



Equity Valuation - Salesforce

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Abstract

This thesis employs a hybrid valuation methodology, integrating Discounted Cash Flow (DCF) and relative valuation, to evaluate the financial performance of Salesforce, Inc. The analysis identifies several key strengths of Salesforce, including a robust gross margin of 75.5%, a projected long-term growth rate of 16.2%, and a well-established position within the SaaS market. In the wake of Donald Trump's election, technology stocks witnessed a notable surge in valuation multiples, suggesting the possibility of further expansion. However, the intensifying competitive landscape underscores the necessity for strategic execution to sustain growth.

The target price of \$306.4 reflects the intrinsic and market-based potential of Salesforce. Sensitivity analyses and scenario modeling, including optimistic projections based on AI strategies, demonstrate the variability in valuation outcomes. Nevertheless, the attainment of projected growth is contingent upon Salesforce's capacity to effectively leverage AI and maintain its leadership position in the face of intensifying competition.

This research issues a "hold" recommendation, as the current valuation is in close alignment with the target price, indicating limited short-term potential for growth. While Salesforce provides a stable foundation for long-term growth, its success is contingent upon the consistent execution of strategic initiatives in a dynamic market. The findings contribute to the equity valuation literature, emphasizing the importance of aligning market optimism with intrinsic performance, particularly in the rapidly evolving technology sector.

Title: Equity Valuation – Salesforce

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Keywords: Equity Valuation, Discounted Cash Flow, Relative Valuation, Salesforce, SaaS Market, Technology Stocks, AI Strategies, Market Dynamics, Competitive Landscape, Long-Term Growth.

Sumário

Esta tese utiliza uma metodologia híbrida, integrando o Fluxo de Caixa Descontado (DCF) e a avaliação relativa, para avaliar a Salesforce, Inc. A análise identifica uma margem bruta de 75,5%, uma taxa de crescimento projetada de 16,2% e uma posição consolidada no mercado de SaaS. Após a eleição de Donald Trump, os múltiplos das ações tecnológicas aumentaram significativamente, sugerindo potencial para maior valorização. Contudo, o aumento da concorrência exige execução estratégica eficaz.

Com um preço-alvo de 306.4 dólares, a avaliação reflete o potencial intrínseco e de mercado da Salesforce. Análises de sensibilidade e cenários otimistas, baseados em estratégias de IA, demonstram a variabilidade dos resultados. No entanto, alcançar o crescimento projetado depende do uso eficiente da IA e da manutenção da liderança em um mercado competitivo.

A recomendação de "manutenção" é emitida, dado que o preço atual está alinhado ao preço-alvo, indicando potencial limitado de valorização no curto prazo. Ainda assim, a Salesforce apresenta fundamentos sólidos para crescimento de longo prazo, desde que suas estratégias sejam bem executadas. Este estudo contribui para a literatura de avaliação de ações, destacando a importância de alinhar o otimismo do mercado ao desempenho intrínseco no setor tecnológico.

Título: Avaliação do capital próprio - Salesforce

Autor: Tim Bischof

Palavras-chave: Equidade, Avaliação, Fluxo de Caixa Descontado, Avaliação Relativa, Salesforce, Mercado SaaS, Ações de tecnologia, estratégias de IA, dinâmica de mercado, cenário competitivo, Crescimento a longo prazo.

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1 Introduction

The role of equity valuation in financial decision-making is critical, providing a fundamental basis for investment strategies, corporate finance decisions and market analysis. This dissertation examines the valuation of Salesforce, a global leader in customer relationship management (CRM) solutions and a pioneer in cloud-based software. Considering the CRM industry's accelerated growth, driven by trends such as digital transformation, artificial intelligence (AI) and subscription-based revenue models, Salesforce has positioned itself as a pivotal player in this dynamic market.

This study applies a hybrid valuation approach, combining discounted cash flow (DCF) analysis with relative valuation methods. This methodology captures the intrinsic value of Salesforce, which is rooted in its operational and financial performance and its relative market positioning compared to other companies within the software-as-a-service (SaaS) sector. The dissertation thus seeks to provide a comprehensive assessment of Salesforce's valuation, addressing its growth potential, profitability and strategic positioning through the integration of these approaches.

The dissertation's key areas of focus include an examination of Salesforce's business model, which is characterized by recurring revenue streams and a strong emphasis on innovation; an analysis of the company's competitive landscape, which is shaped by both established technology giants and emerging players; and an investigation of the company's financial metrics, which reflect a mature growth phase. The objective of this research is to identify the challenges and opportunities that Salesforce is facing in maintaining its competitive advantage and creating value for its stakeholders.

This dissertation contributes to the broader understanding of equity valuation by applying established financial theories to a leading technology company. It also examines the implications of valuation outcomes for investors, corporate strategists and market participants, particularly in the context of rapidly evolving technological and economic environments.

2 Literature Review

2.1 Absolute Valuation Methods

Absolute valuation methods, also known as intrinsic methods, focus on determining a company's intrinsic value by discounting future cash flows or earnings to their present value. In contrast to relative valuation methods, which determine value in comparison to market benchmarks, absolute valuation methods are based exclusively on the company's fundamental characteristics (Damodaran, 2012).

2.1.1 Dividend Discount Models

The **Dividend Discount Model (DDM)** is one of the oldest valuation methods and is based on future dividends that an investor can expect. This method is particularly suitable for companies with stable dividend payments, as it directly values the company's distributions (Demirakos et al., 2010). However, as Salesforce does not pay dividends and reinvests its profits in growth initiatives, the DDM is unsuitable for valuing the company.

2.1.2 Free Cash Flow Methods (FCF)

The **Free Cash Flow to Firm (FCFF)** is a widely used valuation tool that defines a company's value based on projecting operating cash flows, independently of dividend policy or capital structure. This makes it particularly suitable for high-growth firms like Salesforce (Damodaran, 2012). The FCFF is calculated as the net cash flow available to all capital providers. It is derived from EBIT, adjusted for taxes, investments and changes in working capital.

The FCFF model has demonstrated reliability even in the context of earnings volatility. Dichev & Tang (2009) highlight the resilience of the FCFF model in fluctuating earnings, while Demirakos et al. (2010) emphasizing its suitability for high-risk, high-growth sectors by accommodating investor interests comprehensively. In dynamic markets such as technology, the FCFF model is an effective means of capturing long-term success and value creation (Goedhart et al., 2016).

The preference for FCFF over Free Cash Flow to Equity (FCFE) is based on its capacity to reflect total operating cash flow, which provides a robust valuation foundation that is essential for companies that are focused on growth and debt financing, where long-term potential is of primary importance (Damodaran, 2012).

2.1.2.1 Cost of Capital

The cost of capital is of central importance for company valuation, as it represents the discount rate that maps future cash flows to their present value. A precise determination of the cost of capital is crucial to ensure a realistic valuation (Jacobs & Shivdasani, 2012).

The **Weighted Average Cost of Capital (WACC)** is typically employed as the discount rate for the FCFF model. This is achieved by applying the respective costs to the following formula:

$$WACC = \frac{E}{E + D} * r_e + \frac{D}{E + D} * r_d * (1 - \tau)$$

The WACC employs market values of debt and equity for weighting, thereby ensuring an accurate and comprehensive corporate discount rate. Nevertheless, an erroneous selection of the risk-free interest rate or beta can readily result in valuation inaccuracies. For example, Fernández (2013) caution against the use of historical average interest rates or betas as current values, which often results in distortions.

The **cost of equity (r_e)** is frequently estimated through the **Capital Asset Pricing Model (CAPM)**, in which the **risk-free rate (r_f)** is ideally based on long-term government bonds to ensure consistency with long-term cash flows (Damodaran, 2012).

$$r_e = r_f + \beta (r_m - r_f)$$

Jacobs & Shivdasani (2012) demonstrate that approximately 46% of companies utilize the 10-year government bond as a foundation, while others favor shorter maturities, such as the 90-day rate, which can result in notable discrepancies. The **beta (β)**, which reflects the volatility of a share in comparison to the overall market, is frequently calculated over a five-year period. However, discrepancies in the periods (e.g., 1 or 3 years) can impact the beta and, consequently, the cost of equity by up to 1.5%. Furthermore, financial risks and the potential costs of financial distress should be incorporated into the cost of equity, as investors demand higher **risk premiums (r_m)** during periods of market turbulence (Almeida & Philippon 2007).

The **cost of debt (r_d)** is calculated by many companies (52%) that employ a marginal interest rate and marginal tax rate for calculating foreign capital costs. A smaller proportion (37%) utilize the current average interest rate in conjunction with the effective tax rate (Damodaran, 2012). Additionally Almeida & Philippon (2007) highlight that risks associated with potential

payment defaults can also impact the cost of debt and should, therefore, be incorporated into the cost of capital, particularly for high-risk companies.

2.1.2.2 Terminal Value

The terminal value represents a pivotal element within the FCFF model, frequently constituting a significant portion of the overall enterprise value. It is typically calculated either as a perpetuity with a constant growth rate or using a multiplier method to represent the company value after the forecast phase (Cornell & Gerger, 2020). Despite the criticism imposed by Cornell & Gerger (2020) against the assumption of a constant growth rate, which is often incongruent with the reality of volatile and market-dependent companies, a constant growth rate allows for a stable and practical estimate that is consistent with long-term economic growth.

To minimize forecast uncertainties in the terminal value, a constant growth rate has been employed for the valuation of Salesforce. The three-phase model portrays the anticipated elevated initial growth of Salesforce, followed by a transition phase and culminating in long-term stable growth. This approach allows for a realistic mapping of the growth phases while maintaining a balance between precision in the initial forecast and stability in the long-term terminal value (Ashton & Wang, 2013).

According to Damodaran (2012), the terminal growth value should be chosen conservatively, ideally in the range of long-term nominal economic growth, typically 2-3%, depending on the stability and long-term competitive advantages of the company and consistent with the return on invested capital (ROIC) and reinvestment rate.

2.1.3 Asset-based Methods

The asset-based valuation method is a technique for determining the value of a company by subtracting its liabilities from its assets. It is particularly suited to companies with tangible assets that are straightforward to value, such as property or machinery. This method is frequently utilized in the context of corporate liquidation or restructuring, particularly when the company is in the declining phase of its corporate lifecycle (Damodaran, 2012).

Nevertheless, this method is less applicable to a company such as Salesforce, which places significant reliance on intangible assets, including intellectual property, software and customer loyalty. The valuation of intangible assets is inherently complex and a purely asset-based valuation would likely underestimate the true value of the company. Consequently, such methods are less suitable for growth-oriented and technology-driven companies such as

Salesforce, whose value potential is more accurately reflected by cash flow or earnings methods (Damodaran, 2011).

2.1.4 Adjusted Present Value

The **Adjusted Present Value (APV)** method is particularly useful when firms have a highly variable capital structure because it splits the value of the firm into two parts: the unleveraged firm value and the present value of the tax benefits of debt financing (Luehrman, 1997). This method works well for companies that have frequent changes in their debt or operate in highly leveraged industries (Damodaran, 2012).

In the case of Salesforce, however, the company has maintained a largely stable capital structure despite extensive acquisitions. Given the lack of significant fluctuations in debt financing, using the APV method is not mandatory.

2.2 Relative Valuation Methods

As demonstrated by Demirakos et al. (2010), the efficacy of valuation models is enhanced when market phases and company characteristics are incorporated into the analysis. These findings lend support to the use of a hybrid valuation approach for Salesforce as a mature growth company, which reflects both long-term potential and market position. This method is particularly popular in practice as it uses market-based key figures and provides quick results (Damodaran, 2012).

2.2.1 Peer Group

The selection of an appropriate peer group is of critical importance for the accurate determination of relative valuation. Bhojraj & Lee (2002) suggest that the optimal peer group comprises companies exhibiting similar financial and operational attributes, thereby facilitating meaningful comparisons. In the case of Salesforce, companies engaged in similar activities, such as SaaS and cloud computing, such as Microsoft, Adobe and ServiceNow, are relevant for comparison purposes, given that they share subscription-based revenue models and cloud-based solutions.

Henschke & Homburg (2009) highlight the significance of company-specific factors, such as risk and growth potential in the selection of comparable companies. This approach helps to avoid valuation errors that may result from relying solely on industry-specific multiples. Lieberman and Asaba (2006) further suggest that strategic similarities within peer groups are of paramount importance. Therefore, companies such as ServiceNow and Adobe, which are

market leaders in cloud computing and CRM with comparable innovation strategies, represent suitable peers for Salesforce.

Damodaran, Aswath (2024) emphasises the necessity of considering the different stages of the business lifecycle when selecting comparable companies, given the variations in growth patterns and valuation metrics across these phases. Given that Salesforce is currently in the Mature Growth phase (see 3.6.1), with stable yet significant growth, it is crucial to select comparable companies that are also in a similar phase of the business life cycle.

It may also be relevant to include smaller SaaS and CRM firms, such as HubSpot, which exemplify growth and efficiency strategies applicable in dynamic markets (Goedhart et al., 2016).

2.2.2 Multiples

In relative valuation, multiples are the most frequently utilized valuation ratios. These ratios are employed to normalize and evaluate corporate values by financial metrics, including sales, profit and Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA). The most common multiples include price-to-earnings (P/E), Enterprise Value (EV)/EBITDA and price-to-sales (P/S) (Goedhart et al., 2016). Damodaran (2012) suggests that multiples are especially effective when applied in the context of a pertinent peer group, as they can rapidly and efficiently reflect a company's relative position in the market.

In the case of high-growth companies such as Salesforce, revenue-based multiples such as EV/Revenue are particularly relevant, as they can capture the value of companies that have not yet reached the profitability of more mature companies but have demonstrated strong revenue growth (Damodaran, 2012; Goedhart et al., 2016).

The EV/EBITDA ratio is an effective tool for evaluating the operating profitability of mature companies, whereas the EV/FCF ratio provides a highly precise valuation, as it is less vulnerable to accounting distortions (Damodaran, Aswath, 2024).

Damodaran, Aswath (2024) suggests that for companies in the Mature Growth phase, multiples such as P/E and PEG are particularly appropriate, as they capture both the current earnings and the remaining growth potential. The P/E ratio provides insight into the current profitability of a company, which becomes increasingly relevant as it matures. In contrast, the PEG ratio is particularly useful for evaluating companies in this phase, as it considers earnings growth to

valuation, offering a more nuanced perspective on growth-oriented yet established firms like Salesforce.

The use of forward-looking multiples, which are based on expected future revenues or earnings, is also crucial in the valuation of Salesforce, as they consider the company's growth prospects in a dynamic market environment (Damodaran, 2012).

A significant challenge in the utilisation of multiples is the necessity for consistency in definition and application. Damodaran (2012) suggests that when calculating multiples, analysts must ensure that the ratios employed are consistent across peer group companies to prevent distortions. Similarly, analysts should possess an understanding of the underlying fundamental drivers of multiples, as different industries may exhibit disparate multiples.

2.3 Literature Overview and Valuation Approach

As demonstrated by Demirakos et al. (2010), the efficacy of valuation models is enhanced when market phases and company characteristics are incorporated into the analysis. These findings lend support to the use of a hybrid valuation approach for Salesforce, which reflects both long-term potential and market position. The extant literature on company valuation underscores the primacy of diverse valuation approaches contingent on the specific characteristics of the company in question. In the case of high-growth technology companies such as Salesforce, DCF, the FCFF approach, are frequently employed. This method is oriented toward future operating cash flows and is particularly well-suited to companies with recurring revenues (Damodaran, 2012). In the fast-growing and uncertain technology industry, the FCFF model provides a more stable valuation basis than the FCFE model. This is because it considers the full value of the company and allows for long-term forecasting.

Furthermore, relative valuation methods serve to supplement the DCF analysis by presenting the market value of companies in comparison to their competitors. The P/E and the PEG are the most appropriate valuation tools for Salesforce, as they capture the company's current profitability and remaining growth potential in the mature growth phase. This enables a balanced assessment between stability and growth (Damodaran, Aswath, 2024).

3 Company Overview

3.1 Introduction Salesforce

Salesforce, Inc. (Salesforce) provides CRM solutions that facilitate the integration of customers and companies onto a digital platform. The company's customer 360° service offerings encompass a range of functional areas, including sales, service, marketing, commerce, analytics, data, the platform, Salesforce and other related domains. The company offers a range of services, including consulting, deployment, integration, process mapping, project management, implementation and training. Salesforce caters to a diverse range of industries, including financial services, healthcare and life sciences, manufacturing and more. The company's platform allows third parties to leverage its platform and developer tools to enhance functionality and develop new applications that run on its platform. Salesforce has a significant business presence across the Americas, Europe and Asia-Pacific. The company, led by CEO Marc Benioff and with a global workforce of over 72,000, is headquartered in San Francisco, California, in the United States (Salesforce FY2024 Annual Report, 2024).

3.2 Business Model

Salesforce provides a comprehensive CRM solution for companies across the globe. The services are based on contemporary technologies, including cloud computing, mobile technology, social media, blockchain and AI and are provided as SaaS. Salesforce assists organizations in effectuating digital transformation and establishing connectivity between customer data across disparate systems, applications and devices, thereby facilitating sales, service, marketing and commerce on a global scale.

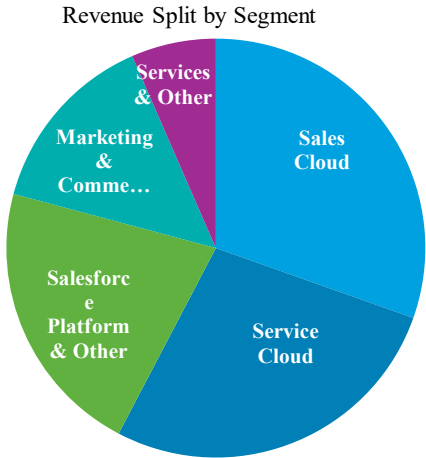


Exhibit 1: Subscription & Support Revenue Breakdown: Sales Cloud Dominates

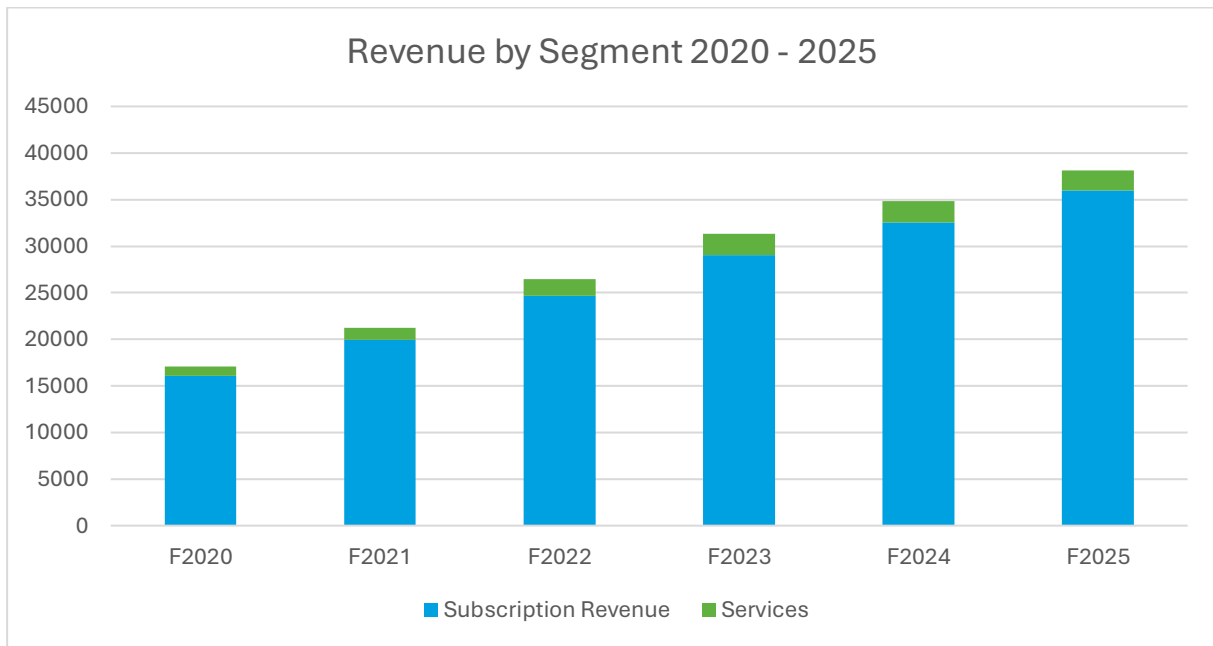


Exhibit 2: Revenue by Segment from 2020 to 2025

The company generates revenue from two primary sources:

- Subscription and Support:** These are cloud-based subscription services that customers can utilize without the necessity of owning the requisite software. In the 2024 fiscal year, this category accounted for 92.9% of total revenue, amounting to USD 32,537 million.
- Professional Services and Other:** Consulting and implementation services are billed on a project- or time-based structure. This category constituted 7.1% of total revenue in 2024, amounting to USD 2,320 million.

Revenue Split by Geography

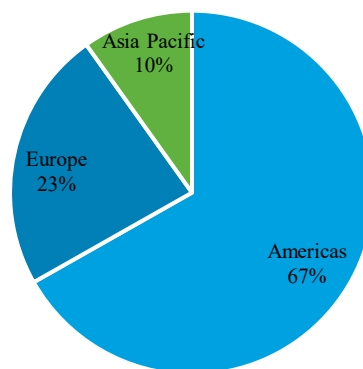


Exhibit 3: Geographic Breakdown: Americas Anchor Salesforce's Global Success

In 2024, the geographic distribution of revenue is illustrated as follows: 67% in the Americas, 23% in Europe and 10% in the Asia-Pacific region. Furthermore, Salesforce allocated 16% of its revenue to research and development, amounting to USD 5,055 million, to enhance existing features, develop new technologies and improving security.

3.2.1 Recurring Revenues and Customer Retention

The SaaS model employed by Salesforce generates recurring, predictable revenue through the sale of monthly or annual subscriptions. This dependable source of revenue provides a solid foundation for the company's growth.

Salesforce employs a range of strategic customer retention measures, including cross-selling strategies that facilitate the use of multiple cloud offerings, such as Sales Cloud, Service Cloud and Marketing Cloud. The optimization of customer loyalty is achieved through the implementation of continuous product innovation and service improvements, which in turn result in a low customer churn rate, high customer satisfaction and stable long-term revenues.

3.3 Acquisitions and Strategic Investments

Salesforce employs a targeted acquisition strategy to complement its organic growth and facilitate the further development of the Customer 360 platform. The company continually assesses potential avenues for investment or acquisition of businesses, services, technologies and intellectual property that are deemed to be complementary. Each prospective acquisition is subjected to a rigorous evaluation process to ascertain its potential to accelerate the Customer 360 strategy, present attractive customer opportunities, provide a clear path to monetize the acquired products and deliver significant operational efficiencies.

The acquisitions made by Salesforce vary in size and complexity. They range from smaller acquisitions that enhance existing products to larger acquisitions that create new service offerings. A further strategic objective is to utilize the balance sheet efficiently, financing acquisitions with both cash and debt. This guarantees the requisite flexibility to respond to attractive market opportunities in a targeted manner.

In addition to acquisitions, Salesforce maintains an extensive portfolio of strategic investments, which includes both privately held and publicly traded companies. The primary focus is on enterprise cloud companies, technology start-ups and system integrators (SIs) that are spearheading the digital transformation of their respective industries. Salesforce's investment strategy is focused on companies that can enhance the customer experience, expand the solution

ecosystem or support other strategic business initiatives, including AI. The investments in question encompass a range of stages, from the early to the later stages and include those in companies that have proceeded to an initial public offering (IPO).

The objective of Salesforce's strategic investment strategy is to expand the company's portfolio continuously and to generate funds for new investments through the resale of existing investments. This strategy enables Salesforce to consolidate its market position while also encouraging innovation and the creation of new, forward-thinking technologies (Salesforce FY2024 Annual Report, 2024).

3.4 Market

Salesforce operates within the global market for CRM software, which is typified by intense competition and rapid growth. This market comprises solutions designed to assist organizations in optimizing customer relationships and automating business processes. The growth of the market is driven by three key trends: the increasing digitization of business processes, the growing demand for cloud-based solutions and the increasing use of AI.

3.4.1 Global CRM Market Size and Growth

The global market for CRM software is undergoing a period of substantial and sustained growth. In 2023, the market was estimated at USD 91.43 billion and is projected to reach USD 262.74 billion by 2032, representing a compound annual growth rate of 12.6% (Marktgröße Für Kundenbeziehungsmanagement (CRM), 2032, 2024) This growth reflects an increasing demand for effective solutions to manage customer relationships and interactions, particularly in the context of a digitizing business world.

A study conducted by Allied Market Research (2024) indicates that the market will expand from USD 41.93 billion in 2019 to USD 96.39 billion in 2027, representing a Compound Annual Growth Rate (CAGR) of 11.1%. A comparable report by “SaaS Customer Relationship Management (CRM) Market Forecast,” (2023) anticipates that the CRM software market will attain a value of USD 176.83 billion by 2030, exhibiting a CAGR of 14.32% between 2023 and 2030. These projections underscore the robust growth potential of the CRM sector, which is propelled by the increasing digitization and the necessity for enhanced customer interactions on a global scale.

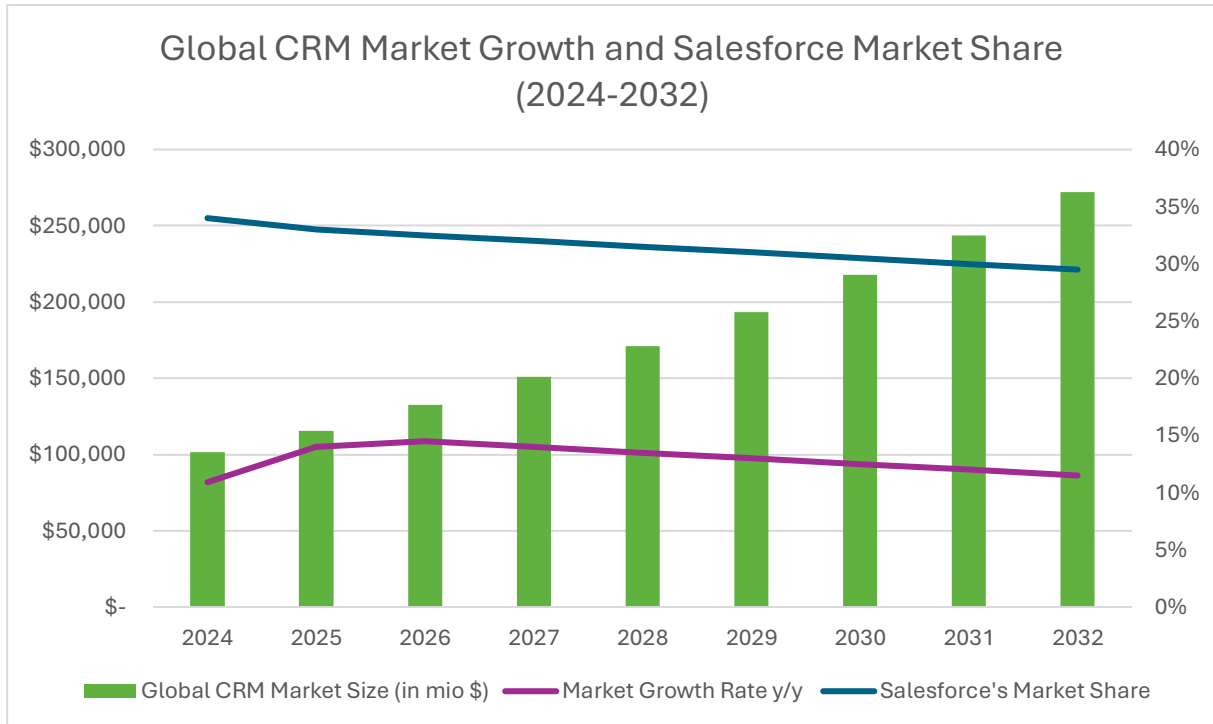


Exhibit 4: Global CRM Market Growth and Salesforce Market Share (2024-2032)

Exhibit 4 shows the forecast development of the global CRM market from 2024 to 2032. The absolute value of the market grows steadily from 101.4 billion in 2024 to 271.9 billion in 2032, with a CAGR of 11.5%. It is anticipated that Salesforce's market share will decline slightly from 34% in 2024 to 30% in 2032. This is indicative of the intensifying competition within the CRM sector. The competitive landscape is particularly intense in the Americas, where numerous companies are entering a mature market with specialized CRM solutions tailored to the needs of specific industries. Concurrently, Salesforce is increasingly shifting its focus to Europe and Asia, where there is still potential for growth. Competition is particularly intense in Asia, where local providers are entering the market with customized solutions, making it challenging for international players such as Salesforce to gain market share.

3.4.2 Key Market Drivers and Trends

The market for CRM software is shaped by a multitude of influencing factors. One significant factor is the persistent digitalization and automation of business processes, which can be observed across a diverse range of industries. The value of CRM software for optimizing business processes, efficient integration of customer data and the creation of personalized customer experiences using AI and automation is increasingly recognized by companies worldwide. These developments contribute significantly to enhanced operational efficiency and improved customer satisfaction. As outlined in the Salesforce FY2024 Annual Report (2024),

the Einstein 1 platform enables predictive analytics, personalized customer interactions and workflow automation. This allows companies to optimize their processes and maintain their competitive advantage.

A further significant factor is the transition to cloud-based CRM solutions, which is exerting a considerable influence on the market. The capacity to develop flexible and scalable CRM systems irrespective of geographical location and organizational size represents a significant advantage of cloud-based solutions. Software As A Service (SaaS) Market Size Report, 2030 projects that the global CRM market will reach a value of USD 216.63 billion by 2026, representing a compound annual growth rate of 15.1% (Salesforce FY2024 Annual Report, 2024). Moreover, the cloud provides enhanced data security, which is becoming an increasingly important consideration for customers as they express heightened concerns about the handling of their data. In response to these concerns, CRM providers are investing in the development of secure and scalable platforms. Salesforce attaches great importance to the trust of its customers and therefore relies on a secure multi-tenant cloud architecture (Salesforce FY2024 Annual Report, 2024).

Additionally, CRM software is utilized across a diverse range of industries, including financial services, healthcare and manufacturing. This illustrates that the necessity for optimized customer interactions and efficient processes is a pivotal aspect in all sectors. According to the study conducted by Research and Markets (2022), the deployment of CRM technology is anticipated to expand notably in the banking sector, with an estimated growth rate of 15.7% by 2031.

3.4.3 Regional Market Insights

There are significant regional variations in the growth and adoption of CRM solutions on a global scale. North America is the foremost market due to the early adoption of digital and cloud technologies by businesses seeking to enhance operational efficiency and customer engagement. Meanwhile, the Asia-Pacific region is anticipated to undergo a period of considerable growth, driven by the acceleration of digital transformation initiatives, particularly in major economies such as China and India. These markets are rapidly adopting cloud computing, which is leading to a significant increase in demand for CRM solutions. This trend underscores the growing significance of CRM technology in optimizing customer relationships and propelling revenue growth on a global scale (How to Stand Out in Your Category, 2023). Regional analysis demonstrates how Salesforce's strategic emphasis on these high-growth areas

could enhance its revenue outlook, particularly as digital adoption rises across emerging markets. By leveraging market dominance in North America, Salesforce can expand its reach in rapidly developing regions like Asia-Pacific (see Exhibit 17).

3.4.4 Market Risk

Aside from the robust expansion, the CRM market is confronted with several potential threats. A significant risk is the intensifying competitive landscape. The market is characterized by a high degree of fragmentation and the emergence of new market players could precipitate a price war, leading to a reduction in profit margins. Salesforce is aware of the competitive threat posed by specialized providers who are positioning themselves in niche markets (Salesforce FY2024 Annual Report, 2024).

Another risk is the rapid technological progress in the field of AI and automation. Those companies that do not make continuous investments in research and development may find themselves at a disadvantage in terms of competitiveness.

Furthermore, data protection and regulatory requirements present a considerable risk. Compliance with rigorous data protection regulations, such as the General Data Protection Regulation (GDPR), is a costly endeavor. Non-compliance can result in substantial penalties and reputational harm (Salesforce Annual Report 2024; Grandviewresearch SaaS 2030 Market Size Report, 2023).

Furthermore, economic volatility represents an additional risk factor. In periods of economic uncertainty, organizations may reduce their expenditure on information technology, which could have a detrimental impact on demand for customer relationship management software (Marktgröße Für Kundenbeziehungsmanagement (CRM), 2032, 2024; Salesforce FY2024 Annual Report, 2024).

3.4.5 Competitive Landscape

Salesforce operates in a highly competitive and fragmented CRM market, facing a range of rivals from enterprise software giants to specialized, agile providers. Microsoft Dynamics 365, Oracle and SAP represent significant, well-established enterprise solutions with robust integration capabilities and considerable resources, positioning them as formidable competitors for large corporations seeking comprehensive software ecosystems. In contrast, HubSpot employs a freemium business model, which appeals to smaller businesses. Its low-cost, digitally marketed solutions emphasize ease of use (How to Stand Out in Your Category, 2023).

Specialized providers such as Zoho CRM and Freshworks focus on specific industries and Small & Medium Enterprises (SMEs), offering simplified, quick-to-implement solutions and flexible pricing. This allows them to cater to clients who require targeted functionalities over extensive customization. Concurrently, companies with a focus on productivity, such as Google and Slack, are also entering the CRM market. Google is expanding its business applications, while Slack is enhancing Salesforce's collaboration features (Salesforce Annual Report 2024).

In conclusion, AWS and Google Cloud provide developers with the tools to create bespoke applications, offering flexibility that could challenge the traditional reliance on CRM. The heterogeneous strategies pursued by competitors necessitate that Salesforce perpetually innovates to maintain its leadership position in the dynamic CRM landscape.

3.5 Strategic Analysis

The strategic analysis section identifies and evaluates the internal strengths and weaknesses of Salesforce, as well as the external opportunities and risks that the company faces. A SWOT and PESTEL analysis are employed to provide a comprehensive assessment of the company's position within the dynamic technology market.

3.5.1 SWOT Analysis

Strengths

- **Focus on Innovation**

The advancement and protection of the services provided by Salesforce are significant. One illustration of this is the Hyperforce initiative, which aims to facilitate the accessibility of data on a global scale. In 2023, the company allocated a total of USD 5,055 million to research and development, which represents 16% of its revenue (Salesforce FY2024 Annual Report, 2024).

- **Revenue Growth**

In 2023, Salesforce generated revenue of USD 31.352 billion, representing an 18.3% increase compared to the previous year. Most of the revenue was derived from subscriptions and support, as well as professional services (Salesforce FY2024 Annual Report, 2024).

Weakness

- **Dependence on the North American Market**

A significant proportion (67%) of revenue is generated in the North Americas, which renders the company susceptible to fluctuations in the economic and political landscape of this region. Furthermore, Exhibit 17 indicates that the North American market is more established than others and, as a consequence, is experiencing a relatively lower growth rate (see Chapter 3.4.3).

Opportunities

- **Strategic Partnerships and AI Innovations**

Salesforce is strengthening its AI and cloud capabilities through strategic alliances with AWS and Accenture. In November 2023, it launched AI applications in the AWS Marketplace and began projects with Accenture aimed at sustainable growth in life sciences. These alliances boost Salesforce's AI-driven CRM offerings and position it as a leading provider of intelligent, efficient solutions across industries (Salesforce Annual Report 2024; Grandviewresearch SaaS 2030 Market Size Report, 2023).

- **Market Growth**

The increasing global demand for cloud computing and IT services offers significant growth opportunities for Salesforce's SaaS multi-tenant architecture (see Chapter 3.4).

Threats:

- **Data Protection and Regulation:**

The growth of data protection concerns and the introduction of new legislation could restrict the use of and demand for Salesforce products.

- **Strong Competition:**

Salesforce is positioned in a competitive landscape that includes both well-established industry leaders and agile new entrants. Emerging companies offer specialized, responsive solutions that are appealing to smaller businesses, while larger competitors benefit from strong brand recognition, extensive customer bases and powerful distribution partnerships. These advantages present a significant challenge for Salesforce in certain areas, emphasizing the necessity for sustained investment in innovation and adaptability to maintain competitiveness in this dynamic market (see 3.4.5) (How to Stand Out in Your Category, 2023).

- **Currency Risks:**

Global business activities expose the company to exchange rate volatility, despite the implementation of hedging strategies (Salesforce FY2024 Annual Report, 2024).

3.5.2 PESTEL

Political: Salesforce is subject to different tax regimes and compliance requirements in international markets. Tax reforms or changes in bilateral trade relationships, particularly between the US and key sales markets, could affect net income (Salesforce FY2024 Annual Report, 2024).

Economic: The ongoing digital transformation across various sectors, accelerated by shifts in consumer and business behaviors, is driving demand for robust cloud solutions. This trend supports Salesforce's growth prospects by aligning with the company's strength in scalable, customizable CRM solutions tailored to different industries (Grandviewresearch SaaS 2030 Market Size Report, 2023).

Social: The increasing shift to hybrid and remote working models is driving demand for cloud-based CRM solutions that work regardless of location. The potential for market positioning as a "remote-friendly" platform strengthens competitiveness.

Technology: The rapid development of quantum computing and data-driven decision making could open new applications for Salesforce. The integration of such technologies could further improve the efficiency of its AI-based CRM tools and open new market segments (Grandviewresearch SaaS 2030 Market Size Report, 2023).

Environmental: Given the growing demand for energy-efficient cloud solutions, sustainability initiatives such as energy-efficient data centers and the use of renewable energy could become an important differentiator for Salesforce.

Legal: In addition to privacy issues, new copyright laws or data retention requirements could impact Salesforce. Intellectual property protection is becoming increasingly important due to increased competition in the cloud and AI sectors. Patent and copyright compliance remains a key issue in the technology sector.

3.6 Accounting Principles and Fiscal Year Overview at Salesforce

To guarantee transparency and international comparability, Salesforce prepares its financial reports in accordance with US GAAP standards. Revenue from long-term subscriptions is recognized in accordance with the accrual basis of accounting. Furthermore, a stock-based payment program is utilized by Salesforce, which is recognized as a non-cash expense in the financial reports. Goodwill and intangible assets acquired through business combinations are subject to periodic impairment testing. The financial year ends on 31 January, which enables Salesforce to record the fourth quarter period optimally.

3.6.1 Financial & Operational Analysis

This chapter presents an analysis of the financial and operational highlights of Salesforce and a comparison to the peers. Salesforce generated revenue of USD 34.9 billion, representing an increase of 11% compared to the previous financial year. Furthermore, the remaining performance obligation reached USD 56.9 billion representing a 17% increase compared to the previous year. The company's operating cash flow increased by an impressive 44% to \$10.2 billion, which serves to underscore its strong financial health.

Furthermore, Salesforce demonstrated a robust operational performance, with a non-GAAP operating margin of 30.5%. Notably, over 90% of Fortune 500 companies utilise Salesforce products, underscoring the company's dominant market position. Additionally, since its inception, Salesforce has contributed over 8.7 million hours to social projects. These key figures exemplify the financial and social significance of Salesforce and provide a foundation for the subsequent detailed analysis (Salesforce FY2024 Annual Report, 2024).

Exhibit 18 highlights Salesforce's revenue performance across key cloud segments from FY2020 to FY2024. Sales Cloud and Service Cloud consistently lead in revenue, although the growth rate for Sales Cloud has declined since FY2021, reflecting maturity. Smaller segments, such as Salesforce Platform and Other, show stronger growth rates, particularly in FY2024, while Integration and Analytics shows a volatile performance with a decline after FY2022.

Although total revenue and gross profit peaked in FY2022, growth slowed from FY2023 onwards due to macroeconomic factors such as inflation, rising interest rates and reduced corporate spending.

Exhibit 19 illustrates the typical behavior of companies in the "mature growth" phase, characterized by cost optimization and efficiency as key drivers for profitability (Damodaran,

Aswath, 2024). Salesforce demonstrates these traits through declining R&D-to-sales and advertising-to-sales ratios, as shown in Exhibit 20. which reflects targeted spending on innovation and customer acquisition. This stable cost structure allows for more efficient equity management while maintaining growth. Seasonal fluctuations in Salesforce's sales-to-net working capital ratio, driven by annual subscription renewals, further underscore the predictability of its revenue streams.

Salesforce's operational margin improvements, supported by economies of scale in the SaaS model and AI-driven administrative automation, are highlighted in Exhibit 20. Streamlined operations in core cloud segments, as depicted in Exhibit 7, enhance profitability by reducing costs while maintaining growth momentum.

Exhibit 21 underscores Salesforce's conservative liquidity strategy. Stable quick and cash ratios reflect sufficient cash reserves for short-term obligations, demonstrating a focus on maintaining financial flexibility rather than pursuing high-risk growth investments.

Lastly, Exhibit 22 shows declining debt ratios and a rising interest coverage ratio, indicating Salesforce's increased ability to manage debt efficiently. This trend, supported by robust cash flows, highlights the company's commitment to long-term financial stability while aligning with the traits of the mature growth phase.

3.6.2 Comparative Financial Analysis: Salesforce vs. Peers

Exhibit 23 illustrates that Salesforce exhibits robust profitability, with a gross profit margin of 75.5%, which is proximate to the median value of 75%. Nevertheless, its operating profit margin (13%) and asset turnover (35.1%) are marginally inferior to those of certain competitors, such as DocuSign, which indicates potential for enhanced efficiency. This is consistent with the mature growth phase that Salesforce is currently experiencing, during which cost optimization is of paramount importance to maintain profitability.

Exhibit 24 presents data regarding Salesforce's growth and return indicators, with a projected long-term growth rate of 16.2%, which is comparable to the median of 15%. Nevertheless, its Earnings per Share (EPS) growth rate of 15.9% is relatively moderate in comparison to that of some high-growth peers, which suggests a balanced yet mature approach to growth. The Return on Equity (ROE) (9.7%) and Return on Assets (ROA) (6.1%) of Salesforce are in alignment with the industry average, indicating a stability that is less indicative of the aggressive expansion typical of companies in their mature phase.

In Exhibit 25 Salesforce displays a conservative debt profile, with a relatively high-interest coverage ratio (10.8) and a low debt-to-equity ratio in comparison to Oracle's significantly leveraged position (Debt to Equity (D/E) of 998%). The current ratio for Salesforce is indicative of robust liquidity, which is a prerequisite for financial flexibility. This enables the company to maintain an equilibrium between growth and operational efficiency.

3.6.3 Stock Price & Ownership

3.6.3.1 Stock Price

The price chart illustrates a volatile yet predominantly positive trajectory of Salesforce's stock price over the past four years, with a notable recovery and growth observed in 2024. This trend is indicative of investor confidence in the company's strategic direction and financial performance (see Exhibit 5).

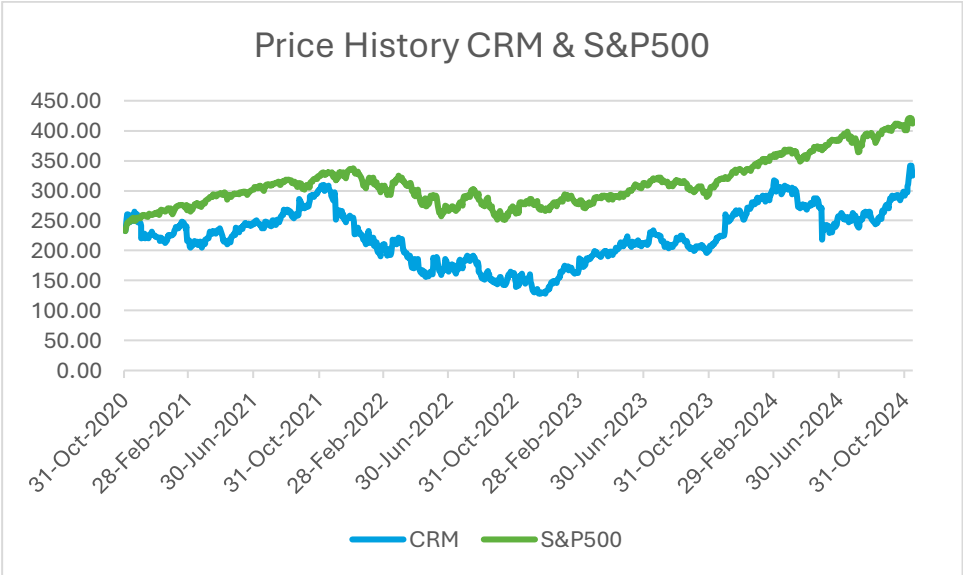


Exhibit 5: Stock Price History Chart

3.6.3.2 Ownership

The ownership structure is dominated by investment advisors, as illustrated in Exhibit 28, which suggests that institutional confidence and stability are evident. Most shares are in the free float, which ensures liquidity in the market (see Exhibit 27). The minimal strategic entity ownership indicates the absence of controlling shareholders. Notable institutional investors, such as Vanguard Group and BlackRock, maintain considerable holdings, which serves to illustrate the existence of concentrated ownership among major investment firms (see Exhibit 26).

4 Forecast

4.1 Data Basis and Assumptions

The principal data is derived from Refinitiv Eikon on the 19.10.2024, comprising the company's income statement, balance sheet, cash flow statement, segment overview and publicly available financial statements which includes F2025 Q2 data. Refinitiv Eikon provides market and company data that was employed to corroborate the forecasts and assumptions. Furthermore, analyst reports are used to incorporate external assessments of the company's development. Several assumptions have been made in the valuation of the company, which will have an impact on the future development of Salesforce. In particular, the valuation is based on assumptions regarding sales growth and cost increases, which are derived from an analysis of Salesforce's market position and anticipated expansion (see Exhibit 30).

4.2 Income Statement Analysis

This section will present an analysis of the factors that have contributed to the growth of Salesforce's net income over the forecast period. The company's revenue growth, cost management and tax strategies are of considerable consequence in shaping the anticipated evolution of net income (see Exhibit 6).

Pro Forma Income Statement	2022	2023	2024	2025	2026	2027	2028	2029
<i>in USD m</i>	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>	<i>Plan</i>	<i>Plan</i>	<i>Plan</i>	<i>Plan</i>	<i>Plan</i>
Revenue	26,492	31,352	34,857	38,097	42,401	47,598	53,234	59,271
Cost of Goods Sold	7,026	8,360	8,541	8,840	9,672	10,832	12,086	13,424
Gross Profit	19,466	22,992	26,316	29,257	32,728	36,766	41,148	45,847
Selling, General, and Admin. Expenses	2,598	3,381	3,522	2,821	2,926	3,083	3,238	3,384
Advertising & Marketing Expenses	11,855	13,526	12,877	13,511	15,010	16,100	17,206	18,305
Research & Development	4,465	5,055	4,906	5,388	5,851	6,388	6,948	7,524
Adjusted Operating Income	548	1,030	5,011	7,537	8,941	11,194	13,757	16,634
Financial Non-Cash (Gains)/Losses	(984)	370	61	67	(237)	48	53	59
Operating Income	1,532	660	4,950	7,470	9,179	11,146	13,703	16,575
Net Interest Expense	-	-	-	-	-	-	-	-
Income Tax Expense	88	452	814	1,270	1,652	2,118	2,741	3,481
Net Income	1,444	208	4,136	6,200	7,527	9,029	10,963	13,094
Weighted Avg Diluted Shares Outstanding	974	997	984	976	972	972	972	972
Diluted Earnings Per Share (GAAP)	1.48	0.21	4.20	6.36	7.74	9.29	11.28	13.47
Adjusted Net Income	4,659	5,226	8,087	10,011	10,863	14,214	16,371	18,689
Diluted Earnings Per Share (Adjusted)	4.78	5.24	8.22	10.26	11.18	14.62	16.84	19.23

Exhibit 6: Pro Forma Income Statement

4.2.1 Revenue

Salesforce's revenue is based on a pattern of stable growth, which is supported by both the company's continued expansion and its SaaS business model. A 18.3% increase in revenue was

observed between the 2022 and 2023 financial years. The CAGR for the period spanning 2024 to 2029 is estimated to be approximately 11.2%, with revenue growth supported by the development of new markets and the integration of acquisitions.

CAGR by Business area	5 Yr CAGR
Sales Cloud	10.7%
Service Cloud	11.4%
Salesforce Platform and Other	11.3%
Marketing and Commerce Cloud	10.5%
Integration and Analytics	15.3%
Subscriptions & Support	11.7%
Professional Services & Other	2.3%
Total Revenue	11.20%

Exhibit 7: CAGR 2024-2029 by business area

The results of the segment analysis indicate that the cloud segments are exhibiting particularly robust growth rates. The combined revenue of the Sales Cloud and Service Cloud represents over 45% of the total sales and is projected to grow by 15.4% and 20.4%, respectively, in 2022. Nevertheless, it is anticipated that growth will decelerate in the forthcoming years, reaching 11% for the 'Sales Cloud' and 10.8% for the 'Service Cloud' by 2024. Thereafter, a stable growth rate of approximately 10.7% and 11.4% is projected for these two segments by 2029 (see Exhibit 8). A similar trend is observed in the case of the 'Salesforce Platform and other products', for which an increase from 35.6% in 2022 to approximately 11% in 2026 is anticipated.

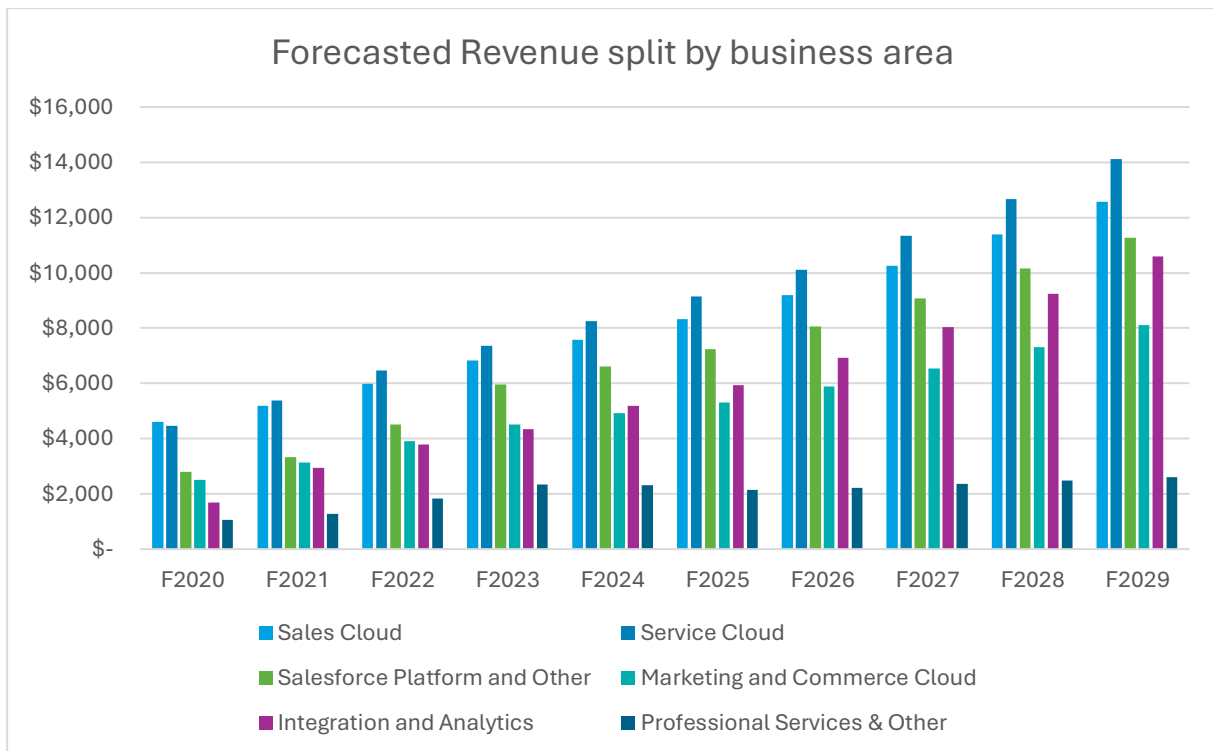


Exhibit 8: Forecasted Revenue Split by business area

Nevertheless, a lower growth rate is anticipated for 2025. This is because Salesforce was relatively slow to react to the advent of AI. Nevertheless, market data and reports indicate that the enhanced integration of AI into the Salesforce platform will result in a resurgence of growth rates from 2026 onwards. It is anticipated that the 'Integration and Analytics' and 'Marketing and Commerce Cloud' segments will benefit from this development, with the former expected to demonstrate annual growth of approximately 16% from 2025 onwards.

The proportion of revenue attributable to each segment is expected to remain relatively stable. The core business of 'Subscriptions & Support' is anticipated to represent the largest source of revenue, accounting for approximately 95.6% in 2029 of total revenue. Conversely, the revenue share of 'Professional Services & Other' is projected to decline in the coming years, from 7.4% in 2025 to 4.4% in 2029.

4.2.2 Costs

The projected enhancement in Salesforce's operating margin to 28.1% by 2029 aligns with the attributes of a company in the 'mature growth' phase, as delineated by Damodaran (2024), characterized by an intensified emphasis on efficiency and cost optimization:

- The gross margin is driven by efficiency gains resulting from the utilization of AI and automation, as well as the scalability of the SaaS model, which collectively contributes to an increase in gross margin to 77.4%.
- Furthermore, there has been a reduction in R&D expenditure relative to revenue. The product maturity and earlier investment in pioneering technologies, such as AI and automation, enable Salesforce to maintain its innovative strength with a reduced relative R&D expenditure.
- The established customer base, robust brand identity and automated marketing processes have the effect of reducing the proportion of the expenditure in marketing & sales to revenue from 35.5% to 30.9%.
- The implementation of more efficient administrative procedures has resulted in a more streamlined organizational structure. The implementation of artificial intelligence and automation optimizes business processes and reduces administrative costs, thereby increasing profit margins.

4.2.3 Taxes

The assumption of a constant GAAP tax rate of 23% and a non-GAAP tax rate of 22% is based on the information in Salesforce's latest earnings report. This information allows for the long-term projected tax rate of 22.0% to be calculated until 2029. These tax rates provide a reliable basis for long-term planning, as they reflect the current tax situation and the international structure of the company. The non-GAAP tax rate of 22% is particularly suitable for calculating the WACC, as it excludes one-off effects and thus provides a clear view of the operating tax burden. Provided that no substantial alterations to the tax or structural landscape in Salesforce's primary markets materialize, this assumption will remain a valid representation until 2029.

4.3 Balance Sheet Analysis

In this section, I will highlight the most important items on the Forecasted Balance sheet (see Exhibit 9).

Balance Sheet	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E	2029E
Cash and Equivalents	7,947	11,966	10,537	12,508	14,194	19,176	26,767	36,606	45,436	58,857
Accounts Receivable	6,174	7,786	9,739	10,755	11,414	12,003	12,778	13,692	14,585	15,427
Days receivable	132	134	134	125	120	115	110	105	100	95
Other Intangibles	4,724	4,114	8,978	7,125	5,278	3,435	1,291	(525)	(1,881)	(3,153)
Goodwill	25,134	26,318	47,937	48,568	48,620	48,620	48,620	48,620	48,620	48,620
Net Property, Plant, and Equipment	2,375	2,459	2,815	3,702	3,689	3,394	3,220	3,220	3,220	3,220
Other Operating Assets	6,809	9,749	10,419	11,519	11,780	12,611	13,823	15,161	16,557	17,990
Non-Operating Assets	1,963	3,909	4,784	4,672	4,848	4,848	4,848	4,848	4,848	4,848
Total Assets	55,126	66,301	95,209	98,849	99,823	104,086	111,348	121,623	131,384	145,808
Accounts Payable	3,433	4,355	5,474	6,743	6,111	6,204	6,656	7,305	7,985	8,685
Days payable	296	292	284	294	261	256	251	246	241	236
Debt	2,673	2,673	10,592	10,601	9,426	9,426	9,426	9,426	6,926	6,926
Other Operating Liabilities	15,135	17,780	21,012	23,146	24,640	26,744	29,129	31,986	34,975	38,052
Non-Operating Liabilities										
Total Liabilities	21,241	24,808	37,078	40,490	40,177	42,374	45,211	48,717	49,886	53,663
Shareholder's Equity	33,885	41,493	58,131	58,359	59,646	61,712	66,138	72,906	81,499	92,146
Minority Interest										
Total Equity	33,885	41,493	58,131	58,359	59,646	61,712	66,138	72,906	81,499	92,146

Exhibit 9: Balance Sheet

4.3.1 Assets

The balance sheet forecast published by Salesforce demonstrates a consistent pattern of asset growth and evidence of prudent financial management. The company's financial stability is evidenced by key components such as rising cash reserves, improved receivables efficiency and a stable asset base. These factors demonstrate a focus on maintaining liquidity, operational stability and long-term value creation.

4.3.1.1 Cash and Equivalents

It is projected that Salesforce's cash reserves will experience a considerable increase, reaching a total of \$58.9 billion by 2029. This increase is indicative of robust cash generation and efficient cost management, thereby providing ample flexibility for strategic initiatives such as acquisitions, share buybacks or investments in new technologies like AI. The reserves serve to reinforce Salesforce's financial foundation, thereby ensuring the company's ability to maintain liquidity in an evolving market.

4.3.1.2 Accounts Receivable

The projected decline in Days Receivable, from 120 days (2024) to 95 days (2029), is indicative of Salesforce's enhanced efficiency in the management of customer payments. This reduction in days outstanding improves the predictability of cash flow and the company's operational agility, thereby supporting its ability to reinvest in growth and maintain strong liquidity without significant credit risk.

4.3.1.3 Goodwill and Intangibles

The forecast period indicates that goodwill will remain stable at \$48.6 billion, which suggests that there are no plans for significant acquisitions. This stability reflects Salesforce's strategic shift towards organic growth and the leveraging of its existing portfolio of businesses and technologies. This aligns with the company's long-term strategy of driving sustainable value creation.

4.3.1.4 Property, Plant and Equipment (PP&E)

The PP&E balance demonstrates a stabilization at \$3.2 billion post-2026, which serves to highlight the limited future capital expenditure needs. This reflects Salesforce's capacity to expand its operational capabilities efficiently, utilizing its existing infrastructure, thereby reducing the necessity for significant capital investment while maintaining operational excellence.

4.3.2 Liabilities

4.3.2.1 Accounts Payable

The accounts payable remain high due to the existence of long-term contracts and the high market power that the company exercises with suppliers, in addition to the increasing expenditure on cloud infrastructure. With a figure of \$6.204m for 2024 and a moderately decreasing Days Payable (256 days in 2024 to 236 days in 2029), Salesforce strategically employs longer payment terms to maximize working capital, while growth continues to increase absolute liabilities.

4.3.2.2 Unearned Revenue

Unearned revenue represents a pivotal aspect of the Salesforce business model, accounting for a notably elevated proportion of the company's liabilities. As a matter of standard practice, Salesforce invoices its customers on an annual basis in advance. Consequently, these advance payments frequently arise in the fourth quarter of the year, which coincides with the turn of the calendar. This results in a seasonal concentration of unearned revenue, which is of critical importance for future revenue recognition. The considerable proportion of unearned revenue serves to illustrate the significance of the subscription-based business model, offering Salesforce a degree of predictability and stability. These amounts represent future, contractually secured revenue, providing a reliable source of income.

4.3.2.3 (Non-Current) Debt

The non-current debt structure of Salesforce, with maturities extending from 2025 to 2061, is indicative of the company's emphasis on financial stability and long-term planning. As of January 2024, the total outstanding principal amount was \$9.5 billion, with no significant changes to the debt structure planned until 2029. It is assumed that debt levels will remain constant, as there have been no announcements from Salesforce regarding new debt issuance or restructuring. Repayments will follow the existing schedule, including a notable \$2.5 billion repayment in 2029 (see Exhibit 31 & Exhibit 32).

Furthermore, Salesforce has a \$3 billion unsecured revolving credit facility, which matures in December 2025 and remains unused as of January 2024. This facility offers flexibility in addressing short-term liquidity needs and potential acquisitions, though it does not currently impact Salesforce's debt levels. In the absence of any plans to utilize this facility or issue additional debt, it is reasonable to conclude that the current debt structure will remain stable and constant throughout the forecast period. This approach reflects Salesforce's aversion to risk and its prudent financial management, which ensures predictable cash flows and maintains financial flexibility for future strategic opportunities.

4.3.3 Equity

The equity of Salesforce has demonstrated a consistent trajectory of growth, with an increase from \$33.9 billion in 2020 to \$59.6 billion in 2024. Projections indicate that this figure will reach \$92.1 billion by 2029, driven by the following key factors:

4.3.3.1 Retained Earnings and Profitability

There was a notable increase in retained earnings, rising from \$1.9 billion in 2020 to \$11.7 billion in 2024. This growth was supported by consistent profitability, including a \$4.1 billion net income in FY24. It is anticipated that future growth in retained earnings will serve to sustain equity expansion.

4.3.3.2 Stock-Based Compensation and Additional Paid-In Capital (APIC)

The growth in Additional Paid-In Capital (APIC) was significantly influenced by the introduction of stock-based compensation program, which amounted to \$2.8 billion in FY24. These equity-based incentives facilitate the retention of talent and align with long-term growth strategies.

4.3.3.3 Share Repurchases

By FY24, the share repurchase program of \$20bn had reached \$11.7 billion in treasury stock, reflecting Salesforce's focus on enhancing shareholder value by reducing outstanding shares (see Exhibit 29).

4.4 Cash Flow Analysis

A cash flow analysis offers a comprehensive insight into the way Salesforce oversees its operational cash, investments and financing activities over the projected period. By analyzing the factors influencing these cash flows, we can gain insight into the underlying assumptions and strategic decisions that will shape Salesforce's future performance (see Exhibit 10).

Cash Reconciliation	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E	2029E
in USD m	Actual	Actual	Actual	Actual	Actual	Plan	Plan	Plan	Plan	Plan
Working Capital	(6,829)	(7,805)	(9,475)	(10,822)	(10,752)	(11,297)	(11,818)	(12,534)	(13,199)	(13,784)
Working Capital Days	(146)	(134)	(131)	(126)	(113)	(108)	(102)	(96)	(91)	(85)
Cash from Working Capital	1,918	976	1,670	1,347	(70)	545	522	716	665	585
(Capital Expenditures)	(643)	(710)	(717)	(798)	(736)	(1,065)	(1,186)	(1,331)	(1,489)	(1,657)
% of revenue	3.8%	3.3%	2.7%	2.5%	2.1%	2.8%	2.8%	2.8%	2.8%	2.8%
Depreciation	455	579	678	903	1,100	1,065	1,186	1,331	1,340	1,500
Amortization	1,680	2,267	2,620	2,883	2,859	2,648	2,472	2,177	1,754	1,709
Net New (Investment), Organic	3,410	3,112	4,251	4,335	3,153	3,193	2,993	2,893	2,270	2,136
% of revenue	19.9%	14.6%	16.0%	13.8%	9.0%	8.4%	7.1%	6.1%	4.3%	3.6%
% of adjusted EBI	188.8%	49.1%	104.6%	140.2%	45.1%	36.1%	29.9%	25.8%	17.9%	14.4%
(Purchases)/Sales of Companies & Assets	(757)	(2,293)	(15,888)	(1,451)	(1,094)	(1,609)	(657)	(722)	(795)	(874)
Net New (Investment), Total	2,653	819	(11,637)	2,884	2,059	1,584	2,337	2,171	1,476	1,262
% of revenue	15.5%	3.9%	-43.9%	9.2%	5.9%	4.2%	5.5%	4.6%	2.8%	2.1%
% of adjusted EBI	146.9%	12.9%	-286.3%	93.3%	29.4%	17.9%	23.4%	19.4%	11.6%	8.5%
Non-Cash Items, From Cash Flows	1,524	(1,983)	1,568	3,518	3,064	3,203	3,420	4,403	4,791	5,186
Free Cash Flow to the Firm	3,894	802	(9,609)	6,980	9,320	11,053	13,046	15,650	17,283	19,601
Discounted FCFE						10,191	11,090	12,265	12,488	13,058

Exhibit 10: Cash Reconciliation

4.4.1 Working Capital Management

Salesforce operates with negative working capital, which is typical for SaaS companies. The company leverages advance payments and supplier credit as financing tools, which are common practices in the industry. The improvement in working capital days, from -146 in 2020 to -85 by 2029, is indicative of enhanced operational efficiency, which has been driven by:

- The steady prepayments from subscriptions, particularly in the fourth quarter, serve to offset the high receivables and growth of unearned revenue, thereby ensuring liquidity (see 4.3.2.2).
- The implementation of automated processes has led to an improvement in the efficiency of both receivables and payables management (see 4.3.1.2 & 4.3.2.1).

The gradual reduction in the number of days' sales in working capital reflects the maturation of Salesforce's business model. As operational efficiencies increase, the company's reliance on advance payments and supplier credit is reduced, while cash flows become more closely aligned with revenue growth and expenses (see Exhibit 33).

4.4.2 Capital Expenditure (CapEx)

From 2025 onwards, Salesforce will continue to demonstrate a downward trend in capital expenditure ratios, from 2.0% (2025E) to 1.6% (2029E). This reduction reflects the positive effects of economies of scale on efficiency and demonstrates that Salesforce is continuing to enhance its infrastructure and software without having to increase investments in proportion to revenue. In accordance with Damodaran's model for mature growth companies, both CapEx and depreciation are converging (totalling USD 948m in 2029E), thereby enabling stable free cash flows. These can be utilised for strategic initiatives, dividends or buybacks, while the company simultaneously secures its efficiency and market position in the long term.

4.4.3 Depreciation and Amortisation

Depreciation was planned for 2025 and 2026 based on the existing fixed assets (PPE) and the depreciation periods stated in the annual report. The calculations take into account the values of the opening balances (as of Jan 2024) and the CapEx inflows for 2025 (see Exhibit 34).

From 2027 onwards, depreciation will be directly correlated with annual capital expenditure. This implies that new investments will be allocated directly to depreciation, thereby stabilising future increases

The amortization of intangible assets acquired to date was planned based on the information provided in the annual report up to 2029. Furthermore, the investments were calculated as 50% amortisable. This reflects the decline in amortization, as fewer large acquisitions and therefore fewer new intangible assets are expected. The decrease from \$2.88 billion in 2023 to \$1.7 billion in 2029 is a consequence of this change (see Exhibit 35).

4.4.4 Net New Investments and M&A Activity

A noteworthy aspect of Salesforce's cash flow projections is its investment strategy. Exhibit 16 illustrates the substantial acquisitions made in 2022, which resulted in a cash outflow of \$15.8 billion, predominantly attributable to the purchase of Slack. In the future, however, investments in companies and assets are expected to decline. The proportion of net new investments as a percentage of adjusted earnings before interest (EBI) is projected to decline from 140.2% in 2023 to 8.5% by 2029. This indicates a reduced reliance on external acquisitions for growth.

This shift indicates that, while acquisitions have historically constituted a significant element of Salesforce's growth strategy, the company is now orienting its efforts towards organic growth through product development, market expansion and efficiency gains.

4.4.5 Non-Cash Items

Non-cash items, such as stock-based compensation, exert a considerable influence on the company's reported earnings, yet they do not directly affect its free cash flow. The use of stock options as a form of employee remuneration is a significant factor in this regard, as evidenced by the prevalence of stock-based compensation at Salesforce (see Exhibit 36). It is projected that stock-based compensation will remain at a stable level of approximately 8-10% of revenue throughout the forecast period. Although these expenses reduce reported earnings and dilute shareholder equity, they do not result in a cash outflow and therefore do not directly affect free cash flow.

4.4.6 Free Cash Flow to the Firm (FCFF)

The FCFF is a crucial indicator of the company's financial health and ability to generate cash. In 2022, Salesforce's FCFF experienced a decline due to the company's significant acquisition activities. This included the \$27.7 billion acquisition of Slack, which resulted in a negative cash outflow of \$8.6 billion. However, by 2023, the adj. FCFF had recovered to \$6.6 billion and it is expected to grow robustly through 2029, reaching \$24 billion.

Adj. Free Cash Flow to the Firm	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E	2029E
Adjusted EBI	1,806	6,339	4,064	3,091	6,995	8,804	10,132	11,820	13,993	16,947
Net New Investment (NNI) Less Amortization	973	(1,448)	(14,257)	1	(800)	(560)	968	1,032	1,099	1,137
Irregular Non-Cash Items	1,524	(1,983)	1,568	3,518	3,064	3,203	3,420	4,783	5,339	5,917
Adj. Free Cash Flow to the Firm	4,303	2,908	(8,625)	6,610	9,259	11,447	14,520	17,635	20,431	24,001
Rolling Fair Value Estimate					306.62	333.16	362.02	393.39	427.49	464.56

Exhibit 11: Adj. Free Cash Flow to Firm

5 Company valuation

This chapter evaluates Salesforce's intrinsic value using the DCF model, along with relative valuation and sensitivity analysis. A three-phase approach captures Salesforce's growth momentum supported by its scalable, recurring revenue SaaS model. The company's conservative capital structure and profitability are key drivers, while scenario and Monte Carlo analyses provide insight into potential valuation outcomes, leading to a Hold recommendation.

5.1 Valuation Using Discounted Cash Flow (DCF)

The DCF method is employed in the valuation of Salesforce, with a particular focus on the calculation of FCFE. As a company with a SaaS business model, Salesforce is distinguished by high scalability and recurring revenues, which necessitates an accurate prediction of future cash flows. In this assessment, key considerations include revenue growth and the potential impact of acquisitions and expansions that may affect the business in the long term.

To facilitate a comprehensive evaluation of the prospective evolution of Salesforce, a three-phase model is employed. The model is divided into three phases, each of which makes different assumptions about the company's growth and profitability.

The **initial phase** (years 1-5) is characterized by: This phase represents the immediate future, wherein assumptions regarding sales growth, investments and operating efficiency are more detailed and based on current data. This phase is distinguished by the presence of established growth strategies, acquisitions and the introduction of novel technologies.

The **second phase** (years 6-10) is characterized by: This medium-term phase represents a transition period in which growth may level off somewhat but remains solid. This reflects the maturity of the business, with Salesforce continuing to benefit from its market position, but also facing increasing competition and market saturation.

The **third phase**, which represents the terminal value, comprises: In the final phase, which commences after the initial ten-year period, it is assumed that Salesforce will transition to a stable, long-term growth trajectory characterized by the general economic growth factor (often in the form of a perpetuity growth rate). In this phase, the rate of growth is typically set at a more conservative level, reflecting the long-term average growth rate of the economy.

The advantage of the three-phase model is that it allows for the consideration of the dynamics of a rapidly growing company, while simultaneously incorporating realistic differentiated assumptions about the long-term future.

5.1.1 WACC

The WACC for Salesforce is estimated to be 8.9%, which reflects the company's cost of capital and has an influence on investment decisions and valuations. It is constituted of the costs associated with equity and debt financing and serves to represent the risk and return expectations of investors and creditors.

Cost of Capital		Cost of Equity	
Cost of Debt	3.7%	Country Risk	0.0%
Inflation Premi	0.0%	Market risk premium	4.60%
Total CoD	3.7%	Beta	1.1
Capital Structure		Risk free	4.12%
Debt Share	5.0%	Total CoE	9.2%
Equity Share	95.0%		
Tax Rate	22.0%		
WACC	8.9%		

Exhibit 12: Cost of Capital

5.1.1.1 Cost of Equity

The CoE for Salesforce is estimated to be 9.2%. This figure represents the return that shareholders anticipate will be generated on their invested capital. CoE is calculated using the CAPM, whereby the risk-free interest rate of the US 10-year Treasury is 4.12%. Furthermore, a market risk premium of 4.6% has been calculated by Damodaran¹ for the US market with the S&P 500 and a beta of 1.1, which is calculated by the 5 years average.

5.1.1.2 Cost of Debt

This structure is supported by Salesforce's high credit rating, with A+ ratings from S&P and A1 ratings from Moody's. These ratings indicate low default risk and enable the company to borrow at favourable conditions. The average cost of debt is calculated by the weighted average yield from the outstanding bonds for Salesforce, which is 3.7 and remains stable due to the combination of long-term bonds that were issued at previous, more advantageous terms on 3.6.

¹ https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/ctryprem.html

The company's diversified bond structure, comprising maturities ranging from 2025 to 2061, serves to offset interest rate fluctuations and provide long-term planning security.

5.1.1.3 Capital Structure

Salesforce's D/E ratio is expected to stabilise around 5% (actual 4.6%), reflecting the company's conservative approach to capital structure. While shareholders' equity is expected to grow due to strong operating performance, share repurchases - primarily funded by cash - and potential acquisitions could moderately increase leverage. It is common for more mature growth companies to increase their leveraging over time to optimise their capital structure, reduce their cost of capital and enhance shareholder returns. Salesforce's current strategy balances investment in growth with financial stability, leaving room for potential adjustments in leverage as the company matures.

5.1.2 Phase II

In the Stage II valuation, the assumptions regarding the return on new invested capital (RONIC), the investment rate and the growth of EBI are based on both historical data and an assessment of Salesforce's future potential. A RONIC of 27.4% indicates that Salesforce demonstrates a high rate of return on reinvestment in its Customer 360 platform, AI-driven solutions and cloud services. In accordance with the "mature growth" phase as delineated by Damodaran, Salesforce continues to prioritize value maximization through innovation while maintaining a stable investment rate of 32.9%, predominantly financed by free cash flow.

The projected EBI growth rate of 9.0% reflects Salesforce's competitive advantage in the expanding cloud market, particularly as demand for digital transformation rises across sectors. These assumptions are supported by Salesforce's efficient working capital management, improvements in operating cash flow and continued R&D spending. Furthermore, the company's operating margins, which have consistently exceeded 30%, serve to reinforce the assertion that it possesses considerable potential for returns (see Exhibit 37).

5.1.3 Terminal Value

The terminal value for Salesforce was calculated using a perpetual growth rate of 3%, which reflects a conservative but reasonable long-term growth outlook. This choice is consistent with the expected stabilization of Salesforce as it transitions into a mature growth phase. By 2031, Salesforce's ROIC is projected to be 15.2%, gradually converging to around 12% over the long term, which is in line with the company's WACC. Similarly, the investment ratio, which is

expected to be 28.0% in 2031, is expected to stabilize around 25%, reflecting a more sustainable reinvestment strategy.

This 3% growth rate places Salesforce at the upper end of expected global GDP growth projections (2-3%) and reflects the company's strong market position and ability to capitalize on ongoing digital transformation trends. As the leader in cloud-based CRM and enterprise software, Salesforce's innovative approach and recurring revenue model provide a solid foundation for continued expansion, albeit at a moderated pace in line with industry and macroeconomic trends.

5.2 Sensitivity Analysis

This analysis assesses the potential future valuation of Salesforce under three scenarios. The scenarios are defined as follows: Base, Bullish and Bear. The Base scenario assumes that market trends and historical data will continue as expected. In contrast, the Bullish and Bear scenarios explore the potential for more optimistic or pessimistic outcomes, respectively, by making different assumptions about the future (see Exhibit 38).

In the bullish scenario, it is anticipated that Salesforce will exceed market expectations due to accelerated cloud adoption, successful acquisitions and favourable economic conditions.

The Bear scenario considers a more challenging environment, in which growth is constrained by factors such as competition, market saturation or economic headwinds.

In conclusion, the scenario analysis demonstrates the extensive range of potential outcomes for Salesforce. The bullish scenario suggests the potential for a significantly higher valuation, driven by growth and returns on capital. Conversely, the bear scenario highlights the risks of lower growth and competitive pressures. The likelihood of a particular scenario will be determined by monitoring external factors and evaluating the efficacy of Salesforce's strategic execution (see Exhibit 39).

5.2.1 Monte Carlo Analysis

The Monte Carlo analysis projects Salesforce's valuation with a mean of \$296,764.24 and a standard deviation of \$46,168.38, highlighting moderate variability in outcomes. The range spans from \$188,986.22 to \$498,719.27, capturing the impact of assumptions such as growth rates, WACC and margins, with most outcomes clustering around \$300,000, indicating a balanced risk-return profile (see Exhibit 40 & Exhibit 41).

5.3 Relative Valuation Through Multiples

The peer companies were selected based on their similar stage of development within the corporate life cycle (mature growth), their affiliation with the same industry (software and SaaS) and their comparable profitability and growth profiles (see 3.6.2). All companies benefit from long-term trends such as digitalization and cloud transformation, which renders them relevant benchmarks:

ServiceNow Inc.

ServiceNow operates as a SaaS company with a long-term growth rate of 22.3%, which is significantly higher than that of Salesforce, which has a growth rate of 16.2%. The gross margin of 78.6% is indicative of exceptional operational efficiency, while the company's robust reinvestment strategy facilitates accelerated expansion. With a relatively modest market capitalization in comparison to Salesforce, it represents a growth-oriented peer in an earlier stage of the mature growth phase, making it an optimal comparator for Salesforce's growth trajectory.

Microsoft Corporation

Microsoft's long-term growth rate of 15.0% and EBITDA margin of 53.7% reflect a strong profitability and stability, which position it as a leader in the mature growth phase. Its market capitalization is significantly higher than that of Salesforce, which serves to illustrate its dominant position in the cloud services and enterprise software sectors. Microsoft's robust capital structure and consistent reinvestment in cloud infrastructure serve as a model for Salesforce's transition towards enhanced profitability.

Adobe Inc.

Adobe exhibits a pattern of consistent growth, with a long-term growth rate of 13.9%, which is slightly below that of Salesforce. This indicates that Adobe is situated at a later stage of the mature growth curve. The gross margin of 75.6% and the company's emphasis on recurring revenues serve to emphasize its profitability. With a comparable market capitalization, Adobe provides a reference point for the strategic evolution of Salesforce towards profitability while maintaining growth.

Workday Inc.

Workday is a mature growth phase SaaS company with a long-term growth rate of 20.3%, which aligns with the growth profile of Salesforce. The gross margin of 68.0% and the lower profitability metrics, such as the EBITDA margin of 6.3%, indicate that the strategy is one of reinvestment. With a smaller market capitalisation, Workday can be considered a peer with a similar focus on enterprise cloud solutions, but with less operational efficiency than Salesforce.

Company Name	PE	PEG
Peers Salesforce		
ServiceNow Inc	62.0x	2.8x
Microsoft Corp	30.2x	2.2x
Adobe Inc	24.6x	1.7x
Workday Inc	32.3x	1.6x
Min	24.6x	1.6x
Max	62.0x	2.8x
Mean	37.3x	2.1x
Median	31.3x	1.9x

Exhibit 13: Trading Multiples Analysis

The growth and profitability metrics of Salesforce are aligned with those of its peer group, thereby explaining its relative multiples. With a long-term growth rate of 16.2%, Salesforce outperforms Adobe (13.9%) and Microsoft (15.0%), but trails ServiceNow (22.3%) and Workday (20.3%). This positions Salesforce as a balanced growth option, as evidenced by its P/E (30.4x) and PEG (1.7x) ratios, which are below those of the highly growth-oriented ServiceNow (62.0x, 2.8x).

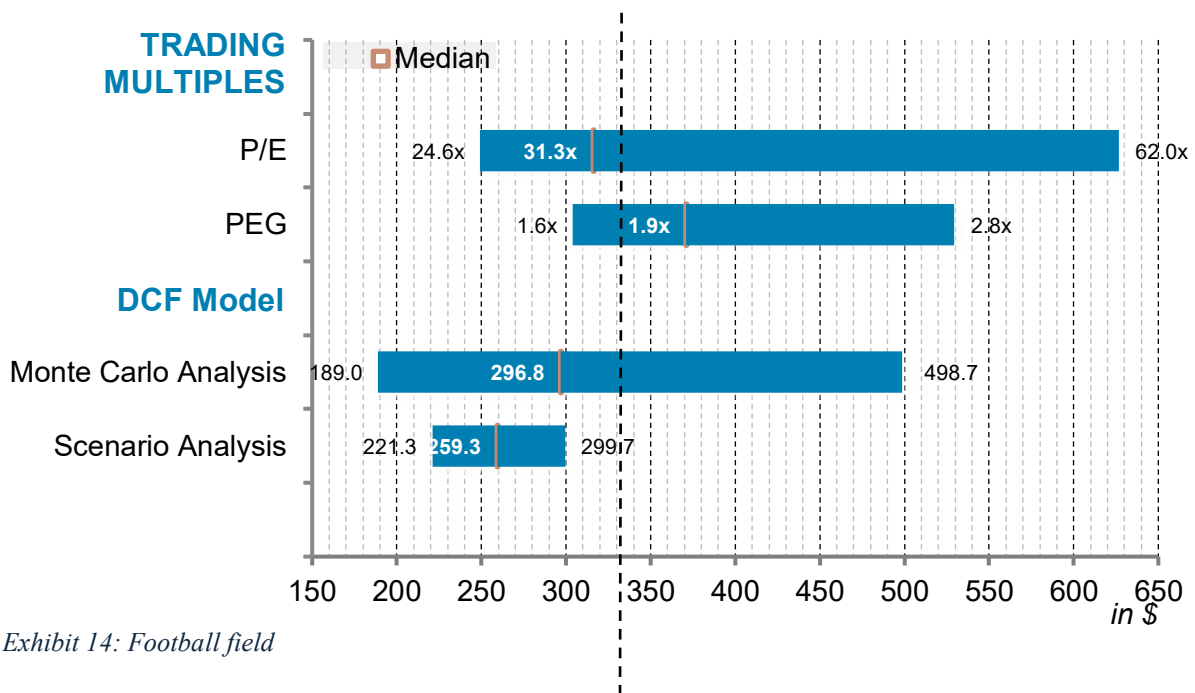
In terms of profitability, the gross margin of Salesforce (75.5%) is above the mean of its peer group (73%), reflecting operational efficiency that is similar to that of ServiceNow (78.6%) and Adobe (75.6%). Its EBITDA margin (28.6%) is competitive, though it is below the industry-leading figure of 53.7% for Microsoft, which justifies the higher valuation multiples for Microsoft (P/E 30.2x, PEG 2.2x).

Salesforce's focus on reinvestment, as reflected in its operating margin (13.0%), is slightly below the peer mean (18.5%), yet this supports its lower PEG (1.7x) in comparison to ServiceNow (2.8x). This reinvestment strategy serves to balance growth with profitability, thereby aligning Salesforce's valuation multiples with its financial profile. In conclusion, the company's multiples reflect a fair valuation in comparison to its peers, who exhibit a range of growth and profitability profiles.

5.4 Results of the Valuation and Investment Recommendation

A "Hold" rating has been assigned to Salesforce, Inc. at its current market price of **\$325.3** (as of 15/11/2024), which is marginally above its median valuation target price of **\$306.4**. Although the stock benefits from favorable market sentiment following the Trump victory, which lifted tech sector valuations and allowed for potential multiple expansion, its intrinsic valuation depends on achieving the high growth rates assumed in the bullish scenario, particularly through its AI-driven Einstein 1 strategy.

With a projected long-term growth rate of 16.2%, solid gross margins of 75.5% and a robust SaaS positioning, Salesforce is well-positioned for stability and long-term growth. However, its current price reflects limited short-term upside unless it significantly surpasses its growth and profitability targets. It is therefore recommended that investors hold their positions while monitoring Salesforce's strategic execution and market trends.



6 Comparison with Analyst Ratings

6.1 Valuation and Target Price of Leading Investment Banks

This section analyses the valuation approaches of Baptista Research, Guggenheim Securities and Morningstar, highlighting the differences in their methodologies and assumptions. Exhibit 42 illustrates an upward trajectory in analyst recommendations, with the proportion of "Buy" ratings increasing from 44.9% to 51.0% and the mean price target reaching \$314.62. The subsequent section will provide a detailed examination of Morningstar's approach, while this section offers a summary of the other methodologies.

Baptista Research (3 September 2024) uses a DCF model that reflects an optimistic view of Salesforce's growth. The WACC of 12.9% is above the industry average and the exceptionally high terminal growth rate of 9% leads to a significant increase in terminal value, which is estimated at USD 354.635m. These assumptions are based on the expectation that Salesforce will achieve above-market growth over the long term, driven by the scalability of its SaaS platforms and the integration of technologies such as Agentforce. Baptista's Buy rating and \$297 price target reflect this bullish view (*Baptista Research, 2024*).

Guggenheim Securities (29 August 2024), on the other hand, takes a more conservative approach based on EV/Earnings multiples. Their valuation incorporates moderate long-term growth of 7-8% CAGR and a 9% WACC. Guggenheim is neutral on Salesforce, with a \$250 price target and sees particular risks in the unclear monetization of Agentforce and the CFO change, leading to a more cautious outlook (*Guggenheim Securities, 2024*).

Morningstar's Valuation (29 August 2024), whose approach is discussed in more detail in the next section, values Salesforce at a fair value of \$290 based on a mix of relative valuation and conservative DCF modeling. Their long-term approach of 9% CAGR revenue growth and 8.8% WACC highlights the importance of ESG risks and regulatory challenges. Compared to this report, which is more optimistic about growth opportunities, Morningstar focuses more on long-term stability and competitive advantage (*Morningstar, 2024*).

6.2 Comparison of Students' Valuation with Analysts' Valuation

This section provides a comparison between this report of Salesforce and the analysis provided by Morningstar, a leading investment research firm. The two approaches utilize disparate methodologies and assumptions to ascertain the company's value. This report employs a DCF model with a five-year time horizon, whereas Morningstar utilizes a valuation model over two

10 -year periods. The following subsections provide a comprehensive analysis of the valuation fluctuations, methodological differences and the strengths and weaknesses of the investment bank method.

6.2.1 Methodological Differences

This report and Morningstar employ a three-stage DCF model to ascertain the value of Salesforce. However, there are notable discrepancies between their methodologies, particularly in terms of the approaches they adopt and the areas of focus they prioritize. Morningstar's approach places significant emphasis on risk management and long-term stability. The three stages of the model include a detailed forecast phase, a phase in which returns align with the cost of capital and a conservative perpetuity phase with a 3% terminal growth rate, closely tied to global GDP growth.

In contrast, this report's three-stage DCF is oriented towards an analysis of Salesforce's operational maturity and growth potential, with a particular focus on AI-driven solutions and SaaS expansion. Although the explicit forecast phase is similarly detailed, the terminal growth rate reflects a more optimistic outlook, reflecting Salesforce's position as a market leader in the rapidly growing CRM and cloud markets.

The key methodological differences pertain to the assumptions:

- **Growth:** The mean growth rate employed by Morningstar is lower than the higher rate suggested in this thesis. This is indicative of the belief that Salesforce has significant opportunities for innovation, technological advancements, and market expansion, which justify a more optimistic growth projection.
- **Integration of Risk:** Morningstar utilizes a formalized 'uncertainty rating' to quantify potential risks and applies a more expansive margin of safety. This report addresses risk through sensitivity analyses and comparisons with similar organizations, reflecting Salesforce's strong competitive position.
- **Economic Moat and Multiples:** Morningstar explicitly evaluates Salesforce's "economic moat", whereas this report incorporates competitive strengths implicitly via peer analysis. Furthermore, this report supplements its DCF model with multiples-based benchmarking, employing techniques such as P/E and PEG ratios, thereby providing a broader market perspective.

It is recommended that the price target be set at \$290, which reflects Morningstar's conservative risk-adjusted valuation and provides a stable outlook for investors with a cautious investment strategy. This report estimates a higher valuation, driven by dynamic growth projections and insights based on comparisons with other companies in the same sector, which align with Salesforce's innovative approach and competitive strengths (*Morningstar, 2024*).

A risk assessment of the company is provided by Morningstar, which also offers the following highlights: Strengths and weaknesses of the methods used by the investment bank.

6.2.2 Morningstar's Valuation Methodology: Strengths & Weaknesses

One of the principal advantages of Morningstar's long-term perspective is its capacity to incorporate structural and market-wide developments over an extended timeframe. The categorization into a Stage II and Stage III phase over a ten-year period allows for a well-founded analysis of Salesforce's potential for sustainable growth. The incorporation of Environmental, Social, and Governance (ESG) risks enhances the analytical rigor by accounting for challenges such as regulatory requirements and social issues. Furthermore, the High Uncertainty valuation offers a conservative framework that encompasses long-term risks, such as those of data protection and IT security.

Morningstar's analysis indicates that Salesforce is a stable investment with a reliable long-term return on capital. This is based on a conservative five-year revenue growth CAGR of 9%, a WACC of 8.8% and a high equity ratio of 95%.

However, a limitation of this methodology is that the 10-year projection may not fully account for short-term market volatility and rapid changes in the SaaS industry. In a market such as SaaS, which is characterized by rapid evolution, a long-term focus may result in an underestimation of current trends, including innovations in AI and cloud services.

Additionally, a comparison with companies such as Oracle and Microsoft, which are not direct competitors in the same market, may not always accurately reflect the specific challenges faced by companies in the SaaS space. This is because specialized competitors such as ServiceNow and Adobe have different valuation requirements (*Morningstar, 2024*).

Furthermore, the application of a conservative WACC may not fully recognize short-term growth opportunities and potential value creation. In contrast, this report places greater emphasis on a risk-adjusted WACC, with the aim of better reflecting the short-term cash flows and dynamics observed in the CRM and SaaS market.

7 Conclusion

7.1 Summary of Results

This paper presents a comprehensive examination of the valuation methodologies employed by the student and Morningstar in their assessment of Salesforce. The findings demonstrate the considerable influence that the selection of a valuation model and the time horizon have on the resulting valuation outcomes. This report employs a five-year DCF model that focuses on short-term growth opportunities in the SaaS and cloud markets. In contrast, Morningstar's 20-year model emphasizes long-term stability, integrating conservative capital assumptions and ESG risks.

Furthermore, the peer group selected for comparison differs. The student report employs a targeted SaaS peer group for direct competition, whereas Morningstar utilizes a broader peer set to reflect Salesforce's position as a technology provider. Additionally, the WACC varies between the two approaches. The student report utilizes a risk-adjusted WACC to capture growth dynamics more accurately, whereas Morningstar employs a conservative WACC approach that prioritizes stability and a high equity ratio.

7.2 Implications for Practice

The results of this study have significant implications for several key stakeholders.

This analysis could prove beneficial to investors, as it demonstrates how different valuation approaches and time horizons influence the interpretation of company value. The contrast between short-term and long-term viewpoints provides insights into how investment decisions can be made in accordance with differing market expectations.

The study also has implications for corporate governance. The research identifies the factors that influence company value from an investor's perspective, including strategic initiatives in ESG and the influence of long-term growth drivers. For Salesforce, this provides an opportunity to communicate its strategic priorities and innovation plans to investors more clearly, emphasizing its long-term value.

Industry and competition: The methodological differences highlight the benefits for SaaS and technology companies of a detailed assessment of capital structure and market positioning. This can assist other companies in the SaaS sector in adapting their valuation practices and competing in an increasingly competitive environment.

7.3 Conclusions for the Valuation of Technology Companies

The valuation of technology companies presents a few challenges due to the distinctive nature of these businesses and the fast-changing market conditions in which they operate. It is necessary to adapt traditional valuation models, such as the DCF model and multiples, to align them with the requirements of technology-driven business models and achieve a realistic valuation. Short-term valuation approaches that focus on cash flows and risk-adjusted capital costs can highlight short-term returns and volatility in dynamic markets, which is beneficial for investors interested in short-term value creation. Conversely, a long-term perspective that incorporates a multi-stage model and conservative capital assumptions, as exemplified by Morningstar's approach, emphasizes stability and sustainable growth. This is beneficial for technology companies that rely on long-term innovation cycles and benefit from trends such as digitalization and automation. It is important to consider not only financial factors when valuing technology companies but also social and regulatory aspects, such as ESG risks and structural market trends. It is not possible to apply a single valuation method to technology companies, as different approaches must be adapted to the specific business models, capital structures and market environments involved. The selection of the most appropriate valuation model should be based on the investor's specific objectives. The short-term approach is well-suited to growth-oriented companies, while the long-term approach is more aligned with mature companies that have established earnings and high innovation. In general, technology company valuation requires a balance between short-term financial metrics and long-term value drivers, as well as consideration of both short-term market opportunities and long-term megatrends.

7.4 Limitations of the Work

It is essential to be transparent about the limitations of the analysis performed to ensure a fair and accurate evaluation of the work. Potential limitations include:

Availability of data and assumptions: It should be noted that both the student evaluation and the Morningstar analysis are based on several assumptions and projected data, which are subject to uncertainty. The results may be affected by changes in the market environment or economic conditions.

Methodological differences: The choice of valuation model (e.g., DCF vs. multiples) has a significant impact on the results. This paper is limited to a comparative analysis and could be further differentiated by incorporating alternative models, such as the residual income model or real options.

Macroeconomic and ESG risks: It should be noted that ESG risks and macroeconomic influences have only been partially considered, which is particularly relevant for long-term forecasts such as those used in the Morningstar model.

7.5 Outlook on Future Developments

The findings of this research indicate several promising avenues for the improvement of valuation practices, particularly in the context of technology and SaaS companies. Firstly, the incorporation of flexible approaches such as real options into valuation models could prove an effective means of capturing market uncertainty in these dynamic sectors. The integration of ESG factors would serve to further enrich valuations, thereby enabling the formulation of more targeted recommendations for technology firms about sustainability and governance challenges.

Furthermore, as technological developments such as artificial intelligence continue to transform the SaaS sector, adapting market models to account for such innovations will be crucial for accurately assessing their impact on future value. Ultimately, cross-industry studies investigating the influence of varying time horizons on valuation could enhance comprehension, facilitating the refinement of investment strategies across diverse market contexts.

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9 Appendix

9.1 Tables and Charts

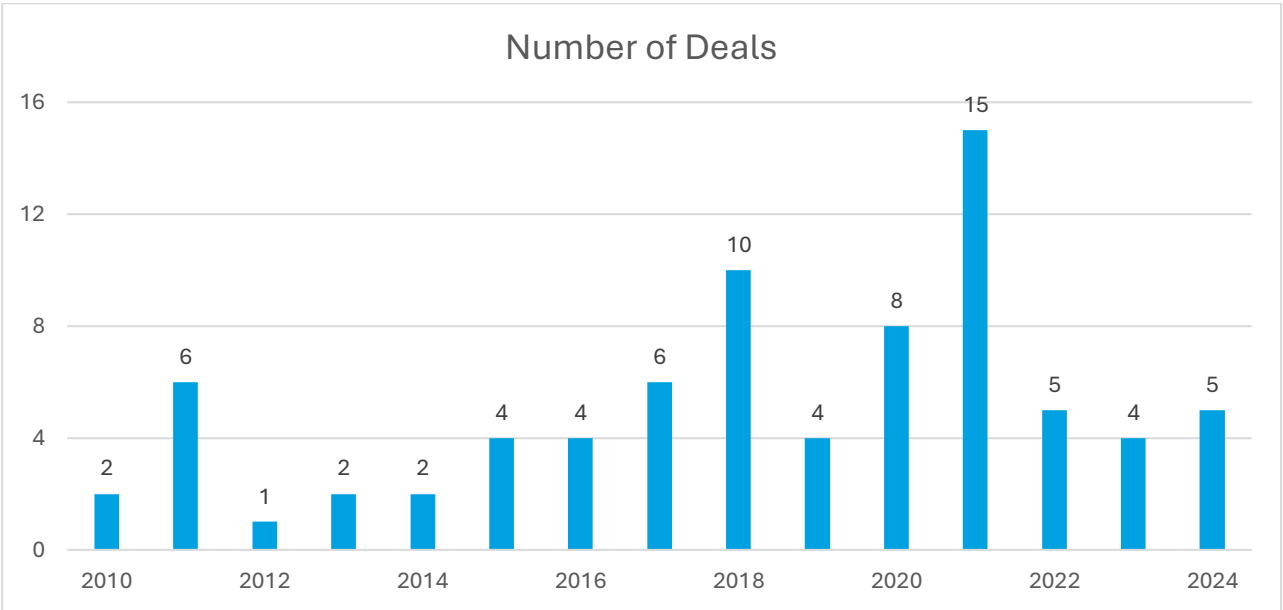


Exhibit 15: Strategic Expansion Through Increased Acquisitions

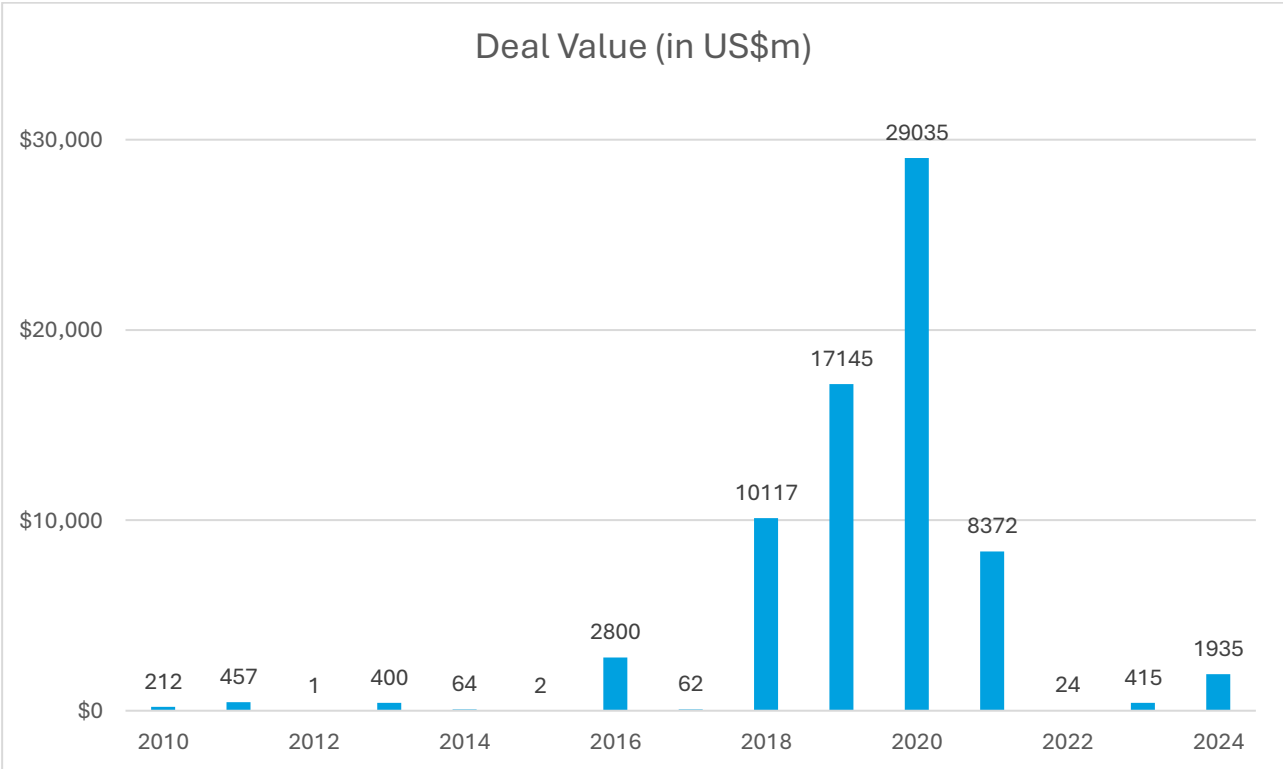


Exhibit 16: Record-High Deal Values in Recent Years

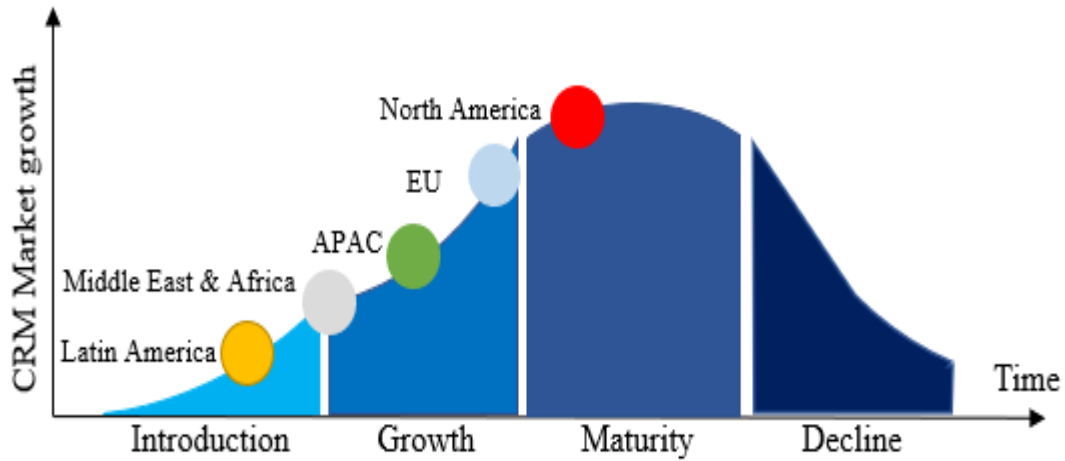


Exhibit 17: CRM Market Growth Region

(Source: “Verified Market Research 2031 Forecast,” 2023)

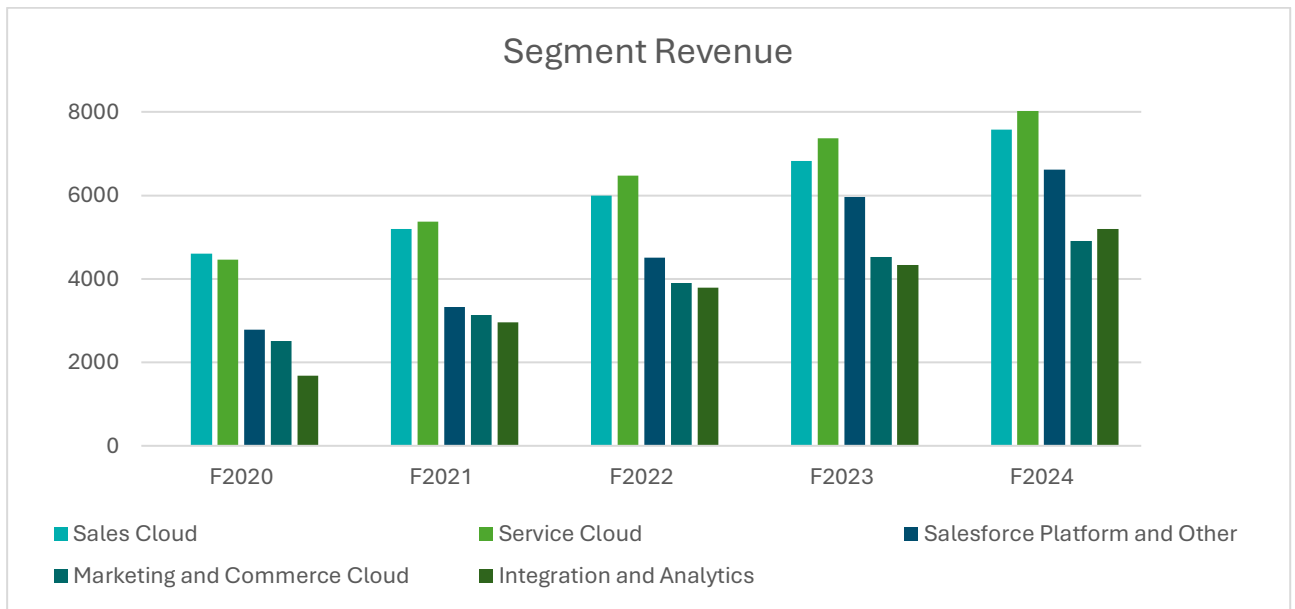


Exhibit 18: Segment Revenue Growth

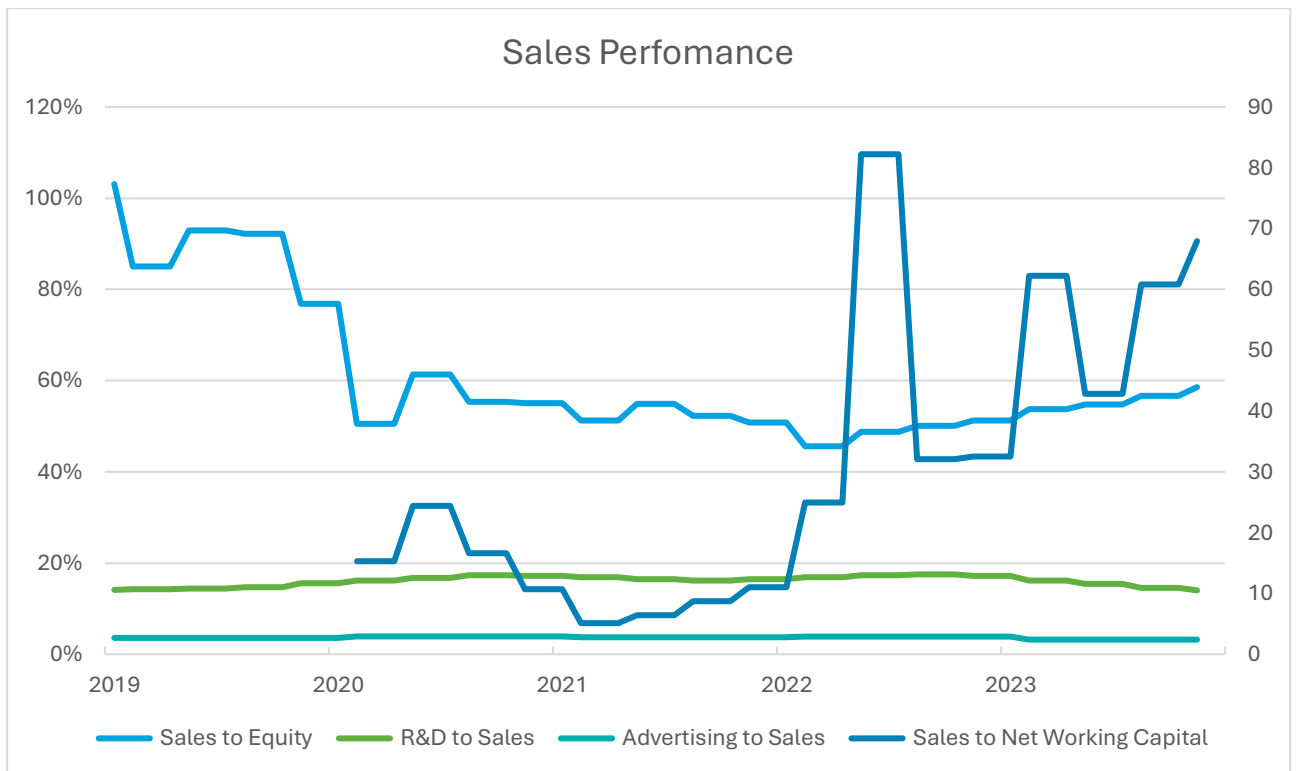


Exhibit 19: Sales Performance Ratios Analysis

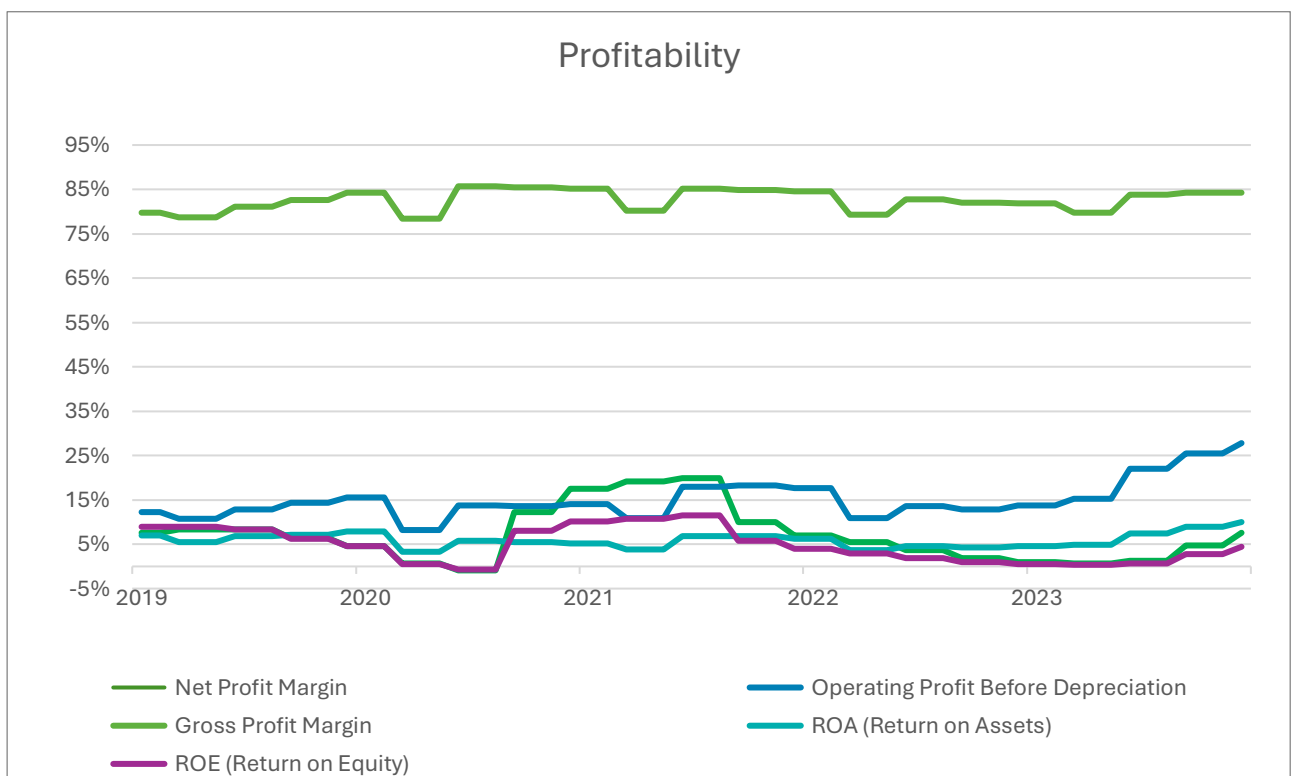


Exhibit 20: Operating Margins and Profitability

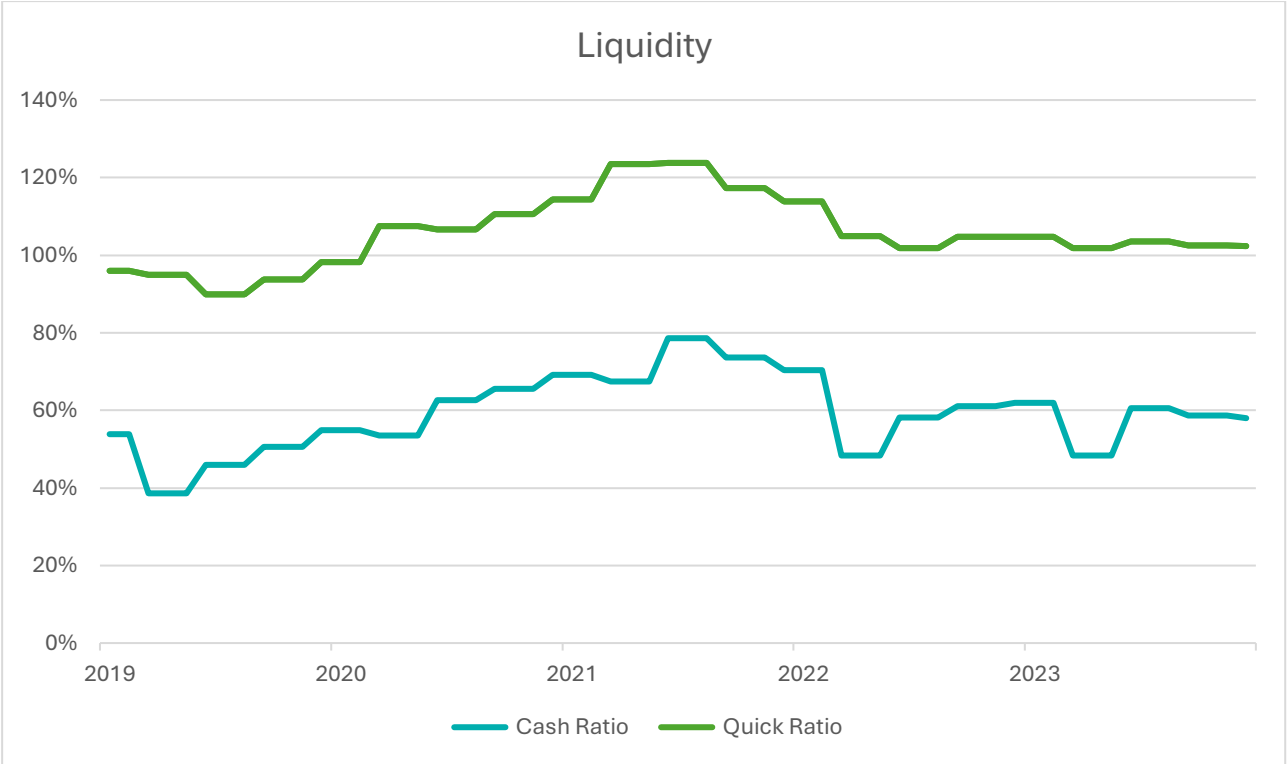


Exhibit 21: Liquidity

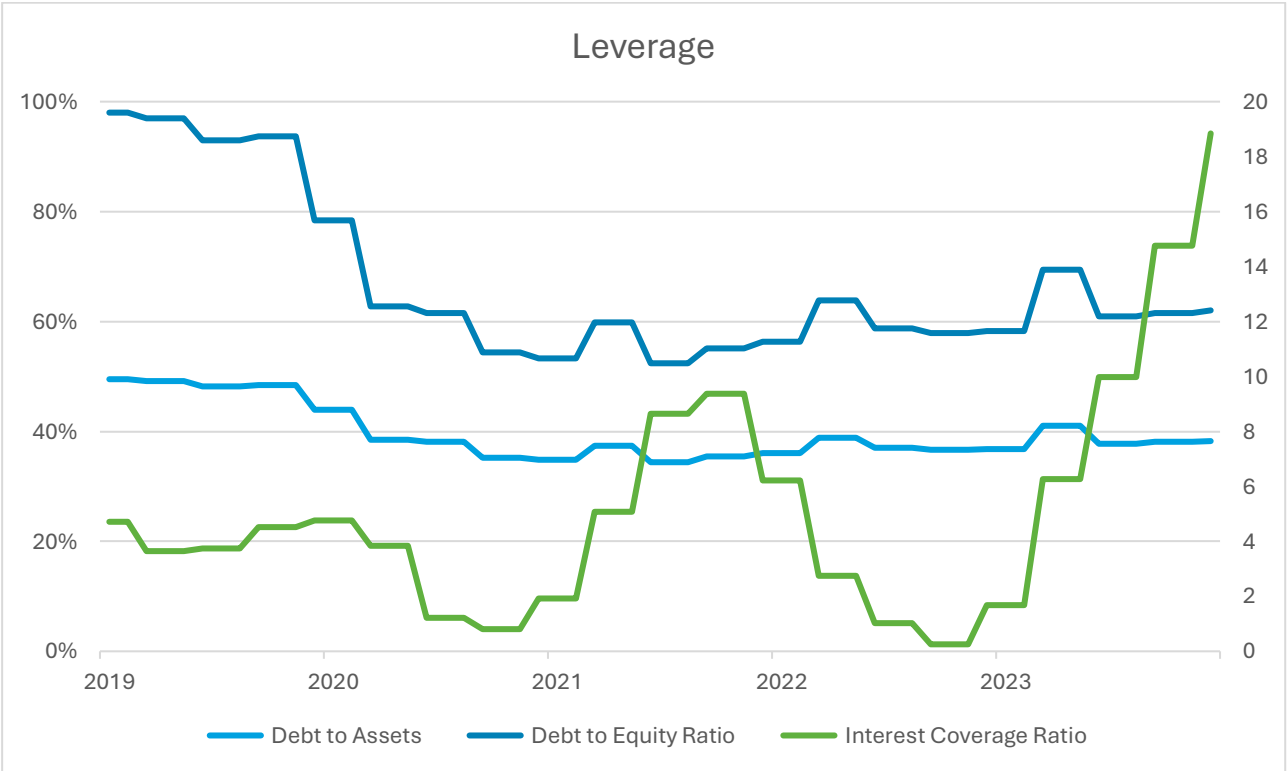


Exhibit 22: Leverage

Company Name	Gross Profit Margin	Operating Profit Margin	Net Profit Margin	EBITDA Margin	Operating Profit Margin	Asset Turnover
Salesforce Inc	75.5%	13.0%	11.9%	28.6%	13.0%	35.1%
Microsoft Corp	69.8%	44.6%	36.0%	53.7%	44.6%	53.0%
Oracle Corp	71.4%	29.0%	19.8%	41.9%	29.0%	38.5%
ServiceNow Inc	78.6%	8.5%	19.3%	14.8%	8.5%	58.5%
Five9 Inc	52.5%	-10.8%	-9.0%	-4.5%	-10.8%	66.5%
Adobe Inc	75.6%	2.5%	19.0%	38.8%	34.3%	68.2%
Workday Inc	68.0%	-39.1%	-29.8%	6.3%	2.5%	48.5%
HubSpot Inc	79.3%	1.1%	2.7%	-1.4%	-9.4%	77.3%
DocuSign Inc	72.4%	18.5%	12.1%	5.8%	1.1%	92.3%
SAP SE	82.7%	-28.5%	-23.0%	25.2%	18.5%	44.4%
Freshworks Inc	81.4%	9.0%	10.8%	-26.5%	-28.5%	42.0%
Dynatrace Inc	n.a.	n.a.	n.a.	13.0%	9.0%	46.3%
Min	52%	1%	3%	6%	1%	35.1%
Max	83%	45%	36%	54%	45%	92.3%
Mean	73%	16%	16%	25%	18%	55.9%
Median	75%	8%	12%	14%	9%	50.8%

Exhibit 23: Peer's analysis: Profitability and Efficiency Metrics

Company Name	Long Term Growth -	Revenue NTM vs LTM	EBITDA NTM vs LTM	EPS NTM vs LTM	ROE	ROA
Salesforce Inc	16.2%	10.9%	13.3%	15.9%	9.7%	6.1%
Microsoft Corp	15.0%	19.5%	18.8%	17.1%	37.1%	19.1%
Oracle Corp	11.5%	13.3%	21.2%	14.5%	166.5%	7.8%
ServiceNow Inc	22.3%	22.9%	25.2%	22.0%	16.2%	8.0%
Five9 Inc	15.2%	15.2%	28.1%	17.9%	-10.7%	-3.2%
Adobe Inc	13.9%	12.7%	13.4%	14.1%	21.1%	10.3%
Workday Inc	20.3%	18.2%	28.1%	22.8%	-21.6%	-14.1%
HubSpot Inc	n.a.	22.4%	30.4%	28.9%	70.3%	28.1%
DocuSign Inc	n.a.	7.6%	17.5%	9.1%	6.5%	4.0%
SAP SE	12.1%	11.4%	16.5%	28.2%	-9.4%	-7.0%
Freshworks Inc	n.a.	24.0%	37.3%	14.9%	8.2%	5.2%
Dynatrace Inc	10.3%	21.4%	15.6%	11.6%	n.a.	n.a.
Min	10.3%	7.6%	13.3%	9.1%	7%	4%
Max	22.3%	24.0%	37.3%	28.9%	166%	28%
Mean	15.2%	16.6%	22.1%	18.1%	42%	11%
Median	15.0%	16.7%	20.0%	16.5%	10%	6%

Exhibit 24: Peer's Analysis Growth & Capital return

Company Name	Market Cap (in mio. usd)	WC/Sales	Current Ratio	Interest Coverage Ratio	D/E	LT Debt to Total Capital
Salesforce Inc	285,739	4.2	1.09	206.9	17.4%	12.9%
Microsoft Corp	3,211,305	23.4	1.27	37.3	29.3%	19.4%
Oracle Corp	480,585	-10.5	0.72	4.6	998.0%	79.4%
ServiceNow Inc	196,334	5.9	1.06	31.8	19.5%	16.3%
Five9 Inc	2,246	76.0	5.53	-11.7	138.8%	58.0%
Adobe Inc	213,669	9.5	1.34	58.8	22.0%	18.0%
Workday Inc	63,237	57.6	1.97	1.6	36.9%	26.9%
HubSpot Inc	28,920	44.0	1.96	-29.3	34.6%	25.7%
DocuSign Inc	14,239	-12.1	0.94	9.7	0.0%	0.0%
SAP SE	297,529	11.2	1.40	11.9	20.4%	14.1%
Freshworks Inc	3,562	170.5	4.14	n.a.	n.a.	0.0%
Dynatrace Inc	16,412	15.0	1.28	n.a.	n.a.	0.0%
Min	2,246	4.23	0.72	1.61	17.4%	0.13
Max	3,211,305	170.48	5.53	206.86	998.0%	0.79
Mean	401,148	41.73	1.89	45.31	146.3%	0.30
Median	129,786	13.08	1.31	10.79	25.7%	0.17

Exhibit 25: Peer's Analysis: Leverage and Liquidity Metrics

#	Investor Name	%
1	The Vanguard Group, Inc.	9.0%
2	State Street Global Advisors (US)	5.1%
3	BlackRock Institutional Trust Company, N.A.	5.1%
4	Fidelity Management & Research Company LLC	2.6%
5	Capital Research Global Investors	2.5%
6	Benioff (Marc Russell)	2.3%
7	Geode Capital Management, L.L.C.	2.1%
8	Capital International Investors	2.0%
9	Fisher Investments	1.3%
10	Capital World Investors	1.2%

Exhibit 26: Top 10 Investors

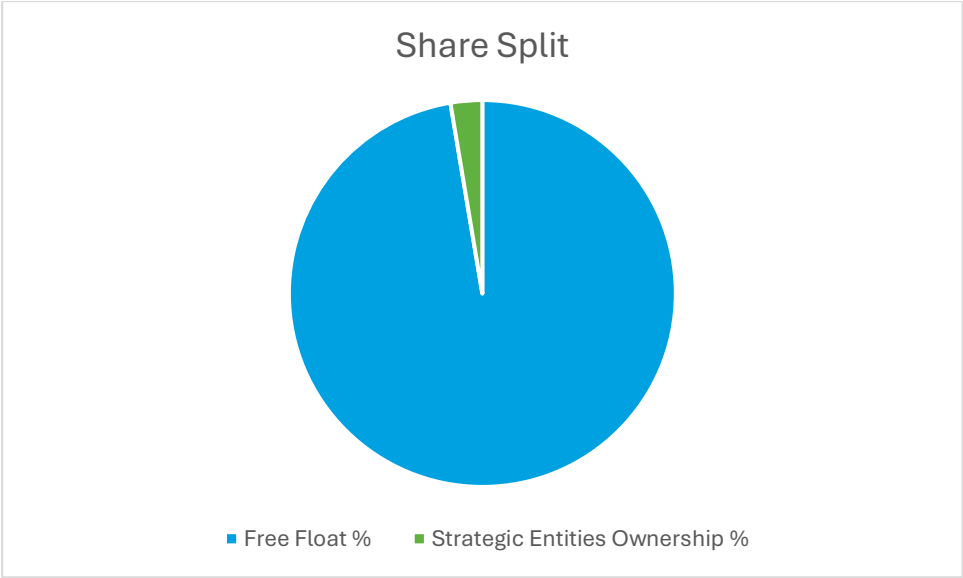


Exhibit 27: Stock Split

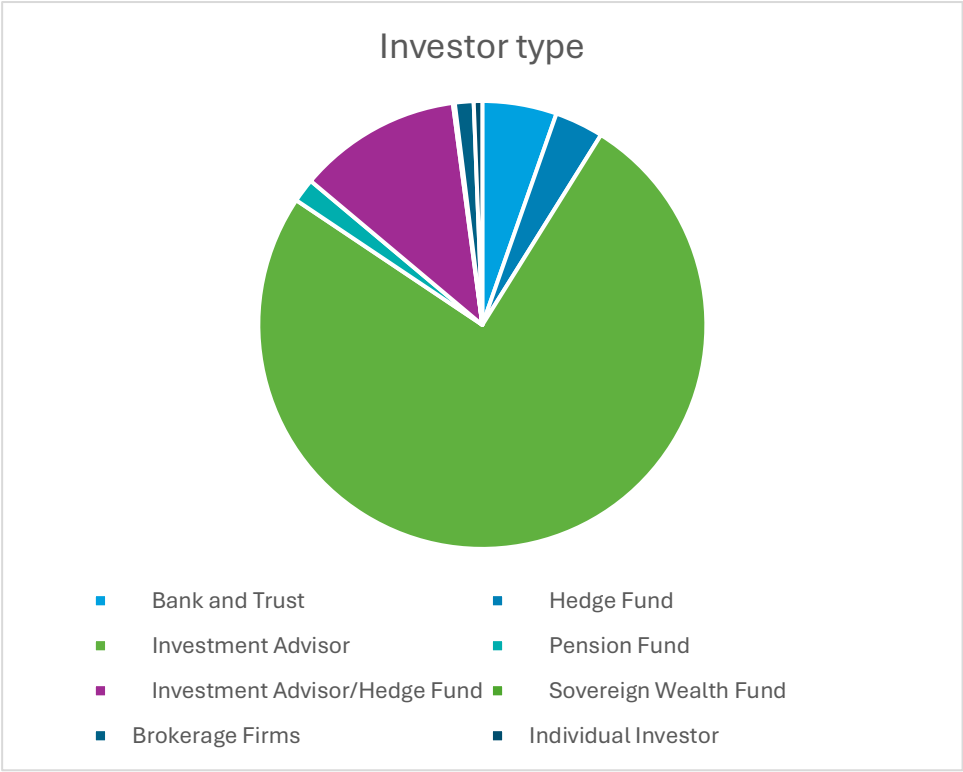


Exhibit 28: Investor Split

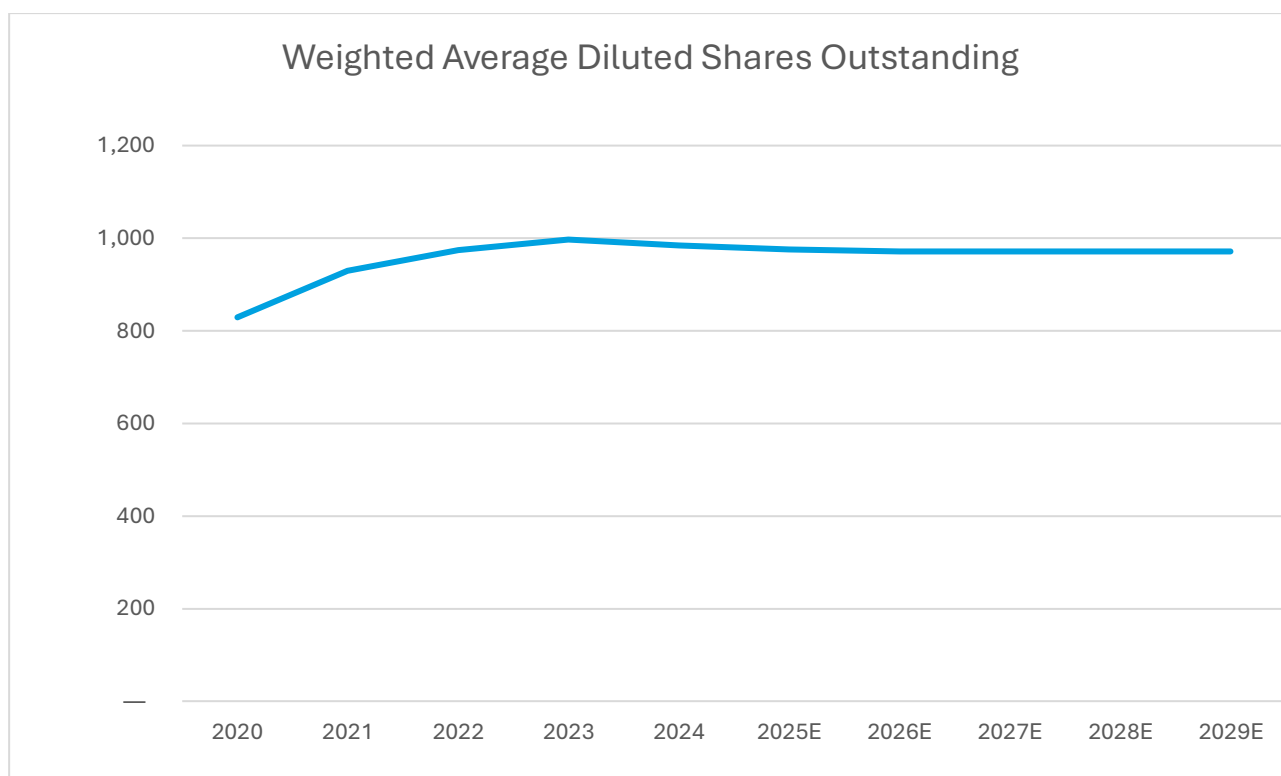


Exhibit 29: Weighted Average Diluted Shares Outstanding

Income Statement in USD m	2022 Actual	2023 Actual	2024 Plan	2025 Plan	2026 Plan	2027 Plan	2028 Plan	2029 Plan
Revenue	26,492	31,352	34,857	39,174	44,819	51,710	59,326	67,627
Gross Profit	19,466	22,992	26,316	30,280	34,595	39,942	45,857	52,311
Operating Income	1,532	660	4,950	7,995	9,949	12,523	15,895	19,791
Net Income	1,444	208	4,136	6,156	7,661	9,643	12,239	15,239
Adjusted Income	4,659	5,226	8,087	10,011	10,863	15,193	18,275	21,740
Adjusted EPS	4.78	5.24	8.22	10.26	11.18	15.63	18.80	22.37
Adjusted EBITDA	4,830	4,446	8,909	11,699	13,400	15,631	18,657	22,581
Growth (% YoY)								
Revenue	24.7%	18.3%	11.2%	12.4%	14.4%	15.4%	14.7%	14.0%
Gross Profit	23.1%	18.1%	14.5%	10.5%	10.1%	9.4%	9.0%	8.9%
Operating Income	-40.2%	-56.9%	650.0%	50.0%	20.9%	8.9%	13.8%	14.1%
Net Income	-64.5%	-85.6%	1888.5%	41.7%	19.5%	7.5%	13.8%	14.1%
Adjusted EPS	-2.9%	9.6%	56.8%	24.9%	8.9%	12.6%	9.6%	9.8%
Adjusted EBITDA	-10.1%	-6.5%	123.1%	27.7%	15.0%	-2.6%	9.9%	12.5%
Profitability (%)								
Gross Margin	73.5%	73.3%	75.5%	77.3%	77.2%	77.2%	77.3%	77.4%
Operating Margin	5.8%	2.1%	14.2%	19.6%	21.6%	21.6%	22.5%	23.7%
Net Margin	5.5%	0.7%	11.9%	15.5%	16.9%	16.6%	17.3%	18.2%
Adjusted EBITDA Margin	18.2%	14.2%	25.6%	29.9%	29.9%	30.2%	31.4%	33.4%
Return on Equity	2.9%	0.4%	7.0%	9.7%	10.9%	10.9%	11.4%	11.9%
Adjusted ROIC	7.8%	8.4%	12.1%	12.3%	12.4%	11.5%	11.6%	11.9%
Leverage								
Debt / Capital	0.2x	0.2x	0.1x	0.1x	0.1x	0.1x	0.1x	0.1x
Debt / EBITDA	2.8x	3.0x	1.2x	0.9x	0.8x	0.8x	0.6x	0.5x
D/E	0.08	0.06	0.046	0.050	0.050	0.050	0.050	0.050
Share of Debt	0.07	0.06	0.044	0.05	0.05	0.05	0.05	0.05
Share of Equity	0.93	0.94	0.956	0.95	0.95	0.95	0.95	0.95
Cash Flow								
Dividends per Share	-	-	-	1.60	1.73	1.87	2.02	2.18
Free Cash Flow to the Firm	(9,609)	6,980	9,320	11,515	14,269	17,687	20,490	24,069
Dividend Franking	-	-	-	-	-	-	-	-
Dividend Payout Ratio	0.0%	0.0%	0.0%	15.6%	15.5%	11.9%	10.7%	9.7%

Exhibit 30: Financial Forecasts and Growth Metrics

Instrument	Maturity Date	Contractual Interest Rate	Outstanding Principal as of January 31, 2024	Carrying Value as of January 31, 2024
2023 Senior Notes	April 2023	3.25%	0	0
Loan assumed on 50 Fremont	June 2023	3.75%	0	0
2024 Senior Notes	July 2024	0.63%	1000	999
2028 Senior Notes	April 2028	3.70%	1500	1495
2028 Senior Sustainability Notes	July 2028	1.50%	1000	994
2031 Senior Notes	July 2031	1.95%	1500	1490
2041 Senior Notes	July 2041	2.70%	1250	1235
2051 Senior Notes	July 2051	2.90%	2000	1978
2061 Senior Notes	July 2061	3.05%	1250	1235
Total carrying value of debt			9500	9426
Less current portion of debt				(999)
Total noncurrent debt				8427

Exhibit 31: Listed Bonds

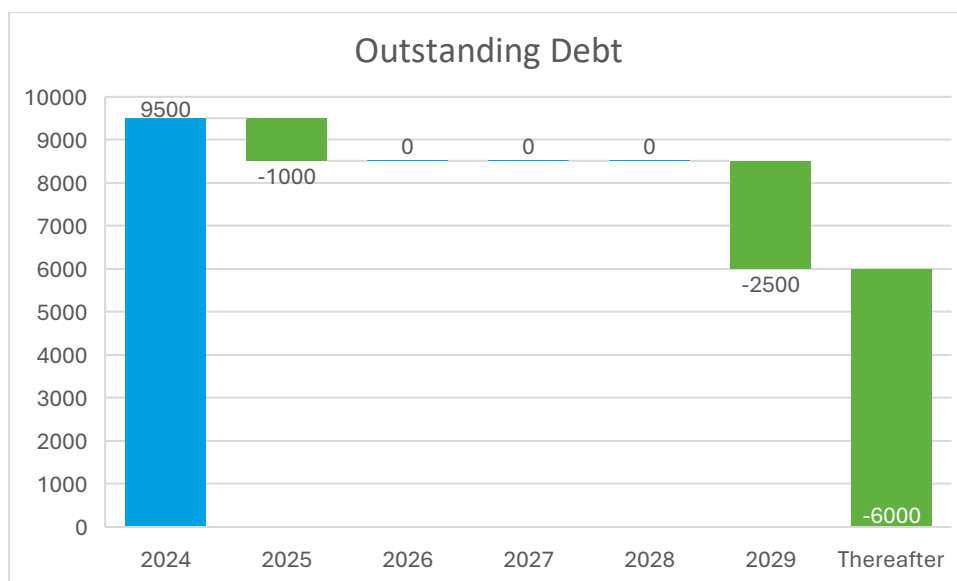


Exhibit 32: Outstanding Debt and repayment plan

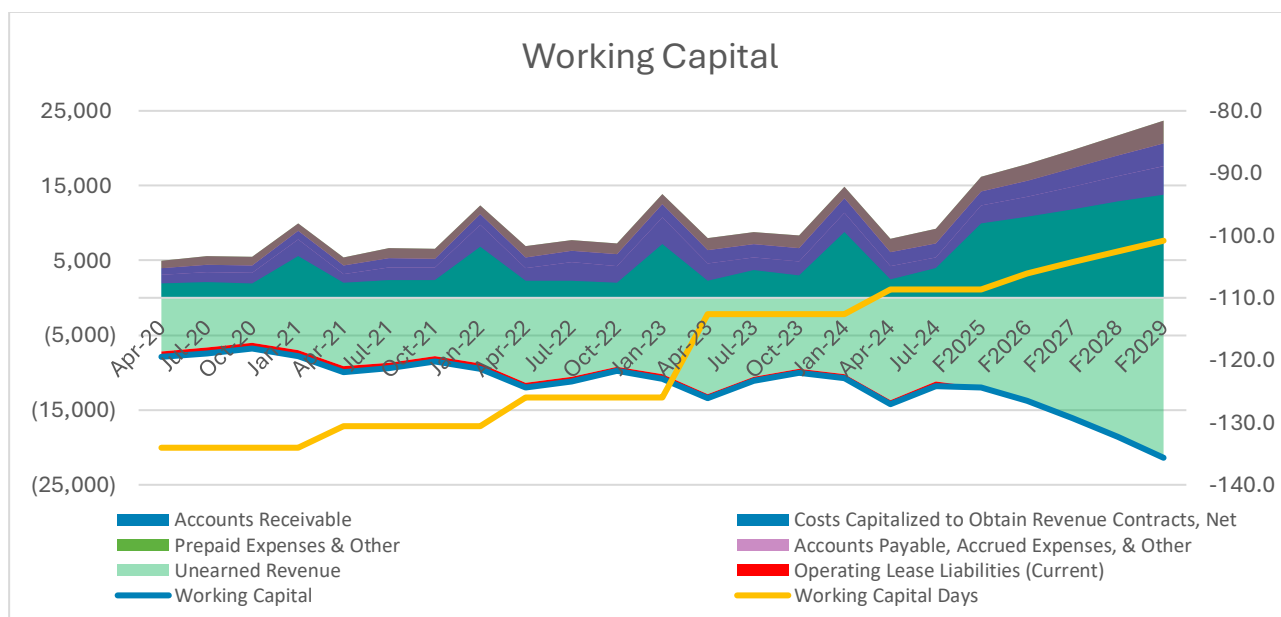


Exhibit 33: Working Capital

PPE	Straight-line depreciation time	As of Jan 2024	Depreciation 2025	As of Jan 2025	As of Capex 2025	Depreciation 2026
Land	n/a	293	0	293	0	0
Buildings	25	490	19.6	470.4	0	18.8
Computers	5	4209	841.8	3930.7	563.5	786.1
Furniture	7	245	35.0	210	25.2	30.0
Leasehold	10	1604	160.4	1443.6	173.3	144.4
Sum		6841.0	1056.8	6347.7	762.0	979.3

Exhibit 34: Depreciation

Amortizations of Acquisitions	2025	2026	2027	2028	2029
Acquisitions	(597.0)	(656.7)	(722.4)	(794.6)	(874.1)
Therefore Intangibles	50%	50%	50%	50%	50%
Subject to Amortization	(298.5)	(328.4)	(361.2)	(397.3)	(437.1)
Expected Life	5.0	5.0	5.0	5.0	5.0
Amortization	(59.7)	(65.7)	(72.2)	(79.5)	(87.4)
Accumulated Amortization	(59.7)	(125.4)	(197.6)	(151.7)	(239.1)

Exhibit 35: Amortization of Acquisitions

Amounts include stock-based compensation expenses	F2024
COGS	431
R&D	972
Marketing and sales	1062
G&A	299
Restructuring	23
Sum	2787

Exhibit 36: Stock-based compensation

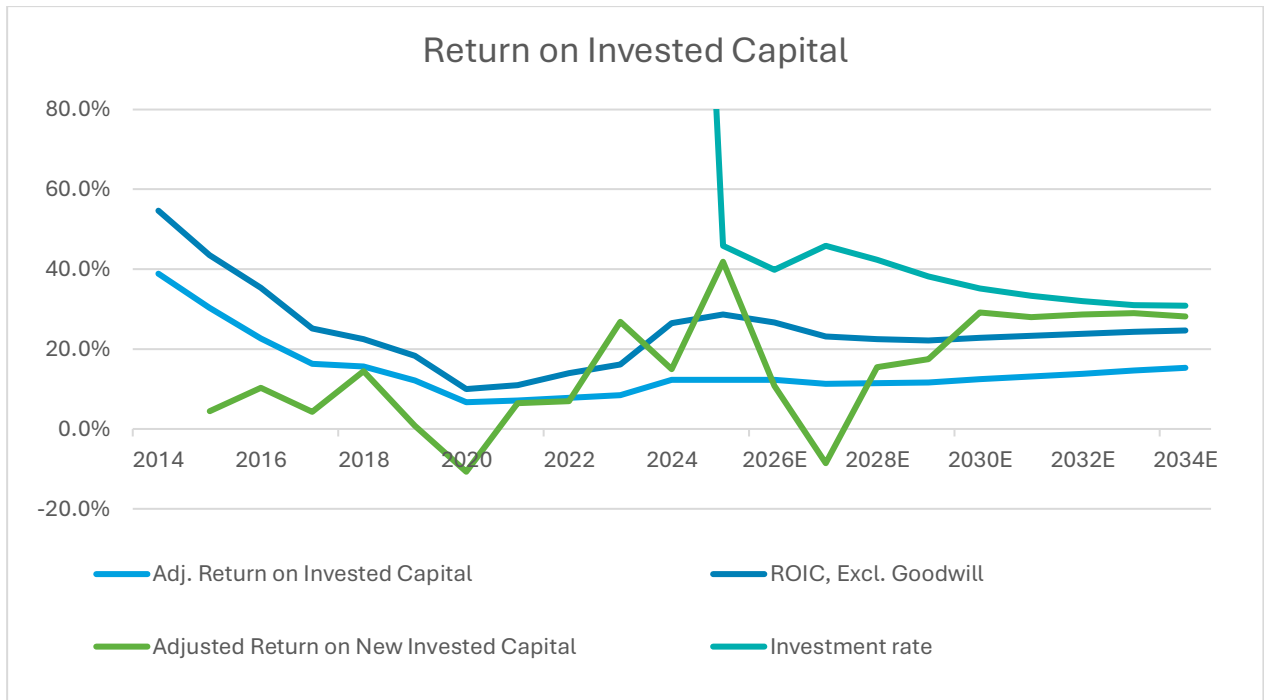


Exhibit 37: Expected Increasing ROIC due to constant high Investment rate

Category	Base	Bullish	Bear
Sales Cloud (yr/yr)	10.7%	14.2%	7.4%
Service Cloud (yr/yr)	11.4%	14.9%	8.1%
Salesforce Platform & Other (yr/yr)	11.1%	13.8%	8.0%
Marketing & Commerce Cloud (yr/yr)	11.0%	13.8%	7.3%
Integration & Analytics (yr/yr)	15.4%	16.8%	12.0%
Professional Services & Other (yr/yr)	2.7%	3.4%	-1.8%
Total Revenue Growth (yr/yr)	11.2%	12.6%	8.1%
Gross Margin	77.2%	77.8%	76.1%
R&D	13.4%	13.1%	14.0%
Sales & Marketing	34.0%	33.3%	34.1%
G&A	6.5%	6.2%	6.7%
Operating Margin	23.7%	24.6%	22.7%
RONIC	32.9%	34.0%	27.9%
EBI Growth	9.0%	11.0%	8.0%
Investment Rate	32.0%	33.7%	27.0%

Exhibit 38: Scenario Analysis Assumptions

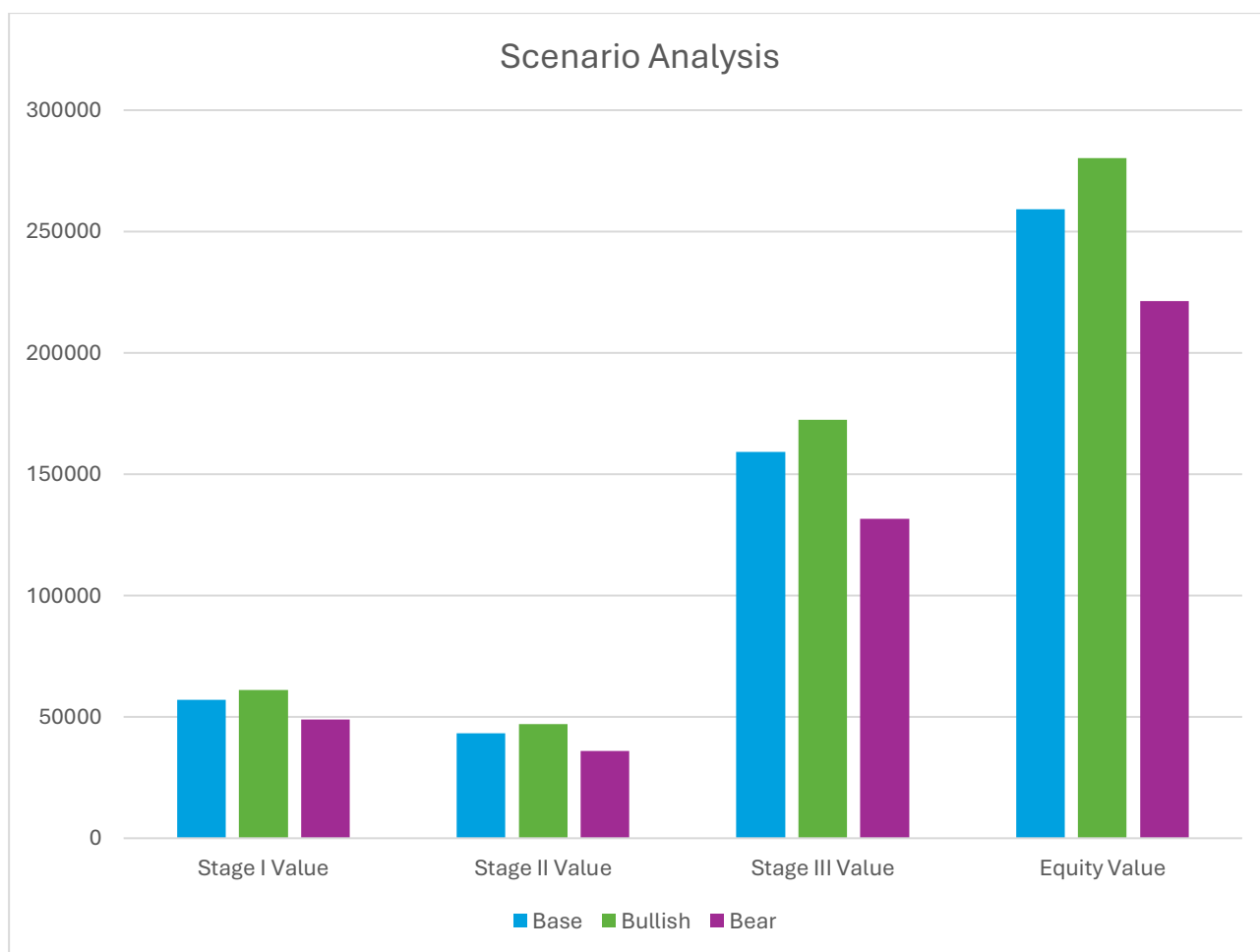


Exhibit 39: Scenario Analysis

Category	Value	Range / SE	Comment
FCFF1	10,881	809.1	Calculated by FCFF STD 2018-2024
Forecast Horizon growth rate	11.2%	[9%:17%]	Range of historical rates
Stage II Growth	9.0%	[5%:13%]	+/-4%
Terminal value growth	3.0%	[2%:4.5%]	Min: Inflation; Max: Reinvestment / ROIC
D/E	5.0%	[4%:6%]	+/-1%
Beta	1.10	[1.0:1.3]	Based on historical Betas

Exhibit 40: Assumptions Monte Carlo Analysis

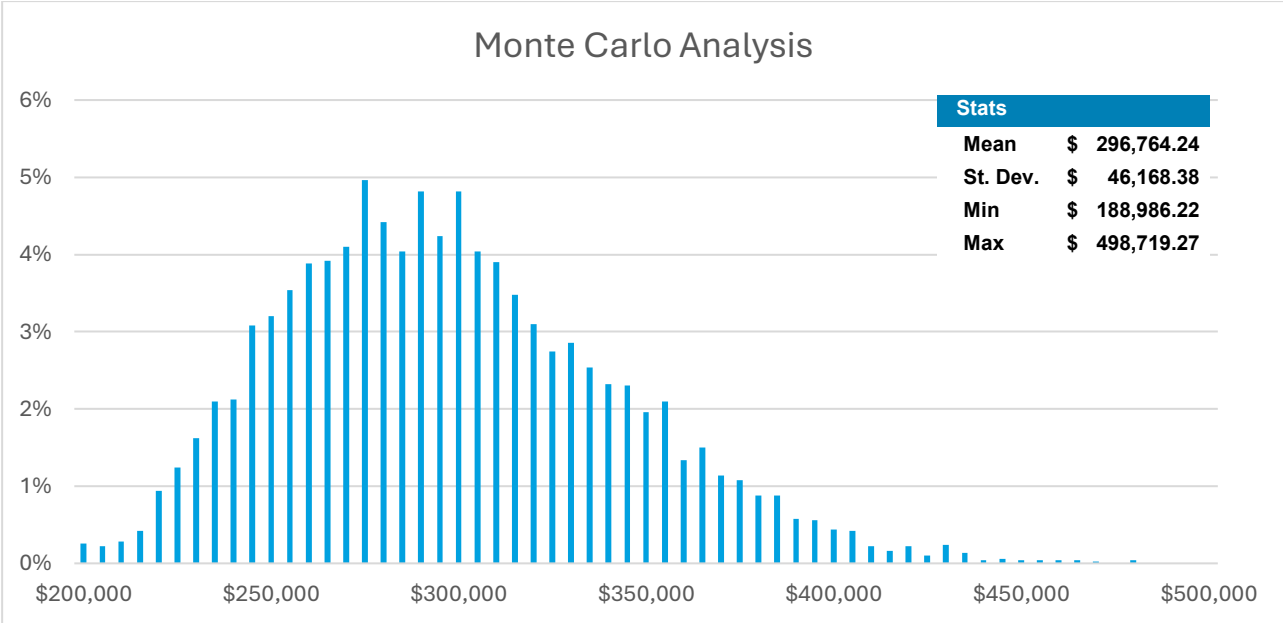


Exhibit 41: Monte Carlo Analysis

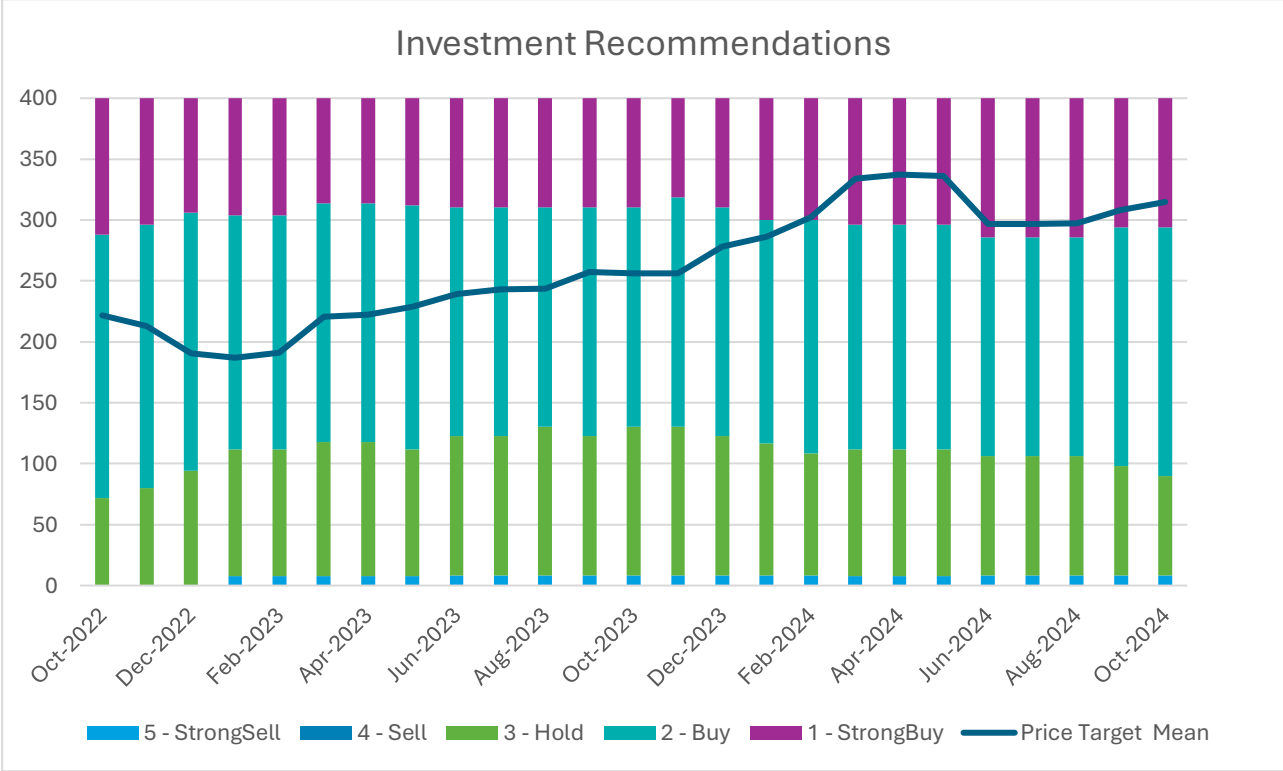


Exhibit 42: Investment Recommendations

(source: Refinitiv)