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Mar 02, 2017

Salesforce.com, Inc. (NYSE: CRM)

$82.67 USD (As of 03/02/17)

Zacks Rank 3-Hold

Style: Value: F | Growth: B | Momentum: C | VGM: D

Data Overview

52 Week High-Low	$84.48 - $66.43
20 Day Average Volume	4,913,866
Beta	1.31
Market Cap	58.39 B
Dividend / Div Yld	$0.00 / 0.00%
Industry	Computer - Software
Industry Rank	111 / 265 (Top 42%)
Current Ratio	0.60
Debt/Capital	20.96%
Net Margin	2.14%
Price/Book (P/B)	8.12
Price/Cash Flow (P/CF)	37.10
Earnings Yield	0.60%
Debt/Equity	0.27

Value Score	F
P/E (F1)	174.09
P/E (F1) Rel to Industry	155.35
PEG Ratio	7.14
P/S (F1)	5.74
P/S (TTM)	6.96
P/CFO	37.10
P/CFO Rel to Industry	-9.12
EV/EDITDA Annual	58.67

Growth Score	B
Proj. EPS Growth (F1/F0)	110.73%
Hist. EPS Growth (Q0/Q-1)	5.26
Qtr CFO Growth	-31.23
2 Yr CFO Growth	60.71
Return on Equity (ROE)	3.99%
(NI - CFO) / Total Assets	-9.69
Asset Turnover	0.58

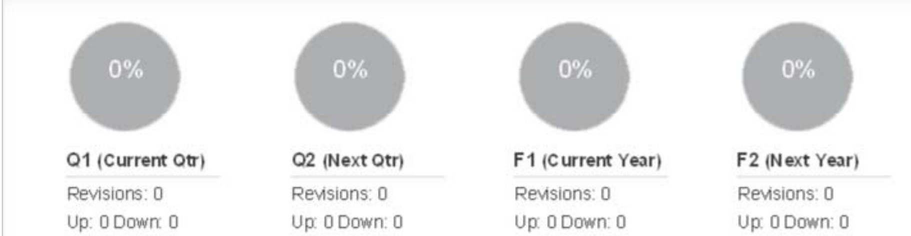
Momentum Score	C
1 week Volume change	15.02%
1 week Price Cng Rel to Industry	2.23%
(F1) EPS Est 1 week change	0.04%
(F1) EPS Est 4 week change	0.30%
(F1) EPS Est 12 week change	0.30%
(Q1) EPS Est 1 week change	-6.02%

Summary

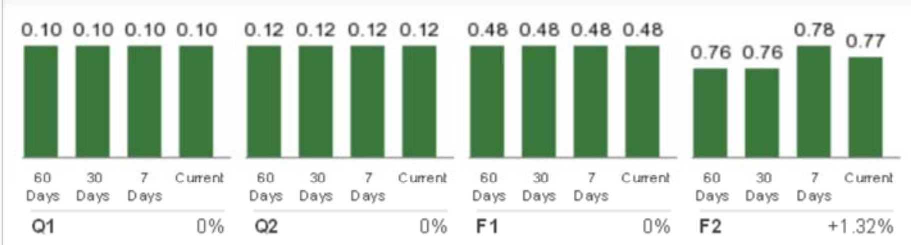
Salesforce is the leading provider of on-demand Customer Relationship Management software. Salesforce reported mixed results for the fourth quarter of fiscal 2017 wherein its top-line came ahead of the Zacks Consensus Estimate but the bottom-line fell short of the same. Nonetheless, although, Salesforce disappointed on the earnings front, it continues to witness strong growth in revenues. The robust revenues were primarily backed by growth across all its business segments and the Salesforce ExactTarget Marketing Cloud platform. Moreover, the company's upbeat revenue guidance for fiscal 2018 was encouraging. Going ahead, we believe that Salesforce's sustained focus on strategic acquisitions to drive its top-line over the long run. However, currency fluctuations and stepped-up investments in international expansions and data centers could impact near-term results.

Elements of the Zacks Rank

Agreement Estimate Revisions (60 days)



Magnitude Consensus Estimate Trend (60 days)



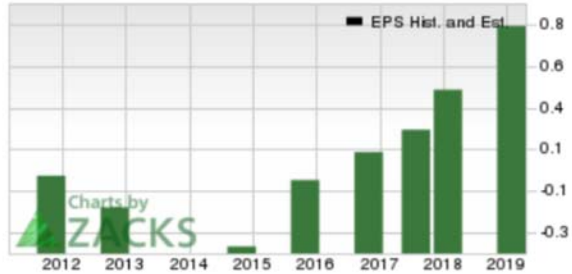
Upside Zacks Consensus Estimate vs. Most Accurate Estimate

Surprise Reported Earnings History

The data on the front page and all the charts in the report represent market data as of 03/02/17, while the report's text is as of 03/02/2017

Overview

Headquartered in San Francisco, salesforce.com is the leading provider of on-demand Customer Relationship Management (CRM) software, which enables organizations to better manage critical operations, such as sales force automation, customer service and support, marketing automation, document management, analytics and custom application development. Founded in 1999, Salesforce began offering its on-demand application service on a subscription basis in Feb 2000. The company has leveraged its expertise in on-demand software to increase the scale of operations. It also offers a technology platform for customers and developers to build and run business applications. There are two main revenue streams — Subscription and Professional Services & Other.



Subscription revenues come from a couple of sources. The primary source is subscription fees received by the company from customers for accessing its enterprise cloud computing application service. The second source is subscription fees generated from customers for providing additional support beyond the standard support given by the company. This segment accounted for roughly 92% of Salesforce's fiscal 2017 revenues.

Professional Services & Other revenues consist of fees that the company derives from consulting and implementation services and training. Consulting and implementation engagements typically generate one-time payments. Training includes classes on implementation, usability and administration of service provided by the company that are billed per session. This segment accounted for the remaining 8% of Salesforce's fiscal 2017 revenues.

Geographically, in fiscal 2017, the Americas contributed approximately 74% of total revenue, Europe accounted for roughly 16%, while Asia Pacific contributed the remaining 10%.

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

Reasons To Buy:

> The company's diverse cloud offerings and strong spending on digital marketing remain growth catalysts.

- Salesforce is the world's ***leading Customer Relationship Management (CRM) company***, in the Software-as-a-Service (SaaS) enterprise application market. The company was the first to sign up large customer accounts, which helped it build a strong market position. Given increasing customer adoption and satisfactory performances, market research firm Gartner has acknowledged Salesforce as the world's #1 CRM company in 2015, with a market share of 21% in 2015, ahead of SAP with 5% market share and Oracle with 6% share. As per Gartner, 2015 marked Salsforce's 10th consecutive year of holding the world's #1 CRM company position. According to Gartner, the CRM market is expected to grow at a CAGR of 15.1% from 2012 to 2017 and reach $36.5 billion by the end of period. We believe that Salesforce is well-positioned to capitalize on the opportunity.

- Although, Salesforce disappointed on the earnings front in fourth-quarter fiscal 2017, it continues to witness strong growth in revenues. The robust revenues were primarily backed by growth across all its business segments and the Salesforce ExactTarget Marketing Cloud platform. Going ahead, we are encouraged by the company's ***upbeat revenue outlook*** for fiscal 2018. Revenues are now anticipated to come in a range of $10.15 billion to $10.20 billion (mid-point $10.175 billion), up from the previous projection of $10.10 billion to $10.15 billion (mid-point $10.125 billion), representing 21–22% year-over-year increase. By completing this target, the company will achieve $10 billion mark in revenues faster than any other enterprise software company. We believe that Salesforce's strategic acquisitions and diverse cloud offerings will help it in achieving this target on time.

- Salesforce's **on-demand SaaS business model** underscores its focus on sales force automation, marketing, customer responsiveness and support, improved personnel collaboration within an organization, software tools for developers, social media monitoring and marketing, and other social enterprise areas. The company has various SaaS applications and platforms to serve its focus areas. The Sales Cloud, Service Cloud and Chatter applications allow its customers to improve communication and sales to their respective customers. With the Radian6 application, customers can monitor social networking sites, which provide better insight to their product acceptability. Salesforce also provides The Force.com Platform, Heroku Platform and two other developer tools (Database.com and The AppExchange), which allow its customers to develop customized applications using languages of their own choice and convenience. SaaS deployments are easy and help to reduce ownership costs for customers. According to International Data Corporation estimates public IT cloud services spending to increase at a 4-year compound annual growth rate (CAGR) (2013–2017) of 23.5%. With its SaaS-based CRM and social enterprise applications, we think that Salesforce is well-positioned to lead the market.

- ***Acquisitions*** have always been one of Salesforce's key growth strategies. Over the last two years, the company has closed a number of takeovers worth a combined deal value of over $4 billion. Last year alone, the company made as many as twelve takeover deals, including its biggest ever buyout – Demandware – concluded in Jul 2016. We believe that Salesforce's sustained focus on expanding its business through strategic acquisitions and investments will drive growth over the long run.

- In keeping with its strategy of ***growing in Europe***, in Aug 2015 Salesforce's investment arm, Salesforce Ventures, announced its decision to invest $100 million specifically in European start-ups. Over the past few years, Salesforce has invested in several start-ups, be it through acquisitions or partnerships. In Europe, the company opened its first data center in the U.K. in Aug 2014. In 2015, Salesforce opened two more datacenters, one each in France and Germany. The opening of data centers in these countries has helped Salesforce to reach local small and medium businesses as well as government agencies. Notably, in fiscal 2017, Salesforce's revenues from Europe increased 18% year over year and accounted for 16% of the total revenue. We believe expansion in Europe would enable Salesforce to diversify its international revenues, going forward.

- The ***Salesforce Chatter platform*** is the enterprise social collaboration application platform introduced by the company after its Salesforce 2 platform. We believe that free add-on offerings like Chatter will enable Salesforce to differentiate its core offerings, making them more attractive for customers. This should therefore generate additional business volume. Some of its clients include Burberry, Comcast, Kelly Services, Charles Schwab, Chipotle, Bausch & Lomb, Dell, Kimberly-Clark, Unilever and Philips. Also, the company introduced Salesforce ExactTarget Marketing Cloud platform, which is part of the Salesforce1 Customer Platform. The Salesforce1 platform provides social, mobile and cloud networking features for building business applications, including data models and objects to manage data. It also helps application developers to build and deploy social and mobile applications. The rapid adoption of Salesforce platforms demonstrates its growing opportunities in the ever-growing cloud computing segment.

Reasons To Sell:

> Stiff competition, currency fluctuations and an increase in investments for international expansions and data centers could impact near-term results.

- Increased focus on ***acquisitions could negatively impact Salesforce's balance sheet*** in the form of a high level of goodwill, which totaled $7.26 billion, or approximately 41% of its total assets as of Jan 31, 2017. In Jun, 2016, according to a report published by Bloomberg, Salesforce showed interest in buying LinkedIn Corporation, which led to Microsoft making one of its costliest acquisitions so far. Citing people familiar with the matter, Bloomberg revealed that The Goldman Sachs Group Inc. was advising Salesforce during the negotiations. The transaction, if it had materialized, would possibly have involved stock and debt financing. However, Microsoft stepped in with a lucrative all-cash offer of $26.2 billion, which was too good for LinkedIn to turn down. The lost acquisition opportunity may have a negative impact on Salesforce over the long run. As per Bloomberg, Salesforce, which is currently the market leading customer relationship management platform provider, had expected the LinkedIn acquisition to provide it access to "vast trove of data on workers around the world to bolster tools that help customers close sales deals". Furthermore, acquisitions add to integration risks, which may dilute earnings. Also, frequent acquisitions are a distraction for management and may impact organic growth. It also makes comparisons more difficult over the long term.

- The recent forecast for ***worldwide IT spending*** by Gartner raises concerns about Salesforce's near-term performance. The research firm has lowered its forecast on IT spending for 2017. The recent forecast of 2.7% year over year growth in IT spending is 0.2% lower than its previous projection of 2.9% growth. Gartner now expects IT spending in 2017 will be approximately $3.46 trillion. This is the third time that the firm has lowered its global IT spending forecast for 2017. All this makes us skeptical about the company's near-term prospects.

- Salesforce faces stiff ***competition*** from Microsoft Corp. and Oracle in the cloud-based CRM market. Oracle has strengthened its cloud position through the acquisitions of Nimbula (Mar 2013), Eloqua Inc. (Dec 2012), RightNow Technologies (in Jan 2012) and Taleo Corp (Apr 2012). Microsoft has also added LinkedIn (2016), MarketingPilot (Oct 2012) and Netbreeze (Mar 2013) to beef up its Dynamic CRM platform. Additionally, Microsoft offers special pricing for its Dynamics CRM Online service, which is helping it to snatch Salesforce's customers. Competition is expected to intensify further, as Microsoft Dynamics CRM software (code-named Titan) gains ground. Titan has been designed to offer direct competition to Salesforce's on-demand CRM software model. Moreover, IBM is strengthening its grip on the cloud computing software market with its web-based collaboration software for businesses, including contact management, instant messaging and file sharing programs.

Last Earnings Report

Quarter Ending 01/2017

Report Date	Feb 28, 2017
Sales Surprise	0.81%
EPS Surprise	-50.00%
Quarterly EPS	0.02
Annual EPS (TTM)	0.20

Salesforce 4Q17 Results

Salesforce reported fourth-quarter fiscal 2017 results. The world's leading CRM platform provider reported adjusted earnings (including stock-based compensation but excluding all one-time items on a proportionate tax basis) of $0.02 per share, falling short of the Zacks Consensus Estimate of $0.04. However, the figure compared favorably with the year-ago quarters' earnings of a penny.

On a GAAP basis, Salesforce reported loss per share of $0.07 compared with loss of $0.04 in the fourth quarter of fiscal 2016. However, on a non-GAAP basis, the company posted earnings of $0.28 per share compared with $0.19 reported in the year-ago quarter. The robust year-over-year performance was mainly driven by strong top-line growth, partially offset by increased costs as well as number of outstanding shares.

Quarter in Detail

Although Salesforce disappointed on the earnings front, it continued to witness strong growth in revenues. The company's revenues of $2.294 billion not only increased 26.8% year over year, but also beat the Zacks Consensus Estimate of $2.272 billion. Moreover, reported revenues came above the guided range of $2.267 billion to $2.277 billion. The improvement is primarily attributable to rapid adoption of the company's cloud-based solutions.

Also, higher demand for the Salesforce ExactTarget Marketing Cloud platform, a part of the Salesforce1 Customer Platform, drove the year-over-year upside in revenues.

Among its business segments, revenues at Subscription and Support surged about 25.4% from the year-ago quarter to $2.111 billion. Professional Services and Other revenues jumped almost 44.7% to $183.3 million.

Geographically, the company witnessed constant currency revenue growth of 29%, 26% and 30% in the Americas, Europe and Asia Pacific, respectively, on a year-over-year basis.

Salesforce's adjusted gross profit (including stock-based compensation but excluding amortization expenses) came in at $1.711 billion, up 23.5%. However, gross margin contracted 200 basis points (bps) to 74.6%, primarily due to increased investment in infrastructure development, including the expansion of the international data center.

Adjusted operating expenses (including stock-based compensation but excluding amortization of acquisition-related intangibles) increased 25.2% from the year-ago quarter to $1.66 billion. This was primarily because of higher investments in research and development, marketing and sales, and general and administrative activities. However, as a percentage of revenues, operating expenses contracted 90 bps to 72.4%.

Salesforce posted adjusted operating income (including stock-based compensation but excluding amortization of acquisition-related intangibles) of $50.9 million compared with the year-ago figure of $59.8 million, while operating margin contracted 110 bps to 2.2%. The year-over-year contractions in adjusted operating income and margin were mainly due to higher cost of revenues, which were partially offset by efficient operating expenses management.

Balance Sheet & Cash Flow

Salesforce exited fiscal 2017 with cash and cash equivalents, and marketable securities of $2.209 billion, compared with $1.201 billion in the previous quarter. Accounts receivable were $3.197 billion compared with $1.281 million at the end of third-quarter fiscal 2017. Total deferred revenue, as of Jan 31, 2017, was $5.54 billion, up 29% on a year-over-year basis.

During the fiscal, the company generated record operating cash flow of $2.162 billion. This is the first time in the history of the company that it has generated over $2 billion of operating cash flow in a fiscal year. Moreover, Salesforce generated free cash flow of $1.698 billion in fiscal 2017.

Guidance

The company provided soft guidance for the first quarter of fiscal 2018. For the quarter, the company anticipates revenues in a range of $2.34 billion to $2.35 billion (mid-point: $2.345 billion), representing a year-over-year increase of 22% to 23%. Further, the company expects non-GAAP earnings per share in a band of $0.25–$0.26. On a GAAP basis, it projects loss per share in a range of $0.02 to $0.03.

However, the company raised its revenue outlook for fiscal 2018. Revenues are now anticipated to come in a range of $10.15 billion to $10.20 billion (mid-point $10.175 billion), up from the previous projection of $10.10 billion to $10.15 billion (mid-point $10.125 billion), representing 21–22% year-over-year increase.

By completing this target, the company will achieve $10 billion mark in revenues faster than any other enterprise software company.

Furthermore, Salesforce projects non-GAAP earnings to come between $1.27 and $1.29, while GAAP earnings are expected to be in a range of $0.05 to $0.07.

Recent News

On ***Dec 14, 2016***, the world's leading CRM platform provider, salesforce.com, Inc. had entered into a definitive agreement to acquire a tiny start-up called Twin Prime. The deal was announced through a blog by co-founder of Twin Prime, Kartik Chandrayana on the company's website.

The financial terms of the deal haven't been disclosed. However, according to Business Insider it won't be a big amount as Salesforce has not filed an 8-K with the Securities and Exchange Commission.

On ***Dec 2, 2016***, Salesforce and Amazon's Amazon Web Services ("AWS") announced their extension of business relations. The two companies have strengthened their global strategic alliance with five service integrations. Salesforce will now use AWS across all of its core products, namely, Sales Cloud, Service Cloud, Analytics Cloud, Community Cloud and more. Canada will be the first country to host this integration that is expected to be initiated by mid-2017. The move appears to be a part of the broader infrastructure expansion plan that the duo had unveiled in May.

According to media reports on ***Sep 23, 2016***, Twitter is in talks with several potential buyers, and Salesforce is one of them. Twitter's vast 313 million monthly active users and attractive valuation make it a lucrative takeover target. However, we believe that the buyout will not be a strategic fit for the company as Salesforce already has a deal with Twitter to use its vast database for lead generation. So, it makes no sense to acquire assets to which it already has access. Furthermore, we are worried that the transaction may lead to either massive dilution of shareholders' value or a huge debt burden.

Industry Analysis **Zacks Industry Rank:** 111 / 265 (Top 42%)

Top Peers

ACI Worldwide, Inc. **(ACIW)**	3
Adobe Systems Incorporated **(ADBE)**	3
Autodesk, Inc. **(ADSK)**	3
American Software, Inc. **(AMSWA)**	2
ANSYS, Inc. **(ANSS)**	3
Avid Technology, Inc. **(AVID)**	3
Aspen Technology, Inc. **(AZPN)**	2
Blackbaud, Inc. **(BLKB)**	3
CA Inc. **(CA)**	4

Industry Comparison Computer - Software | Position in Industry: 14 of 59

Industry Peers

	CRM 3	X Industry	S&P 500	ACIW 3	ADBE 3	ADSK 3
VGM Score	D	-	-	C	B	F
Market Cap	58.39 B	193.66 M	20.67 B	2.31 B	59.46 B	19.79 B
# of Analysts	31	6	14	5	19	15
Dividend Yield	0.00%	0.00%	1.84%	0.00%	0.00%	0.00%
Value Score	F	-	-	C	D	F
Cash/Price	22.42	4.66	6.31	8.60	16.90	20.16
EV/EBITDA	58.67	13.34	12.68	11.27	30.81	153.89
PEG Ratio	7.14	2.20	1.92	2.96	2.20	-6.07
Price/Book (P/B)	8.12	3.78	3.21	3.30	7.93	18.06
Price/Cash Flow (P/CF)	37.10	16.31	13.36	17.26	27.57	84.40
P/E (F1)	174.09	25.22	18.68	44.46	38.95	-105.45
Price/Sales (P/S)	5.74	4.33	2.41	2.27	8.38	9.15
Earnings Yield	0.60%	2.87%	5.34%	2.25%	2.59%	-1.24%
Debt/Equity	0.27	0.01	0.70	0.94	0.26	1.40
Cash Flow ($/share)	1.91	0.65	5.44	1.69	3.21	0.63
Growth Score	B	-	-	D	A	F
Hist. EPS Growth (3-5 yrs)	110.73%	14.56%	7.43%	17.70%	27.79%	33.07%
Proj. EPS Growth (F1/F0)	13.57%	13.68%	8.46%	17.70%	21.91%	14.46%
Curr. Cash Flow Growth	44.38%	-2.33%	5.26%	13.18%	47.79%	-52.69%
Hist. Cash Flow Growth (3-5 yrs)	28.33%	12.13%	5.96%	30.12%	6.33%	-15.70%
Current Ratio	0.60	1.57	1.38	0.75	2.08	1.46
Debt/Capital	20.96%	9.78%	41.78%	48.43%	20.39%	58.42%
Net Margin	2.14%	2.57%	9.61%	10.97%	19.96%	-20.30%
Return on Equity	3.99%	10.40%	15.91%	14.46%	16.81%	-0.28%
Sales/Assets	0.58	0.66	0.54	0.54	0.46	0.46
Proj. Sales Growth (F1/F0)	21.02%	6.67%	4.25%	4.83%	21.20%	6.72%
Momentum Score	C	-	-	B	B	D
Daily Price Chg	3.02%	0.00%	1.36%	0.72%	1.70%	3.05%
1 Week Price Chg	2.23%	0.20%	0.01%	-1.72%	0.86%	3.08%
4 Week Price Chg	6.66%	1.39%	5.04%	4.07%	6.17%	9.41%
12 Week Price Chg	16.76%	2.19%	5.77%	2.28%	16.44%	10.69%
52 Week Price Chg	19.00%	10.56%	18.55%	-1.20%	36.16%	63.44%
20 Day Average Volume	4,507,888	34,405	0	383,699	1,926,216	1,918,462
(F1) EPS Est 1 week change	0.04%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.30%	0.00%	-0.20%	0.00%	0.98%	0.00%
(F1) EPS Est 12 week change	0.30%	-0.62%	0.81%	0.00%	-1.44%	-0.40%
(Q1) EPS Est Mthly Chg	-6.02%	0.00%	-0.29%	0.00%	0.00%	0.00%

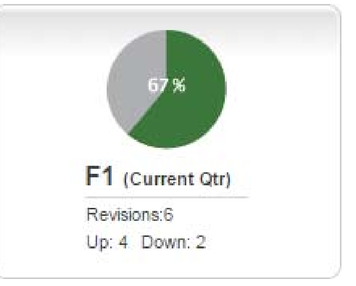
Zacks Rank Education

The Zacks Rank is calculated from four primary inputs: Agreement, Magnitude, Upside and Surprise.

Agreement

This is the extent which brokerage analysts are revising their earnings estimates in the same direction. The greater the percentage of estimates being revised higher, the better the score for this component.

For example, if there were 10 estimate revisions over the last 60 days, with 8 of those revisions up, and the other 2 down, then the agreement factor would be 80% positive. If, however, 8 were to the downside with only 2 of them up, then the agreement factor would be 80% negative. The higher the percentage of agreement the better.



Magnitude

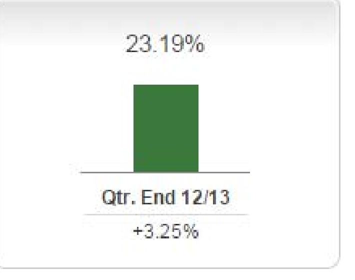
This is a measure based on the size of the recent change in the current consensus estimates. The Zacks Rank looks at the magnitude of these changes over the last 60 days.

In the chart to the right, the display shows the consensus estimate from 60-days ago, 30-days ago, 7-days ago, and the most current estimate The difference between the current estimate and the estimate from 60-days ago is displayed as a percentage. A larger positive percentage increase will score better on this component.

Upside

This is the difference between the most accurate estimate, as calculated by Zacks, and the consensus estimate. For example, a stock with a consensus estimate of $1.00, and a most accurate estimate of $1.05 will have an upside factor of 5%.

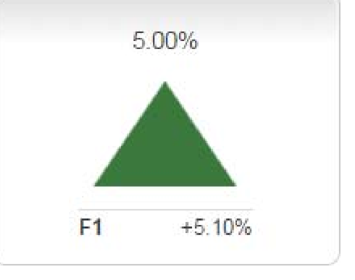
This is not an indication of how much a stock will go up or down. Instead, it's a measure of the difference between these two estimates. This is particularly useful near earnings season as a positive upside percentage can be used to help predict a future surprise.



Surprise

The Zacks Rank also factors in the last few quarters of earnings surprises. Companies that have positively surprised in the recent past have a tendency of positively surprising again in the future (or missing if they recently missed).

A stock with a recent track record of positive surprises will score better on this factor than a stock with a history of negative surprises. These stocks will have a greater likelihood of positively surprising again.

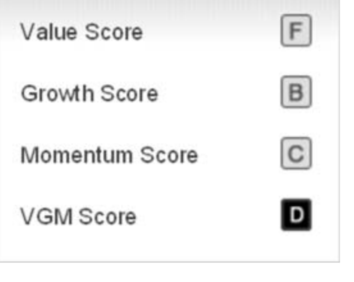


Zacks Style Score Education

The Zacks Style Score is as a complementary indicator to the Zacks Rank, giving investors a way to focus on the best Zacks Rank stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Growth, Value, and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. An A, is better than a B; a B is better than a C; and so on.

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Rank #1 or #2, Strong Buy or Buy, which also has a Style Score of an A or a B.



Disclosures

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