

# Salesforce.com, Inc

(CRM US/CRM.N)

**NOT RATED**

Price as of 12 Dec 2017	104.540
12M target price (US\$)	na
Previous target price (US\$)	na
Upside, incl. div (%)	na

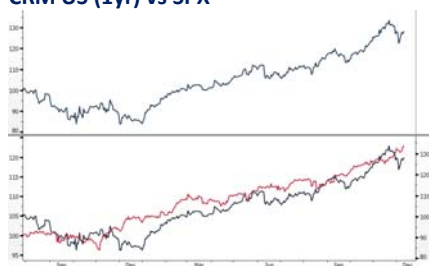
**Trading data**

Mkt Cap (US\$m)	75,509
Issued Shares (m)	722
Ave Daily Traded (3-Month) Vol / Val (US\$)	4.4m / \$442.8m
52 week lo / hi (US\$)	\$68.23 / \$109.19
Free Float	94.9%

**Major Shareholders**

FMR LLC	11.7%
Vanguard Group	6.6%

CRM US (1yr) vs SPX



Source: Bloomberg

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See the last page for important disclosures.

## Riding the waves as the #1 CRM solutions provider

**Event**

Salesforce.com’s (Salesforce) 3Q18 earnings beat street estimates yet again, coming in at US\$51.4m, from a loss in the same period a year ago. At the time of writing, Salesforce’s shares are up 52.7% YTD, outperforming the S&P 500 Index by 34.2%.

**Impact**

**Strengthening its leading position with strategic partnership with Google.** The Salesforce–Google partnership is aimed at driving value across their mutual customers and provides Salesforce with opportunities to improve its suite of offerings with integrated Google applications and analytics. This partnership essentially strengthens Salesforce’s position in the cloud race with other prominent enterprise application software businesses, especially Oracle, Microsoft and SAP.

**Cloud-based Customer Relationship Management (CRM) shaking up legacy CRM systems with subscription-based model.** Outdated legacy CRM systems that lack the ability to provide useful analytics are gradually being replaced. Being a pure-play cloud company and commanding the largest market share (18%) in the CRM space, we believe Salesforce would benefit the most from the shift from legacy CRM systems to cloud-based CRM systems, under a Software-as-a-Service (SaaS) business model.

**Amongst the top Platform-as-a-Service (PaaS) providers with customizable cloud-based applications.** Not only is Salesforce a SaaS provider, it is also amongst the top PaaS providers in the market, behind Amazon and Microsoft. Offering both SaaS and PaaS puts Salesforce in a strategic position as a cloud-based CRM solutions provider and gives it an edge over its competitors.

**Valuation & Action**

Consensus has a target price of US\$121.68, implying a 16.4% upside. Earnings are expected to grow by 32/29/27% in FY18/19/20. Given its drive to maintain its lead in the game, we are positive on Salesforce and expect it to be on the lookout for newer partnerships with leading players in the technology space.

**Risks**

Rising competition in CRM market from legacy software companies, which have been around for a longer period, could hamper growth.

**Financials & Key Operating Statistics**

YE Jan USD bn	2015	2016	2017	2018F	2019F
Revenue	5.4	6.7	8.4	10.4	12.5
PATMI	(0.3)	(0.0)	0.2	1.0	1.3
Core PATMI	(0.3)	(0.0)	0.2	1.0	1.3
EPS (USD cents)	(42.0)	(7.0)	26.0	133.5	172.3
Revenue growth (%)	32.0	24.1	25.9	24.4	20.0
P/E (x)	0.0	0.0	322.6	77.1	59.7
P/S (x)	6.6	6.8	6.5	7.1	5.9
P/FCF (x)	39.5	46.8	32.0	36.2	28.6
Gross Margin (%)	75.2	73.4	73.4	76.2	76.4
Net Margin (%)	(4.9)	(0.7)	2.1	9.4	10.5
ROE (%)	(6.6)	(0.9)	2.4	14.0	14.2

Source: Company Data, Bloomberg Estimates

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## What's driving growth for Salesforce?

### Shift from legacy CRM systems to cloud-based CRM SaaS

CRM systems have traditionally been hosted on on-premise servers and have been offered through a license-based model. With the introduction of advanced technology and the increasing demand for productivity, legacy systems running on license-based models are losing market share and are expected to see revenues decline over the next four years. The new age of cloud-based CRM meets these demands by being more flexible and customer oriented, as well as providing smarter recommendations with the use of Artificial Intelligence (AI) technology to help customers make better decisions. Additionally, these systems adopt modern technology and support mobile user experience, which are able to integrate with the business environment and processes.

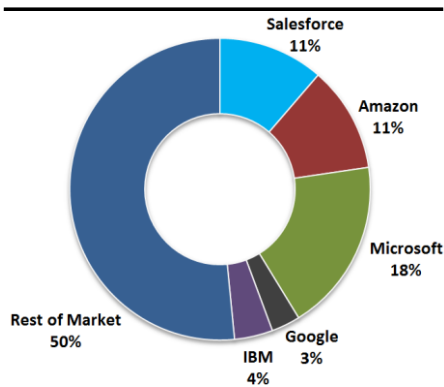
### Leading position as PaaS provider to strengthen market position

Salesforce is a leading PaaS provider in addition to being an applications provider, with about an 11% share of the US\$12.6b PaaS market, according to IDC. This is much higher than two of its largest competitors, SAP and Oracle; each of which commands less than 1% of the PaaS market. PaaS allows large customers to deploy customized modules to address their specific needs. Microsoft is the largest vendor in this segment and is slowly becoming a threat to Salesforce. IDC expects this market to grow at a CAGR of 30%, reaching US\$45b by 2021, driven by the need to create cloud-based applications and add-on features. The rise of Internet of Things (IoT) and the shift to cloud-based infrastructure will further drive demand for PaaS. Salesforce is currently the third-largest PaaS provider, behind Amazon and Microsoft. This leadership position is a key differentiator when selling cloud applications to larger enterprises, especially those that require a greater degree of customization.

### Strengthening the ecosystem and its "moat" with strategic acquisitions

Salesforce has been on an acquisition spree and has acquired 20 companies since the start of 2016. This was to strengthen its product offering and functionalities in the CRM playing field, and is in line with its aggressive growth plans. Given the rising competition from legacy software companies such as Oracle, SAP and Microsoft, we believe this trend will continue into 2018 and 2019. The US accounts for 72% of Salesforce's revenues and is a stark difference when compared with other large software companies such as Oracle at 57% and SAP at 38%. On that note, growth outside the US will be another key driver for Salesforce as these regions adopt public cloud more aggressively.

**Figure 1: Public cloud PaaS 2016 market share**



Source: Bloomberg, IDC, KGI Research

**Figure 2: 10 latest acquisitions; Different facets of technology to provide a comprehensive suite of cloud services**

Date	Target	Business
07-Aug-17	Sansan Inc	Business contact management.
22-Mar-17	MoneyTree KK	Develops and offers personal finance management applications.
28-Feb-17	Sequence LLC	User experience design agency.
13-Jan-17	Unity & Variety Inc	Software company that designs and builds original, high-quality products.
13-Dec-16	Twin Prime Inc	Develops technology that speeds up data transfer over mobile wireless networks of their users through software.
18-Nov-16	SIGFOX SACA	Provides communication products and services, offering machine-to-machine (M2M) and internet of things communications technology services.
16-Nov-16	PageCloud Inc	Browser-based website creation platform.
01-Nov-16	Krux Digital Inc	Data management platform.
15-Sep-16	Heywire Inc	Provides cloud-based business messaging solutions.
15-Sep-16	GravityTank Inc	Offers design and innovation consultancy and integrated marketing solutions.
31-Aug-16	Quip Inc	Collaborative productivity software suite for mobile and the Web.
15-Aug-16	BeyondCore Inc	Enterprise analytics tool that bolsters business intelligence with computational and statistical analysis.

Source: Bloomberg, KGI Research

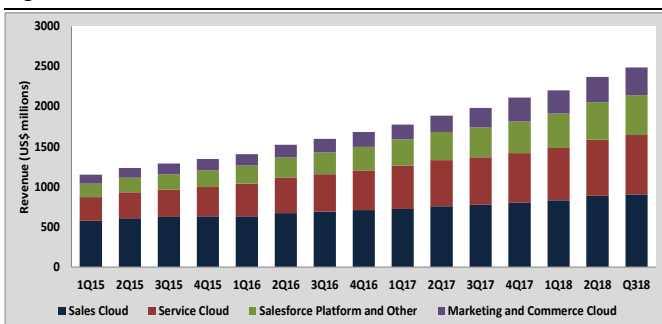
## Breakdown of notable partnerships

### Google: Enhanced scalability and smarter integrated cloud offerings

The Google Cloud infrastructure would support the expansion of Salesforce’s global customer base. Based on its revenue growth and management’s guidance, we believe that Salesforce’s cloud service offering will remain robust, albeit showing signs of maturing. Currently, Salesforce’s exposure to the Asian (10%) and European (18%) markets is relatively low. In this regard, Google’s infrastructure dispersion across the globe would provide Salesforce strong support for its international expansion plans into those regions.

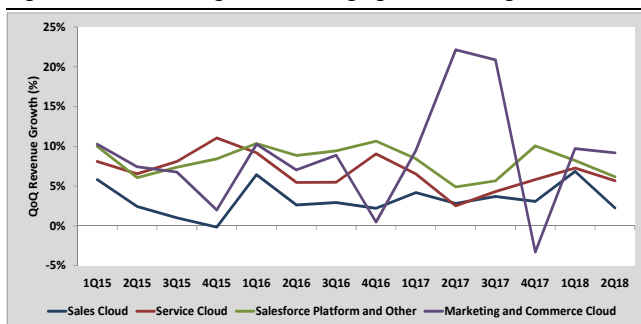
For a pure-play SaaS company like Salesforce, the data it collects from its customers forms a significant element of the quality of its intelligent analytics. The more data it collects, the more predictive its AI and machine learning analytics become. In short, (1) the effectiveness of Salesforce is largely driven by the amount of data it collects, stores and analyses and (2) this is in turn limited by its cloud infrastructure. With the reach of Google’s global cloud platform, the potential for Salesforce to scale its business, store voluminous amounts of data, while improving its cloud computing prowess, remains immense.

Figure 3: Demand for all cloud services remain robust



Source: Company Data, KGI Research

Figure 4: QoQ revenue growth showing signs of maturing



Source: Company Data, KGI Research

### Amazon Web Services (AWS): Multi-vendor approach

The partnership with AWS earlier in 2017 was part of Salesforce’s multi-vendor approach with regard to its cloud infrastructure expansion plans. With this partnership, Salesforce now runs its software on AWS infrastructure which allows for quick global scalability, which was not possible with the use of its own data centres. Salesforce has since been able to expand its geographical reach to include Australia and Canada to its existing operations, through the utilisation of AWS’s data centres in the respective countries.

### IBM: AI powerhouses join forces

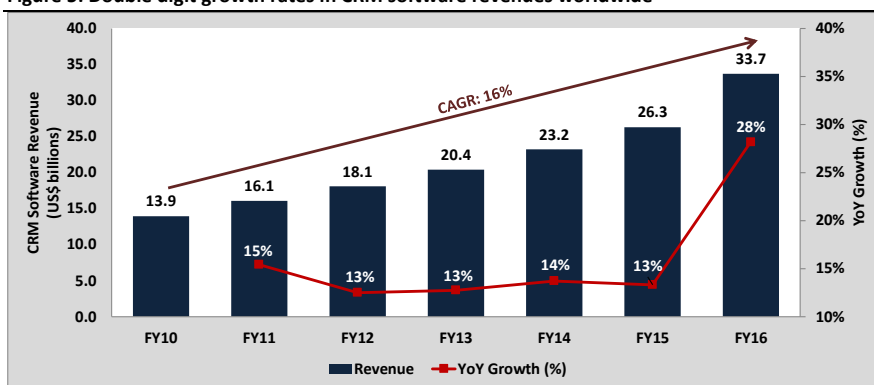
The IBM partnership was a move to bring its AI capabilities to a new level by integrating Salesforce’s Einstein with IBM Watson. By integrating their respective datasets, both Einstein and IBM Watson instantly get smarter by learning and integrating new permutations to their respective algorithms. This similarly adds value to Salesforce’s predictive capabilities by complementing its existing customer data with external data which allows for smarter recommendations.

## CRM industry

### A stable industry with healthy revenue growth

The CRM system industry has traditionally been a steadily growing sub sector of the software industry. This is due in part to the usage nature of CRM systems. Companies traditionally purchase these systems and more often than not, stick with them in the long-term. This is because of the hassle of migrating customer data accumulated over the long run and the disruptive nature of replacing firm-wide systems. As a result, it is difficult for new entrants with marginally differentiated offerings to compete in market with established CRM software companies. However, this is changing as technology advances and data analytics becomes widely relied on. The CRM system industry caters to virtually all industries and is arguably resilient in bull and bear markets. Revenues in the industry have also been growing at a CAGR of 16% since 2010 and are driven by the growing number of new businesses in various industries.

Figure 5: Double digit growth rates in CRM software revenues worldwide

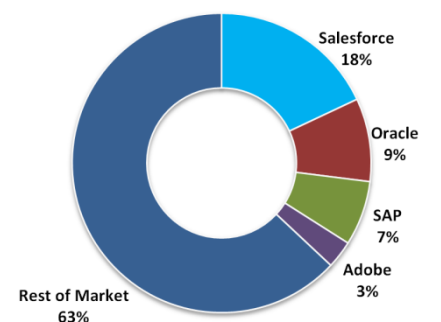


Source: Statista, KGI Research

### SaaS vs Software-as-a-Product (SaaP)

The two main modes of delivery of these software are via a SaaS or SaaP model. Traditionally, the players in the CRM software industry have delivered their products and services through a SaaP model i.e. installed directly onto the customer’s infrastructure and involves a sizeable upfront investment in hardware to support data storage, access and set up costs. Today, with the proliferation of cloud computing, more CRM system providers are adopting a SaaS mode of delivery. This allows businesses to access their CRM systems remotely, via the internet. This method of delivery does away with the installation of software and is charged on a recurring subscription basis.

Figure 6: CRM applications 2016 market share



Source: Bloomberg, IDC, KGI Research

### Competition

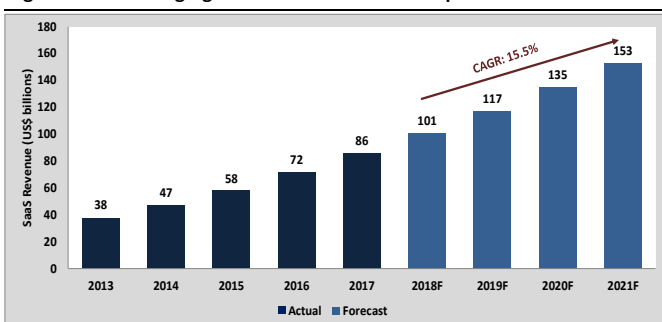
The main players in the CRM applications market are Salesforce, Oracle, SAP and Adobe. Despite being the latest to join the competition, Salesforce commands the largest share (18%) of the market and was the pioneer of providing CRM via the SaaS model. In fact, it is the only pure-play SaaS provider in the CRM industry at the moment. Although Microsoft has been regarded as a laggard in the CRM market, it has recently been becoming more of a threat to Salesforce with its new CRM software, Microsoft Dynamics CRM.

## Global enterprise application software industry outlook

### Growth in enterprise application software remains robust

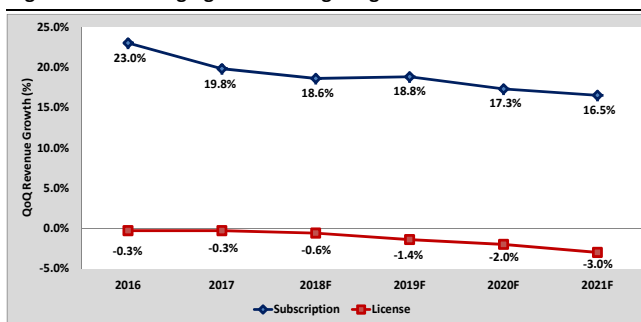
According to Orbis Research, the global enterprise application software industry is primed for growth over the next five years and is expected to exceed US\$500b by 2022, with its growth being driven primarily by CRM and Enterprise Resource Planning (ERP) software applications, and a lower proportion from Business Intelligence (BI) and Supply Chain Management (SCM) software. Companies are increasingly adopting cloud applications and shifting away from the on-premise, SaaS model for a plethora of reasons which include: flexibility to work from anywhere, automatic software updates, disaster recovery, zero capital expenditure for hardware and also increased collaboration amongst internal stakeholders. Adopting a subscription-based model also allows for recurring revenue and on-demand service. According to IDC, cloud-based subscription revenues are expected to grow at a CAGR of 15.5% over the next five years, while licensed-based revenues are expected to see a gradual single digit decline.

Figure 7: Double digit growth in SaaS revenues expected



Source: Bloomberg, IDC, KGI Research

Figure 8: Double digit growth vs single digit decline

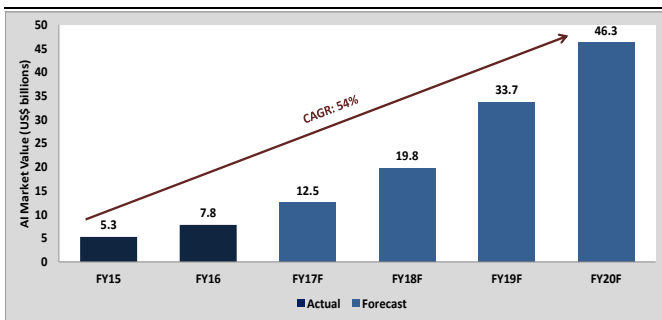


Source: Bloomberg, IDC, KGI Research

### Integration of AI with software

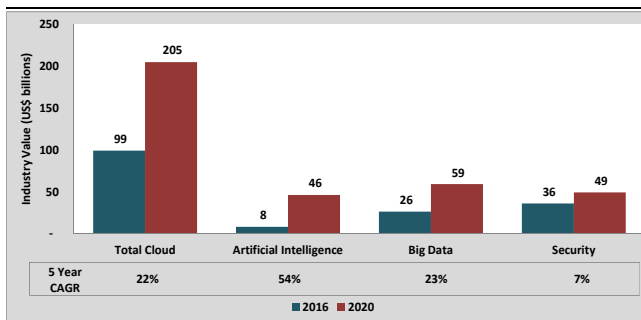
While the shift from on-premise software to cloud-based software is driven in part by many reasons which revolve around cost and convenience, another reason is the demand for smart analytics. SaaS service providers are increasingly integrating AI with their software to provide intelligent analytics based on the large amounts of data they store on their cloud infrastructure. In doing so, these SaaS providers are able to help their clients address and meet the growing demands of the new age of customers who are more sophisticated, strapped for time, demand convenience and speed, are more tech savvy and demand relevant information at their fingertips. IDC expects the AI industry to grow at a CAGR of 54% until 2020, outpacing other technology sectors such as cloud computing, big data and cyber security.

Figure 9: Double digit growth in AI market value expected



Source: Bloomberg, IDC, KGI Research

Figure 10: Growth in AI to outpace other high growth tech segments



Source: Bloomberg, IDC, KGI Research

## Comparables

**Figure 11: Comparable Application Software and Systems Software companies**

Name	Market Cap (bn)	P / S (x)		P / E (x)		P / FCF (x)	Historical Revenue Growth		Margins			
		TTM	Next FY	TTM	Next FY		3Y CAGR	5Y CAGR	Gross Margin (%)	EBITDA Margin (%)	Net Margin (%)	
salesforce.com Inc	USD 74.3	7.4	7.1	-	77.1	39.2	27%	30%	73%	9%	2%	
<b>Application Software</b>												
SAP SE	USD 137.8	4.9	5.0	30.9	22.8	29.7	9%	9%	70%	26%	17%	
Adobe Systems Inc	USD 85.5	12.4	11.8	54.5	41.2	33.2	13%	7%	86%	34%	20%	
Intuit Inc	USD 39.9	7.6	7.0	41.2	31.3	26.1	7%	6%	84%	31%	19%	
Dassault Systemes SE	EUR 23.3	7.1	7.3	50.0	34.1	33.5	14%	11%	85%	28%	15%	
Autodesk Inc	USD 23.6	11.9	11.5	-	-	-	-4%	-2%	83%	-19%	-29%	
Workday Inc	USD 21.5	10.5	10.1	-	105.7	67.4	50%	63%	69%	-7%	-26%	
Constellation Software Inc/Can	USD 12.7	5.4	5.2	52.0	28.0	27.7	21%	22%	87%	27%	10%	
ANSYS Inc	USD 12.3	11.6	11.3	44.2	36.5	30.6	5%	7%	85%	43%	27%	
Cadence Design Systems Inc	USD 12.1	6.1	6.3	43.5	30.7	23.8	8%	10%	86%	22%	11%	
Sage Group PLC/The	USD 11	4.8	4.4	32.0	22.6	28.1	8%	5%	93%	22%	17%	
Splunk Inc	USD 11.4	9.6	9.2	-	138.5	77.7	46%	51%	80%	-23%	-37%	
Atlassian Corp PLC	USD 10.4	15.0	12.3	-	95.5	46.0	42%	-	81%	-1%	-7%	
Micro Focus International PLC	GBP 10.6	5.4	3.3	47.2	15.8	16.9	47%	26%	83%	39%	11%	
Mobilitye NV	USD 14	34.1	27.8	126.0	60.0	86.1	64%	80%	76%	34%	30%	
<b>Average</b>		<b>10.5</b>	<b>9.5</b>	<b>52.2</b>	<b>51.0</b>	<b>40.5</b>						
<b>Systems Software</b>												
Red Hat Inc	USD 21.6	8.2	7.4	74.3	43.7	28.2	16%	16%	85%	18%	11%	
ServiceNow Inc	USD 20.3	11.3	10.6	-	98.3	44.0	48%	72%	71%	0%	-32%	
Symantec Corp	USD 17	3.7	3.4	229.7	16.3	21.5	-1%	-10%	79%	10%	-3%	
Check Point Software Technologies	USD 16.9	9.3	9.1	22.2	19.7	17.1	8%	7%	89%	50%	42%	
Microsoft Corp	USD 638.6	6.8	6.0	30.9	24.4	19.8	1%	4%	62%	36%	24%	
Oracle Corp	USD 202.1	5.2	5.1	20.5	16.4	15.9	0%	0%	80%	40%	25%	
<b>Average</b>		<b>7.4</b>	<b>6.9</b>	<b>75.5</b>	<b>36.5</b>	<b>24.4</b>						
<b>Total Average</b>		<b>8.9</b>	<b>8.2</b>	<b>63.8</b>	<b>43.7</b>	<b>32.5</b>						

Source: Bloomberg, KGI Research

**Figure 12: Key competitors**

Name	Market Cap (bn)	P / S (x)		P / E (x)		P / FCF (x)	Historical Revenue Growth		Margins		
		Current FY	Next FY	Current FY	Next FY		3Y CAGR	5Y CAGR	Gross Margin (%)	EBITDA Margin (%)	Net Margin (%)
salesforce.com Inc	USD 75.2	7.4	7.2	#N/A	N/A	78.0	27%	30%	73%	9%	2%
SAP SE	USD 138.1	4.9	5.0	31.2	22.9	30.0	9%	9%	70%	26%	17%
Adobe Systems Inc	USD 86.1	12.5	11.9	54.9	41.4	33.4	13%	7%	86%	34%	20%
Microsoft Corp	USD 636.4	6.8	6.0	30.8	24.3	19.7	1%	4%	62%	36%	24%
Oracle Corp	USD 202.5	5.2	5.1	20.5	16.4	15.9	0%	0%	80%	40%	25%
<b>Average</b>		<b>7.4</b>	<b>7.0</b>	<b>34.3</b>	<b>26.3</b>	<b>24.8</b>					

Source: Bloomberg, KGI Research

## Key risks

### **Unauthorised personnel obtaining access to customers' data**

Being a pure-play cloud company, Salesforce's services involve the storage and transmission of sensitive data, including financial information and other personally identifiable information. Security breaches could expose them to a risk of loss and misuse of information. This could have adverse implications on the Salesforce's reputation and could negatively impact future sales, disrupt business and lead to legal liability.

### **Increase in attrition rates from non-renewal of cloud services**

As Salesforce operates under a subscription-based model, its customers have no obligation to renew their subscriptions for its services after the expiration of their contractual subscription period, which is typically 12 – 36 months. This could be affected by the intensifying competition, deteriorating economic conditions, increasing customer dissatisfaction and increasing prices. These would likewise have a negative impact of the prospects of the company and would cause sales to decline.

### **Interruptions/delays in services from third-party data centres**

Apart from its own data centres, Salesforce uses third-party cloud infrastructure to support its operations. Any damage or failure of third-party systems or infrastructure could result in interruptions in its cloud services. This could have negative effects on its reputation and could reduce revenue as a result of issuing credits or paying out penalties. Additionally, customers could terminate their subscriptions and increase attrition rates.

### **Privacy concerns and regulation of cloud computing**

Regulation related to the provision of services on the internet is increasing, as federal, state and foreign governments continue to adopt new laws and regulations addressing data privacy and the collection, processing, storage and use of personal information. Concerns regarding data privacy may cause Salesforce's customers to resist providing the data necessary to allow its customers to use its services effectively. Even the perception that the privacy of personal information is not satisfactorily protected or does not meet regulatory requirements could inhibit sales of products or services, and could limit adoption of its cloud-based solutions.

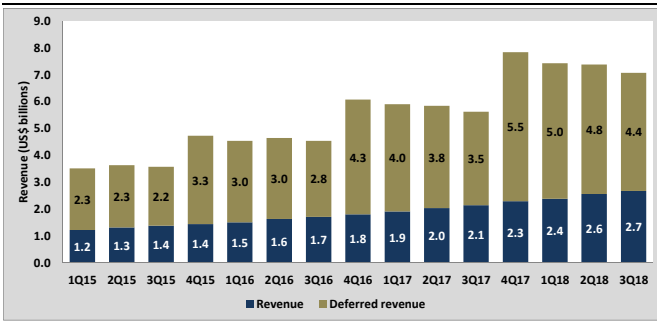


## Financials

### Revenues supported by the shift from legacy CRM to cloud CRM

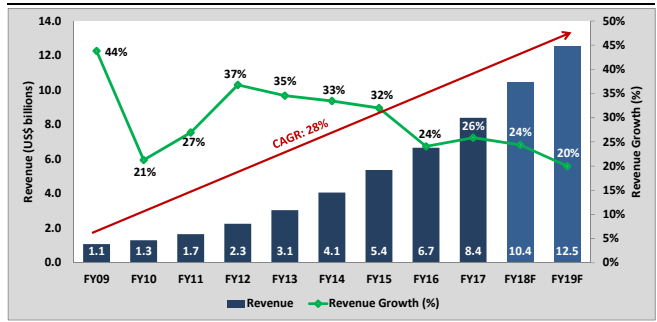
The double digit revenue growth that Salesforce has enjoyed since its inception is largely a result of its first mover advantage in adopting a subscription-based model. Revenues have grown at a CAGR of 28% since inception and will continue to see double digit growth in the near term. Its position as the leading CRM provider has also contributed to its stellar sales growth and is further driven by the growing cloud space. Increase in revenues are generally attributed to volume-driven increases from new business, which includes new customers, upgrades and additional subscriptions from existing customers.

Figure 13: Consistent growth in revenue and deferred revenue



Source: Company Data, KGI Research

Figure 14: Double digit growth in revenues since inception

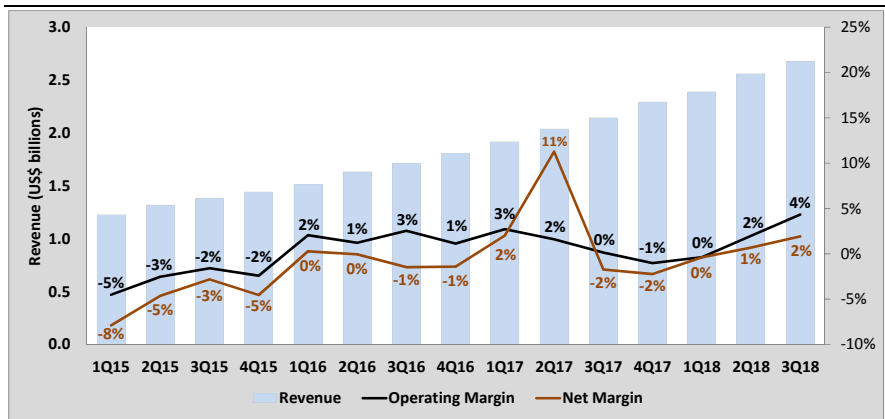


Source: Company Data, KGI Research

### Growth strategy proving to be effective with margin expansion

Quarterly operating margins have been improving with growth in subscription revenues outpacing that of operating expenses. All subscription operating segments have seen continued demand, with Marketing and Commerce Cloud seeing the highest QoQ growth at 9%, Service Cloud and Platform at 6% and Sales cloud at 2%. Similarly, net margins have also improved on the back of higher investment income, due to both realized gains resulting from the sales of marketable securities as well as higher interest income, and higher tax benefit which resulted from negative effective tax rates.

Figure 15: Quarterly operating and net margin expansion

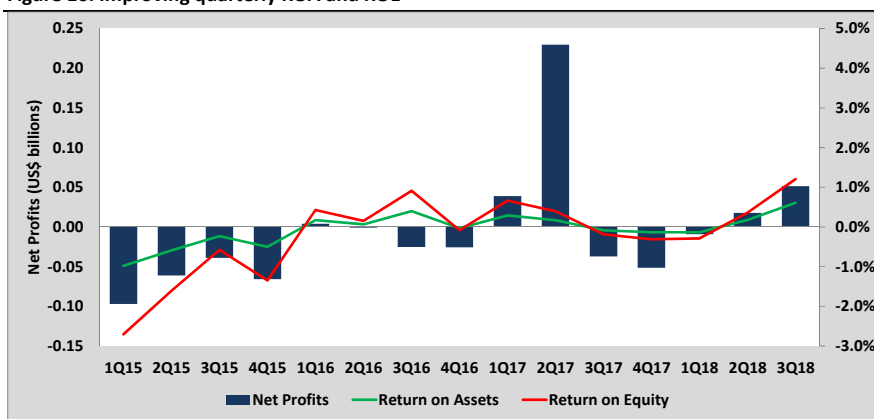


Source: Company Data, KGI Research

**Return metrics turning the corner on the back of improving profitability**

With Salesforce coming out of a period of net losses, ROA and ROE are both seeing improvements and stand at 0.6% and 1.2% respectively in 3Q18, the highest in the past 15 quarters, albeit being in single digit regions. Given its ambitious growth plan toward achieving US\$20 – US\$22b in revenues by FY22, and the current rate of margin expansion, we expect ROA and ROE numbers to increase over the next four years. However, when the CRM market gradually matures and becomes more saturated, a greater emphasis will have to be placed on keep operating costs down to maintain its margins and return metrics.

**Figure 16: Improving quarterly ROA and ROE**



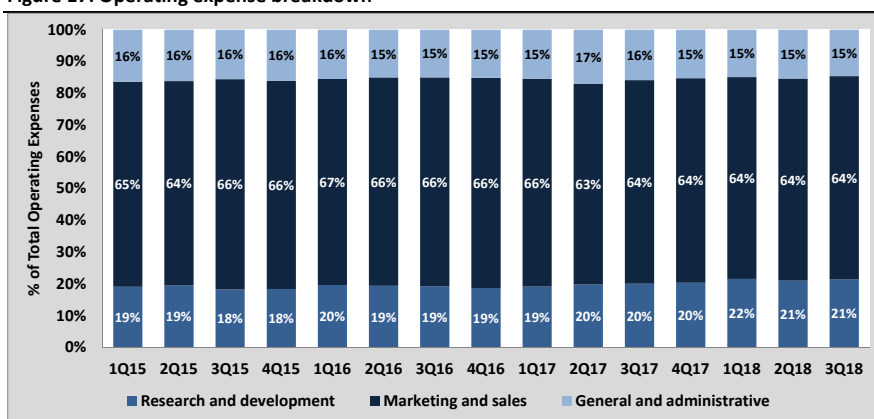
Source: Company Data, KGI Research

**Components of operating expenses to monitor**

Marketing and sales make up 65% of operating expenses on average and make up the largest portion. This comes as no surprise given the nature of companies that operate under a subscription-based model, especially during high growth stages of their business cycles. This comprises of salaries for Salesforce’s large pool of sales and marketing staff, as well as marketing programs that are crucial to building its brand equity.

Research and development (R&D) expenses make up an average of 15% of operating expenses and have seen a steady increase over the past 15 quarters. As Salesforce’s core business is in software and technology, it is crucial for it to maintain and continue to add new features and services, integrate acquired technologies, increase functionality and enhance the ease of use of its enterprise cloud computing services. On that note, the increase in R&D expenses are expected to continue going forward to support its expansion plans.

**Figure 17: Operating expense breakdown**



Source: Company Data, KGI Research

FYE 31 January

<b>INCOME STATEMENT (USD bn)</b>			
	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>Revenue</b>	<b>5.4</b>	<b>6.7</b>	<b>8.4</b>
Subscription and support	5.0	6.2	7.8
Professional services and other	0.4	0.5	0.6
<b>Gross profit</b>	<b>4.1</b>	<b>5.0</b>	<b>6.2</b>
Research and development	(0.8)	(0.9)	(1.2)
Selling, general & administrative expense	(3.4)	(4.0)	(4.9)
Other operating (expense)/income	0.0	0.0	0.0
<b>Operating profit</b>	<b>(0.1)</b>	<b>0.1</b>	<b>0.1</b>
Interest expense	(0.1)	(0.1)	(0.1)
Other non operating (expense)/income	0.0	0.0	0.1
Income taxes	(0.0)	(0.1)	0.2
<b>PATMI</b>	<b>(0.3)</b>	<b>(0.0)</b>	<b>0.2</b>
	-	-	-
<b>BALANCE SHEET (USD bn)</b>			
	<b>2015</b>	<b>2016</b>	<b>2017</b>
Cash and Equivalents	0.9	1.2	1.6
Accounts Receivable	1.9	2.5	3.2
Other current assets	0.7	2.1	1.2
<b>Total current assets</b>	<b>3.5</b>	<b>5.7</b>	<b>6.0</b>
Net Property, Plant, and Equipment	1.1	1.7	1.8
Other assets	6.0	5.3	9.8
<b>Total assets</b>	<b>10.7</b>	<b>12.8</b>	<b>17.6</b>
Accounts payable, accrued expenses and other liabilities	1.1	1.3	1.8
Borrowings (Current)	0.0	0.0	0.0
Deferred revenue	3.3	4.3	5.5
<b>Total current liabilities</b>	<b>4.4</b>	<b>5.6</b>	<b>7.3</b>
LT Borrowings	1.4	1.3	2.0
Other non-current liabilities	0.9	0.9	0.8
<b>Total liabilities</b>	<b>6.7</b>	<b>7.8</b>	<b>10.1</b>
Shareholder's Equity	4.0	5.0	7.5
Minority Interest	0.0	0.0	0.0
<b>Total equity</b>	<b>4.0</b>	<b>5.0</b>	<b>7.5</b>
<b>Total liabilities and equity</b>	<b>10.7</b>	<b>12.8</b>	<b>17.6</b>
<b>CASH FLOW STATEMENT (USD bn)</b>			
	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>Net Profit</b>	<b>(0.3)</b>	<b>(0.0)</b>	<b>0.2</b>
Depreciation and amortisation	0.4	0.5	0.6
Other non-cash adjustments	0.9	0.9	1.2
Changes in working capital	0.1	0.3	0.1
Deferred taxes	0.0	0.0	0.0
<b>Cash from operations</b>	<b>1.2</b>	<b>1.7</b>	<b>2.2</b>
Capex	(0.3)	(0.3)	(0.5)
Other investing	(0.4)	(1.2)	(2.2)
<b>Cash in investing</b>	<b>(0.7)</b>	<b>(1.5)</b>	<b>(2.7)</b>
Dividends paid	0.0	0.0	0.0
Equity raised / (bought back)	0.0	0.0	0.0
Borrowings raised / (repaid)	(0.6)	(0.4)	0.6
Other financing	0.3	0.5	0.4
<b>Cash from financing</b>	<b>(0.3)</b>	<b>0.1</b>	<b>1.0</b>
FX Effects, Others	(0.0)	(0.0)	(0.0)
<b>Net increase in cash</b>	<b>0.1</b>	<b>0.3</b>	<b>0.4</b>
Beginning cash	0.8	0.9	1.2
Ending cash	0.9	1.2	1.6
<b>KEY RATIOS</b>			
	<b>2015</b>	<b>2016</b>	<b>2017</b>
Core EPS (USD cents)	(42.0)	(7.0)	26.0
Price/Book	9.2	9.1	7.5
Price/Sales	6.6	6.8	6.5
Price/Free Cash Flow	39.5	46.8	32.0
EV/Sales	6.7	6.7	6.6
EV/EBITDA	119.6	69.0	80.1
<b>Profitability (%)</b>			
Gross Margin	76.0	75.2	73.4
EBITDA margin	5.6	9.6	8.3
Net Margin	(4.9)	(0.7)	2.1
ROE	(6.6)	(0.9)	2.4
ROIC	(4.2)	(1.5)	2.6
<b>Financial Structure (x)</b>			
EBITDA / Interest Expense	1.1	4.1	8.8
Debt / Capital	25.6	20.5	21.1

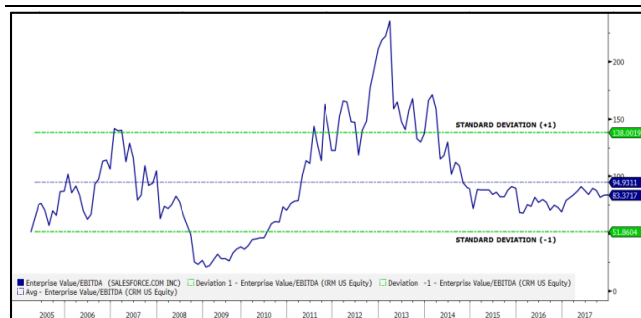
Source: Company Data, KGI Research

**Figure 18: Company profile**

Salesforce.com, inc. develops enterprise cloud computing solutions with a focus on customer relationship management. The company offers **Sales Cloud** to store data, monitor leads and progress, forecast opportunities, gain insights through relationship intelligence, and collaborate around sales on desktop and mobile devices, as well as solutions for partner relationship management. It also provides **Service Cloud**, which enables companies to deliver personalized customer service and support, as well as connects their service agents with customers on various devices; and **Marketing Cloud** to plan, personalize, and optimize one-to-one customer interactions. In addition, the company offers **Commerce Cloud** to deliver a digital commerce experience; **Community Cloud** to create and manage branded digital destinations for customers, partners, and employees; **Internet of Things Cloud** that provides insights to companies enabling them to sell, service, and market to their customers in personalized ways, as well as engage with them in real time; and **Analytics Cloud** that enables employees across an organization to explore business data, uncover new insights, make decisions, and take action from various devices. Further, it provides **Salesforce Quip**, a next-generation productivity solution for teams with a mobile-first strategy to collaborate without email; and **Salesforce Platform** for building enterprise apps. Additionally, the company offers **professional cloud services**, such as consulting, deployment, training, user-centric design, and integration.

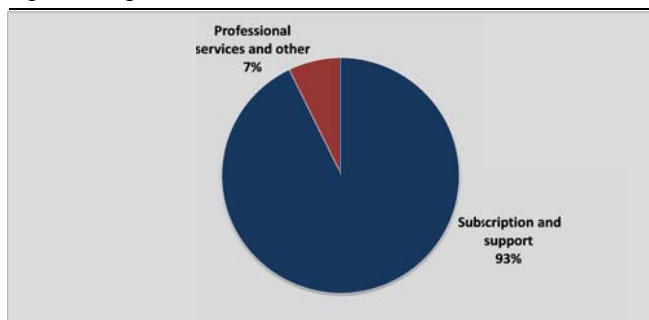
Source: Bloomberg

**Figure 21: 12-year EV/EBITDA trend**



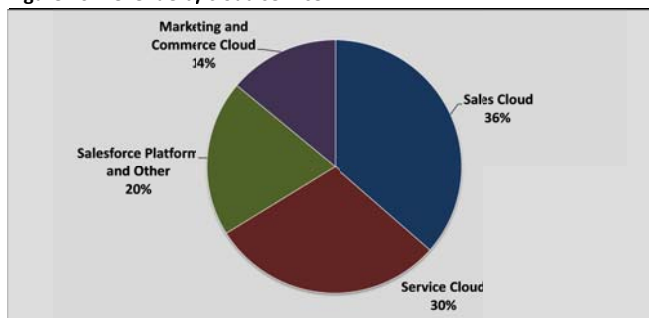
Source: Bloomberg

**Figure 19: Segment contribution to 3Q18 revenue**



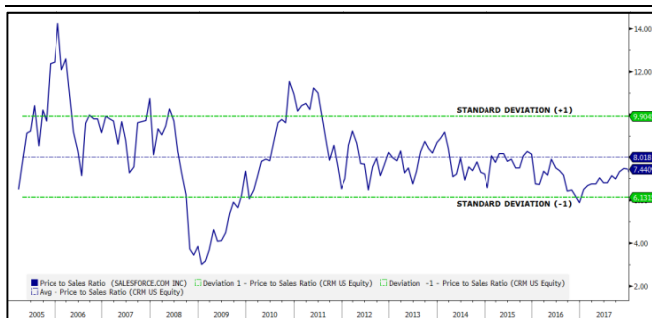
Source: Company Data, KGI Research

**Figure 20: Revenue by cloud service**



Source: Company Data, KGI Research

**Figure 22: 12-year P/S trend**

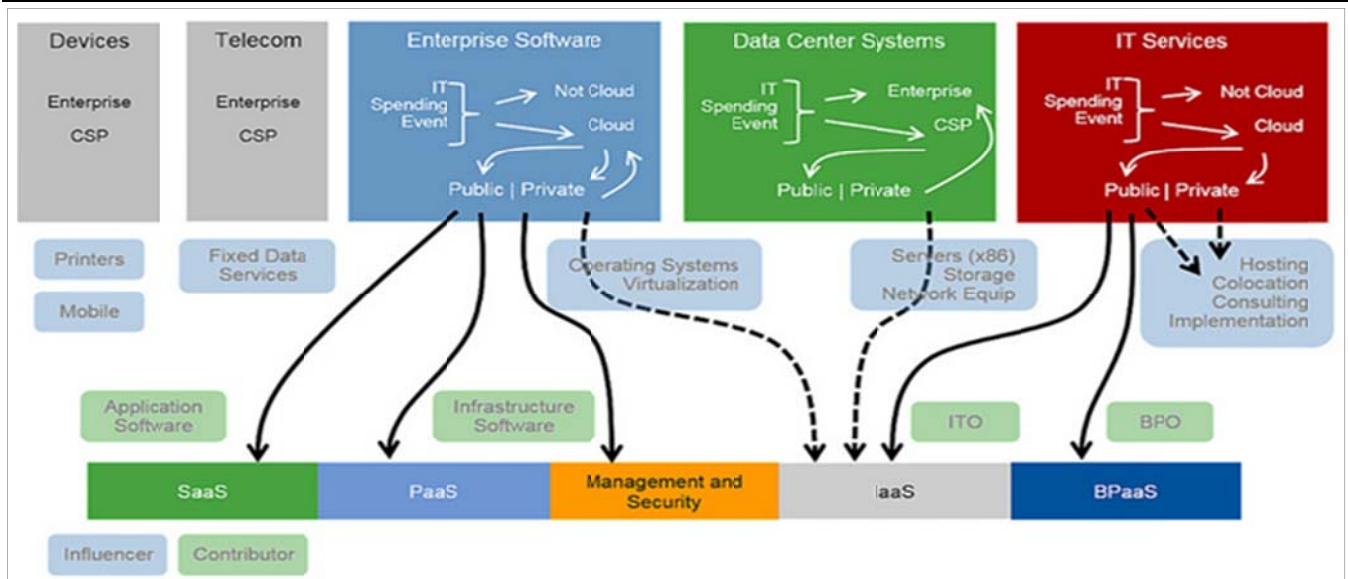


Source: Bloomberg

## Appendix

Key Management	
<b>Marc Benioff</b> Chairman & CEO	A pioneer of cloud computing, Benioff founded the company in 1999 with a vision to create a new kind of enterprise software company, with a new technology model based in the cloud, a new pay-as-you-go business model and a new integrated corporate philanthropy model. Under his leadership, Salesforce has grown from a ground-breaking idea into a Fortune 500 company, the fastest-growing top ten software company in the world and the largest CRM company.
<b>Parker Harries</b> Co-Founder	Oversees product strategy for Salesforce, from design to development to service delivery. Founded Salesforce along with Marc Benioff, Dave Moellenhoff, and Frank Dominguez in the spring of 1999. Prior to founding Salesforce, Parker developed cloud computing expertise at Left Coast Software, a company he co-founded in 1996, and sales force automation expertise at Metropolis Software, an early pioneer in field sales force automation subsequently acquired by Clarify.
<b>Keith Block</b> Vice Chairman, President and COO	Leads the company's day-to-day operations, including its rapidly growing, multi-billion dollar global sales and services business, alliances and channels, industry strategy, corporate development, corporate affairs, marketing and business operations.
<b>Alex Dayon</b> President and Chief Strategy Officer	Alex, who holds several patents, leads strategic initiatives, working closely with Salesforce customers on product direction and business transformation. Alex joined Salesforce in 2008 through the acquisition of InStranet, a leading knowledge-based company where he was a founder and served as its CEO. Prior to InStranet, Alex was a founding member of Business Objects SA where he led the product group for more than 10 years.
<b>Mark Hawkins</b> President and CFO	Responsible for leading the company's global finance organization and is a member of the company's executive committee. Hawkins has more than 30 years of experience with leading finance organizations at global software and technology companies including Autodesk, Logitech, Dell and Hewlett-Packard.

Figure 23: Shift from traditional IT spending to cloud environment – SaaS and BaaS segments likely to see higher cloud shift rate



Source: Gartner

**Figure 24: Different types of cloud service models**

Service Model	Explanation
<b>Infrastructure-as-a-Service (IaaS)</b>	A standardised, highly automated offering, where computational resources, complemented by storage and networking capabilities are owned and hosted by a service provider and offered to customers on-demand. Customers are able to self-provision this infrastructure, using a Web-based graphical user interface that serves as an IT operations management console for the overall environment. API access to the infrastructure may also be offered as an option.
<b>Platform-as-a-Service (PaaS)</b>	Usually depicted in all-cloud diagrams between the SaaS layer above it and the IaaS layer below, is a broad collection of application infrastructure (middleware) services (including application platform, integration, business process management and database services).
<b>Software-as-a-Service (SaaS)</b>	Software that is owned, delivered and managed remotely by one or more providers. The provider delivers software based on one set of common code and data definitions that is consumed in a one-to-many model by all contracted customers at anytime on a pay-for-use basis or as a subscription based on use metrics.
<b>Business Process-as-a-Service (BPaaS)</b>	Serves as the delivery of business process outsourcing services that are sourced from the cloud and constructed for multitenancy. Services are often automated, and where human process actors are required, there is no overtly dedicated labor pool per client. As a cloud service, the BPaaS model is accessed via Internet-based technologies.

Source: Gartner IT Glossary

**Figure 25: Google Cloud Platform geographical reach**


Source: Google Cloud Platform

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<b>Rating</b>	<b>Definition</b>
	KGI Securities Research's recommendations are based on an Absolute Return rating system.
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