates most of its revenues in the US
- Lost money from 2012 to 2016
- Customer are mostly B2B, lacks competitiveness in B2C solutions
- Highest price offering in the industry
- Slowing topline growth
- Lower margins than legacy software companies
- High SMB (Small and Medium Businesses) acquisition cost
- Dependent on third party for infrastructure
- High stock-based compensation
- Annual revenue remains below the \$10Bn mark

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### Opportunities

- Secular shift in the corporate world to cloud-based software
- Large addressable market
- International expansion
- Further expansion of its ecosystem. Cross-selling and deeper penetration of existing customer base
- Improving profitability
- Increase use of Artificial Intelligence in its solutions (Einstein)
- PaaS solutions following Mulesoft acquisition
- Growth of IaaS (Infrastructure as a Service) led by partners Amazon and Alphabet

### Threats

- Competition is intensifying as legacy vendors are migrating to the cloud
  - Rising marketing costs and headcount
  - Faster than expected deceleration in billing growth
  - Expensive acquisitions, negative impact on margin (Mulesoft)
  - Hacking and data privacy
  - Higher cost of acquiring news business in international markets than in the US
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