

Company update

Salesforce.com Inc

Research Team
U.S. | Information Technology

Rating BUY (as at 2 December 2020)
 Last Close USD 241.35
 Fair Value USD 279.00

Now to make it WORK

- **Good 3QFY21 scorecard across key metrics, though cRPO guidance for 4QFY21 somewhat light**
- **Questions over Slack deal valid, though long-term benefits should not be overly discounted; Salesforce has good track record in deal integration**
- **Continues to be a core beneficiary of acceleration in Digital Transformation**

Investment thesis

Salesforce is a global leader in CRM software, enabling companies to improve their relationships and interactions with their customers. It has surpassed US\$10b in annual revenue in FY18, reaching this milestone faster than any other enterprise software company in history. It exists in a large TAM and its growth is powered by the digital transformation of companies of various sizes and industries. Salesforce possesses a highly scalable model arising from its multi-tenanted technology architecture, and is looking to capitalize on growth opportunities overseas. Salesforce's suite of products also presents multiple cross-selling and upselling opportunities as it deepens its relationships with its existing customers.

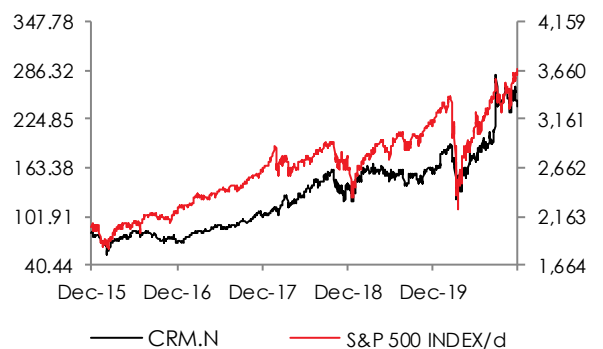
Investment summary

- **Decent results; CFO retiring** – Salesforce.com's (Salesforce) 3QFY21 results came in generally in-line to above expectations. Revenue grew 20% YoY to US\$5.4b, above consensus expectations of US\$5.25b and management guidance of US\$5.24b-5.25b. Current RPO growth of 19.5% YoY also came in slightly better than management's prior guidance of +19.0% YoY. Diluted non-GAAP EPS came in at US\$1.74, significantly higher than that of consensus at US\$0.75. In terms of guidance, cRPO guidance of 16% growth for 4QFY21 appears somewhat light, but we believe this could be a function of management erring on the side of caution. Salesforce has announced that CFO Mark Hawkins will be retiring, with Amy Weaver (President and Chief Legal Officer) identified as his replacement. Despite her legal (not financial) background, Salesforce believes that she is a strong operator with a close relationship with the

Security information

Ticker	CRM.N
Market Cap (USD b)	219.6
Daily turnover (USD m)	1.5
Free Float	96%
Shares Outstanding (m)	908
Top Shareholder	FMRC 8.9%

Price performance chart



Financial summary

USD (m)	FY20	FY21E	FY22E
Revenue	17,098	20,758	24,796
Adj. Gross Profit	13,507	16,345	19,677
Adj. Op Profit	2,874	3,789	4,482
Adj. Net Income	2,544	4,411	3,497
Adj. EPS (\$, dil.)	3.0	4.7	3.7

Key ratios

	FY20	FY21E	FY22E
Revenue growth	29%	21%	19%
Adj. gross margin	79%	79%	79%
Adj. op margin	17%	18%	18%
Adj. net margin	15%	21%	14%

Source: Refinitiv, Company, Internal estimates

CEO.

- **All eyes on Slack** – In our view, investors' near-term attention is likely to be focused more on the latest corporate development, rather than the 3Q scorecard. Salesforce has announced that it has entered into a definitive agreement to acquire Slack Technologies (Slack; WORK US), an enterprise communications platform. This will be in the form of \$26.79 in cash and 0.0776 shares of Salesforce's common stock for each Slack share, which represents an EV of ~\$27.7b for Slack (based on Salesforce's closing price on 30 Nov). Based on Bloomberg consensus, this translates into a valuation of ~25x EV/NTM sales, which in our view is not a cheap price tag. We believe it would therefore be natural for investors to be concerned, coupled with OPM dilution and questions around Slack's competitive position vs. Microsoft Teams. While the synergy story is still being debated by the Street, we believe potential longer-term benefits of having Slack within the Salesforce umbrella should not be overly discounted. Slack is slated to become the new interface for Salesforce Customer 360; its ability to tap on Salesforce's strong application engagement and vast installed base should not be understated, and the crystallization of the value of social enterprise with Slack's collaborative interfaces could emerge over time. Importantly, we also believe that Salesforce generally has a good track record in integrating some of its larger deals (e.g. MuleSoft, Tableau), and despite the time needed for clear financial returns to materialize from this transaction, we do believe that the team has the necessary experience to smoothen the transition.
- **Valuations relatively undemanding** – Regardless, we believe some of the near-term pessimism has been built into valuations, with Salesforce trading at 0.45x 2FY consensus EV/sales/growth, as compared to the median of our comp set at 0.95x. Following adjustments, our FV eases from US\$293 to US\$279. We continue to believe that Salesforce will be a core beneficiary of acceleration in Digital Transformation, but would recommend investors to be patient given the time needed to digest the above developments.

Potential catalysts

- Strong execution in new markets
- Acceleration in billings growth
- Better-than-expected market share gains with large enterprises

Investment risks

- Integration risks from acquisitions
- Keen competition, especially in Marketing and Commerce cloud
- Competition from legacy vendors

Valuation analysis

	Price/Earnings		Price/Book		EV/EBITDA		Dividend Yield (%)		ROE (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
SALESFORCE.COM INC (CRM.N)	60.4	65.8	5.6	5.5	35.0	30.4	0.0	0.0	11.7	8.8
SERVICENOW INC (NOW.N)	118.8	96.7	32.5	20.7	72.0	59.9	0.0	0.0	35.4	31.3
WORKDAY INC (WDAY.O)	83.8	77.5	14.6	12.2	52.3	45.8	0.0	0.0	13.0	7.3
SAP SE (SAPG.DE)	19.5	21.1	3.8	3.6	15.1	14.6	1.6	1.7	18.4	16.7
ORACLE CORP (ORCL.N)	13.9	12.9	16.5	12.7	10.4	10.1	1.7	1.7	108.9	102.0

Source: Refinitiv

Price/Earnings chart



Source: Refinitiv

Price/Book chart



Source: Refinitiv

Company overview (as of 31 January 2019)

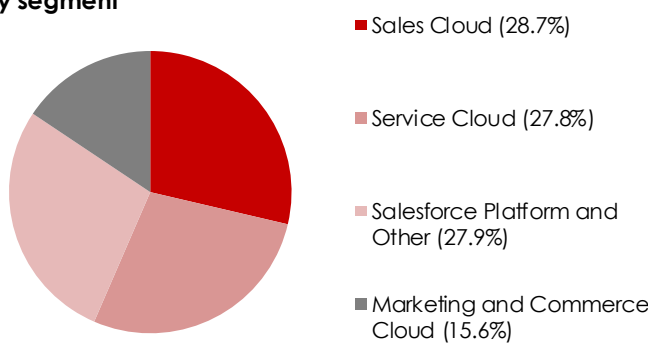
Company description

Salesforce is a global leader in customer relationship management, or CRM, software. The company delivers its cloud-based software through the internet as a service. Salesforce introduced its first CRM solution in 2000, and has since expanded its service offerings into new areas and industries, as well as introduced new features and platform capabilities. Salesforce's core mission is to empower its customers to connect with their customers in entirely new ways through cloud, mobile, social, Internet of Things ("IoT") and artificial intelligence ("AI") technologies.

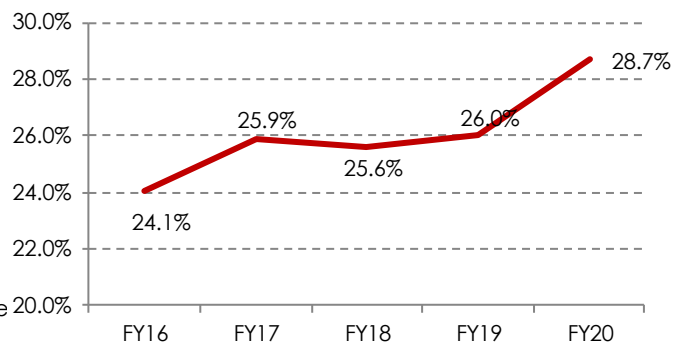
Salesforce's service offerings are designed to be intuitive and easy to use. They can be deployed rapidly via mobile devices and major internet browsers, configured easily and integrated with other platforms and enterprise applications. Salesforce sells to businesses of all sizes and in almost every industry worldwide on a subscription basis, primarily through its direct sales efforts and also indirectly through partners. Through its platform and other developer tools, third parties are also enabled to develop additional functionality and new apps that run on the platform, which are sold separately from, or in conjunction with, Salesforce's service offerings. Salesforce delivers a comprehensive portfolio of service offerings including sales force automation, customer service and support, marketing automation, digital commerce, community management, collaboration, industry specific solutions and the Salesforce Platform.

FY20 Sub. And Support Revenue breakdown Revenue growth

By segment



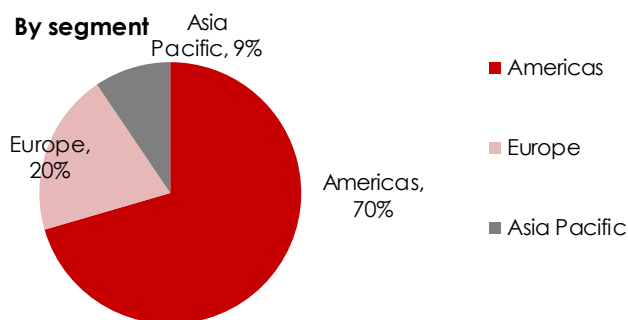
Source: Company



Source: Company

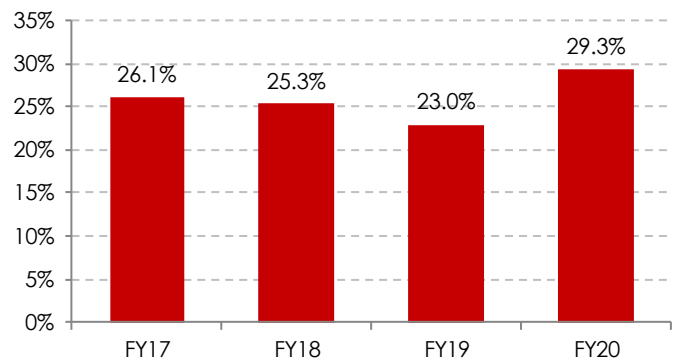
FY20 Geographical breakdown

By segment



Source: Company

Billings growth



Source: Company

Company financials

Income Statement

In Millions of USD except Per Share 12 Months Ending	FY2016 31/01/2016	FY2017 31/01/2017	FY2018 31/01/2018	FY2019 31/01/2019	FY2020 31/01/2020
Revenue	6,667.2	8,437.0	10,540.0	13,282.0	17,098.0
- Cost of Revenue	1,654.5	2,234.0	2,773.0	3,451.0	4,235.0
Gross Profit	5,012.7	6,203.0	7,767.0	9,831.0	12,863.0
+ Other Operating Income	--	--	--	--	--
- Operating Expenses	4,901.4	5,985.0	7,313.0	9,296.0	12,566.0
Operating Income or Losses	111.3	218.0	454.0	535.0	297.0
- Interest Expense	72.5	89.0	87.0	154.0	130.0
- Foreign Exchange Losses (Gains)	--	--	--	--	--
- Net Non-Operating Losses (Gains)	-25.5	-50.0	-53.0	-602.0	-539.0
Pretax Income	64.3	179.0	420.0	983.0	706.0
- Income Tax Expense (Benefit)	111.7	-144.0	-66.0	-170.0	574.0
Income Before XO Items	-47.4	323.0	486.0	1,153.0	132.0
- Extraordinary Loss Net of Tax	--	--	-126.0	-43.0	-6.0
- Minority/Non Controlling Interests (Credits)	--	--	--	--	--
Net Income/Net Profit (Losses)	-47.4	323.0	360.0	1,110.0	126.0
Net Inc Avail to Common Shareholders	-47.4	323.0	486.0	1,153.0	132.0
Abnormal Losses (Gains)	--	--	-126.0	-43.0	-6.0
Tax Effect on Abnormal Items	--	--	--	--	--
Normalized Income	-70.8	323.0	486.0	1,170.6	239.9
Basic Earnings per Share	-0.1	0.5	0.7	1.5	0.2
Basic Weighted Av g Shares	661.6	688.0	715.0	751.0	829.0
Diluted EPS Before Abnormal Items	-0.1	0.5	0.7	1.5	0.2
Diluted EPS Before XO Items	-0.1	0.5	0.7	1.5	0.2
Diluted EPS	-0.1	0.5	0.5	1.4	0.1
Diluted Weighted Av g Shares	661.6	700.0	735.0	775.0	850.0

Profitability Ratios

12 Months Ending	FY2016 31/01/2016	FY2017 31/01/2017	FY2018 31/01/2018	FY2019 31/01/2019	FY2020 31/01/2020
Returns					
Return on Common Equity	-1.06	5.17	5.44	8.88	0.53
Return on Assets	-0.40	2.13	2.46	4.37	0.31
Return on Capital	2.00	1.52	1.18	0.84	0.47
Return on Invested Capital	-7.04	13.37	6.92	4.82	0.36
Margins					
Operating Margin	1.67	2.58	4.31	4.03	1.74
Incremental Operating Margin	-0.62	1.55	1.67	0.94	0.43
Pretax Margin	0.96	2.12	3.98	7.40	4.13
Income before XO Margin	-0.71	3.83	4.61	8.68	0.77
Net Income Margin	-0.71	3.83	4.61	8.68	0.77
Net Income to Common Margin	-0.71	3.83	4.61	8.68	0.77
Additional					
Effective Tax Rate	173.78	-80.45	-15.71	-17.29	81.30
Divid Payout Ratio	0.00	-	-	-	-
Sustainable Growth Rate	-1.06	-	-	-	-

Credit Ratios

12 Months Ending	FY2016 31/01/2016	FY2017 31/01/2017	FY2018 31/01/2018	FY2019 31/01/2019	FY2020 31/01/2020
Total Debt/EBIT	18.41	12.81	3.79	6.49	6.60
Net Debt/EBIT	-6.08	2.68	-6.17	-1.24	-10.56
EBIT to Interest Expense	1.54	2.45	5.22	3.65	3.56
Long-Term Debt/Total Assets	15.93	15.30	3.16	11.16	5.45
Net Debt/Equity	-0.14	0.08	-0.27	-0.04	-0.14

Source: Refinitiv

ANALYST DECLARATION:

The analyst(s) who prepared this report certifies that the opinions contained herein accurately and exclusively reflect his or her views about the securities of the listed entity, and that he or she has taken reasonable care to maintain independence and objectivity in respect of the opinions herein.

The analyst(s) who wrote this report does not hold any financial interests in the listed entity. The analyst's/analysts' connected persons do not hold any financial interests in the listed entity.

The analyst(s) does not receive compensation directly or indirectly related to the inclusion of specific recommendations or views in this report. The reporting line of the analyst(s) is separate from and independent of the business solicitation or marketing departments of Oversea-Chinese Banking Corporation Limited ("OCBC Bank") Group.

The analyst(s) or his/her associate confirms that he or she does not serve as directors or officers of the listed entity, and the listed entity or other third parties have not provided or agreed to provide any compensation or other benefits to the analyst(s) in connection with this report.

DISCLAIMER FOR RESEARCH REPORT

This report is solely for information and general circulation only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without the written consent of OCBC Investment Research Private Limited ("OIR" or "we"). This report should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities mentioned herein or to participate in any particular trading or investment strategy. Whilst we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee its accuracy or completeness, and you should not act on it without first independently verifying its contents. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. You may wish to seek advice from a financial adviser regarding the suitability of the securities mentioned herein, taking into consideration your investment objectives, financial situation or particular needs, before making a commitment to invest in the securities. In the event that you choose not to seek advice from a financial adviser, you should consider whether investment in securities and the securities mentioned herein is suitable for you. Oversea-Chinese Banking Corporation Limited ("OCBC Bank"), Bank of Singapore Limited ("BOS"), OIR, OCBC Securities Private Limited ("OSPL") and their respective connected and associated corporations together with their respective directors and officers may have or take positions in the securities mentioned in this report and may also perform or seek to perform broking and other investment or securities related services for the corporations whose securities are mentioned in this report as well as other parties generally.

The information provided herein may contain projections or other forward looking statements regarding future events or future performance of countries, assets, markets or companies. Actual events or results may differ materially. Past performance figures are not necessarily indicative of future or likely performance.

Privileged / confidential information may be contained in this report. If you are not the addressee indicated in the message enclosing the report (or responsible for delivery of the message to such person), you may not copy or deliver the message and/or report to anyone. Opinions, conclusions and other information in this document that do not relate to the official business of OCBC Bank, BOS, OIR, OSPL and their respective connected and associated corporations shall be understood as neither given nor endorsed.

RATINGS AND RECOMMENDATIONS:

- OIR's technical comments and recommendations are short-term and trading oriented.
- OIR's fundamental views and ratings (Buy, Hold, Sell) are medium-term calls within a 12-month investment horizon.
- As a guide, OIR's BUY rating indicates a total expected returns (excluding dividends) in excess of 10% based on the current price; a HOLD rating indicates total expected returns (excluding dividends) within +10% and -5%; a SELL rating indicates total expected returns (excluding dividends) less than -5%. For REITs and Business Trusts, total expected returns including dividends apply.
- For companies with market capitalisation of S\$150m and below, OIR's BUY rating indicates a total expected returns (excluding dividends) in excess of 30%; a HOLD rating indicates total expected returns (excluding dividends) within a +/-30% range; a SELL rating indicates total expected returns (excluding dividends) less than -30%. For REITs and Business Trusts, total expected returns including dividends apply.