

# **DAB401- FINANCIAL ANALYTICS**

## **SALESFORCE**

### **Submitted by Group – 07**

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## **BUSINESS ANALYSIS**

### **Introduction**

Salesforce was founded in 1999 by Marc Benioff and Parker Harris in San Francisco, California. It started as a pioneering company in cloud-based software as a service company, focusing primarily on customer relationship management (CRM) solutions. Salesforce is a global leader in customer relationship management (CRM) software, offering a range of cloud-based applications for sales, service, marketing, commerce, and more. Its flagship product, Salesforce Customer 360, integrates sales, service, marketing, and commerce data to provide a unified view of the customer.

### **History**

Salesforce was born in 1999 with a vision to become a world-class internet company for Sales Force Automation. Co-founders Marc Benioff, Parker Harris, Frank Dominguez, and Dave Moellenhoff started working on the first version of Salesforce's CRM in a rented one-bedroom apartment, establishing a distinctive startup culture centred around simplicity, speed, and innovation. By the end of its first year, the company expanded to 40 employees and set up an 8,000-square-foot office at the Rincon Centre, marking the beginning of its journey towards revolutionizing the CRM industry.

## **Current Operations**

Salesforce's current operations reflect a strong emphasis on advancing AI technology, exemplified by the introduction of Einstein GPT, the world's first generative AI for CRM, and the unveiling of the Einstein 1 Platform at Dreamforce. Additionally, the announcement of Einstein Copilot introduces a conversational AI assistant grounded in business and customer data, revolutionizing CRM applications. Salesforce Ventures' launch of a \$500 million generative AI fund further underscores the company's commitment to fostering innovation in the AI startup ecosystem. In 2023, Salesforce maintained its position as the 1 CRM provider for the 9th consecutive year, with a total number of 72,682 employees contributing to its ongoing success.

## **Market Analysis and Competitive Landscape**

Salesforce has historically experienced significant growth through a combination of organic expansion and strategic acquisitions. The company's robust organic growth is fuelled by its innovative products and services, which continuously evolve to meet the changing needs of customers in the digital era. Additionally, Salesforce has strategically pursued mergers and acquisitions to augment its product portfolio, enhance its technological capabilities, and expand its market reach. Notable acquisitions, such as Tableau and Slack, have enabled Salesforce to strengthen its position as a leader in cloud-based software and collaboration tools.

Salesforce holds a significant market share in the CRM (Customer Relationship Management) industry, estimated to be around 23% as of 2022. Its closest competitors include Microsoft Dynamics 365 with a market share of 7.4%, followed by Oracle CX Cloud Suite and SAP Customer Experience holding between 5% to 8% each. The remainder of the market is divided among other competitors such as HubSpot, Adobe Experience Cloud, and Zoho. These competitors offer diverse CRM solutions tailored to different business sizes and needs, presenting customers with alternative options for managing customer relationships and digital operations.

## SALESFORCE FINANCIAL DATA

INCOME STATEMENT		
Breakdown		1/31/2024
Total Revenue		\$34,857,000
Cost of Revenue		\$8,541,000
Gross Profit		\$26,316,000
Operating Expenses		
	Research Development	\$4,906,000
	Selling General and Administrative	\$14,520,000
	Total Operating Expenses	\$20,317,000
	Operating Income or Loss	\$5,999,000
	Total Other Income/Expenses Net	-\$1,049,000
	Income Before Tax	\$4,950,000
	Income Tax Expense	\$814,000
	Income from Continuing Operations	\$4,136,000
	Net Income	\$4,136,000
	Net Income available to common shareholders	\$4,136,000
	Basic EPS	\$4
	Diluted EPS	\$4
	Basic Average Shares	\$974,000
	Diluted Average Shares	\$984,000

BALANCE SHEET		
Breakdown		1/31/2024
Assets		
Current Assets		
Cash		
	Cash And Cash Equivalents	\$8,472,000
	Other Short-Term Investments	\$5,722,000
	Total Cash	\$14,194,000
	Net Receivables	\$11,414,000
	Other Current Assets	\$1,561,000
	Total Current Assets	\$29,074,000
Non-current assets		
Property, plant and equipment		
	Gross property, plant and equipment	\$9,207,000
	Accumulated Depreciation	-\$3,152,000
	Net property, plant and equipment	\$6,055,000
	Equity and other investments	\$4,848,000

	Goodwill	\$48,620,000
	Intangible Assets	\$5,278,000
	<b>Total non-current assets</b>	<b>\$70,749,000</b>
	<b>Total Assets</b>	<b>\$99,823,000</b>
<b>Liabilities and stockholders' equity</b>		
<b>Liabilities</b>		
<b>Current Liabilities</b>		
	Current Debt	\$999,000
	Accounts Payable	-
	Deferred revenues	\$19,003,000
	<b>Total Current Liabilities</b>	<b>\$26,631,000</b>
<b>Non-current liabilities</b>		
	Long Term Debt	\$9,419,000
	Other long-term liabilities	\$2,283,000
	<b>Total non-current liabilities</b>	<b>\$14,599,000</b>
	<b>Total Liabilities</b>	<b>\$40,490,000</b>
<b>Stockholders' Equity</b>		
	Common Stock	\$1,000
	Retained Earnings	\$7,585,000
	Accumulated other comprehensive income	-\$274,000
	<b>Total stockholders' equity</b>	<b>\$58,359,000</b>
	<b>Total liabilities and stockholders' equity</b>	<b>\$98,849,000</b>

CASH FLOWS		
Breakdown		1/31/2024
<b>Cash flows from operating activities</b>		
	<b>Net Income</b>	<b>\$4,136,000</b>
	Depreciation & amortization	\$3,959,000
	Deferred income taxes	-
	Stock based compensation	\$2,787,000
	Change in working capital	-\$2,850,000
	Accounts receivable	-\$659,000
	Accounts Payable	-\$478,000
	Other working capital	\$9,498,000
	Other non-cash items	\$1,925,000
	<b>Net cash provided by operating activities</b>	<b>\$10,234,000</b>
<b>Cash flows from investing activities</b>		
	Investments in property, plant, and equipment	-\$736,000
	Acquisitions, net	-\$82,000

	Purchases of investments	-\$4,257,000
	Sales/Maturities of investments	\$3,748,000
	<b>Net cash used for investing activities</b>	<b>-\$1,327,000</b>
	<b>Cash flows from financing activities</b>	
	Debt repayment	-\$1,811,000
	Common stock repurchased	-\$7,620,000
	Other financing activities	-
	<b>Net cash used provided by (used for) financing activities</b>	<b>-\$7,477,000</b>
	<b>Net change in cash</b>	<b>\$1,456,000</b>
	Cash at beginning of period	\$7,016,000
	Cash at end of period	\$8,472,000
	<b>Free Cash Flow</b>	
	Operating Cash Flow	\$10,234,000
	Capital Expenditure	-\$736,000
	<b>Free Cash Flow</b>	<b>\$9,498,000</b>

## Ratio and Valuation Analysis

We used ratio analysis to evaluate company's financial performance and health which involves examining various relationships between financial data from the company's financial statements to gain insights into its operations.

### Liquidity Ratio:

#### 1. Current Ratio

Current Assets	\$29,074,000
Current Liabilities	\$26,631,000
<b>Current Ratio</b>	<b>1.09</b>

The current ratio indicates that for every dollar of current liabilities, Salesforce has \$1.09 in current assets. This suggests that the company has a slightly more than adequate level of current assets to cover its short-term obligations.

## 2. Quick Ratio

Current Assets	\$29,074,000
inventory	
Current Liabilities	\$26,631,000
<b>Quick Ratio</b>	<b>1.09</b>

The quick ratio, also known as the acid-test ratio, is the same as the current ratio in this case. It indicates that for every dollar of current liabilities, Salesforce has \$1.09 in quick assets (current assets excluding inventory). This suggests that the company has sufficient liquid assets to cover its short-term liabilities, which is a positive sign for creditors and investors.

## 3. Cash Ratio

Cash, Cash Equivalents	\$8,472,000
Current Liabilities	\$26,631,000
<b>Cash Ratio</b>	<b>0.32</b>

The cash ratio is relatively low at 0.32, indicating that Salesforce has \$0.32 in cash and cash equivalents for every dollar of current liabilities. While this may raise some concerns about the company's ability to cover its short-term obligations with cash alone, it's important to note that cash is just one component of current assets.

Based on the liquidity ratios, Salesforce appears to have a reasonable level of liquidity to meet its short-term obligations.

## Profitability Ratio

### 1. Gross Profit Margin

Gross Profit	\$26,316,000
Net Sales	\$34,857,000
<b>Gross Profit Margin</b>	<b>75.50%</b>

Salesforce's gross profit margin indicates that for every dollar of net sales, the company retains \$0.75 as gross profit after accounting for the cost of goods sold. This high gross

profit margin suggests that Salesforce effectively controls its production costs and enjoys a healthy margin on its sales, which is favorable for profitability.

## 2. Operating Profit Margin

Operating Earnings	\$5,999,000
Net Sales	\$34,857,000
<b>Operating Profit Margin</b>	<b>17.21%</b>

The operating profit margin reveals that Salesforce earns approximately \$0.17 in operating profit for every dollar of net sales. This indicates the company's ability to efficiently manage its operating expenses relative to its revenue, resulting in a respectable operating profit margin.

## 3. Return on Assets

Net Income	\$4,136,000
Total Assets	\$99,823,000
<b>Return On Assets</b>	<b>4.14%</b>

Salesforce's return on assets (ROA) of 4.14% indicates that the company generates \$0.04 in net income for every dollar of total assets employed. While this may seem modest, it suggests that Salesforce efficiently utilizes its assets to generate profits.

## 4. Return on Equity

Net income	\$4,136,000
shareholder's equity	\$58,359,000
<b>Return On Equity</b>	<b>7.09%</b>

The return on equity (ROE) of 7.09% signifies that Salesforce generates \$0.07 in net income for every dollar of shareholder's equity. This indicates a moderate return for shareholders, reflecting the company's ability to generate profits relative to the equity invested.

## 5. Return On Sales

Operating Profit	\$5,999,000
Net Sales	\$34,857,000
<b>Return On Sales</b>	<b>17.21%</b>

The return on sales (ROS) of 17.21% indicates that Salesforce earns approximately \$0.17 in operating profit for every dollar of net sales. This metric further validates the company's efficient management of operating expenses, contributing to its profitability.

## 6. Return on Investments

Net Income	\$4,136,000
Cost of Investment	\$736,000
<b>Return On Investments</b>	<b>5.62</b>

The return on investments (ROI) of 5.62% suggests that Salesforce generates a return of \$0.056 for every dollar invested. This indicates that the company's investments are yielding positive returns, even though the returns are at a moderate pace.

Overall, based on these profitability ratios, Salesforce demonstrates strong operational efficiency and effective management of resources, leading to healthy profitability levels.

## Price-to-Earnings Ratio

Stock Price	\$301.179
Earning Per Share (EPS)	\$4.250
<b>P/E Ratio</b>	<b>70.87</b>

The P/E ratio indicates that investors are willing to pay approximately \$70.87 for every dollar of earnings per share (EPS) generated by Salesforce. A high P/E ratio suggests that investors have high expectations for the company's future earnings growth.

## Dividend payout ratio

Due to the absence of historical data regarding dividends paid prior to February 2024, it is not possible to calculate the dividend payout ratio.



### **Debt to Equity Ratio**

Total Debt	\$10,418,000
Shareholder's equity	\$58,359,000
<b>Debt to Equity</b>	<b>0.18</b>

The debt-to-equity ratio of 0.18 indicates that Salesforce has a relatively low level of debt compared to its shareholder's equity. This suggests that the company relies more on equity financing rather than debt financing to fund its operations and growth initiatives. A low debt-to-equity ratio generally indicates a lower financial risk and a healthier balance sheet.

### **Sustainable Growth Rate**

Due to the lack of historical dividend data, calculating the dividend payout ratio, which is essential for determining the sustainable growth rate, is not feasible.

### **Capital Asset Pricing Model (CAPM)**

CAPM is a financial model used to determine the expected return on an investment based on its risk level and the market's overall risk and return characteristics. CAPM helps investors estimate the appropriate rate of return for an investment by considering its risk relative to the overall market. The model considers the risk-free rate of return, the expected market return, and the investment's beta coefficient, which measures its volatility compared to the market.

CAPM for Salesforce

Adj Close CRM	R CRM (Ra)	Date	Adj Close S&P 500	R S&P 500 (Rm)
51.582623		2014-04-01	1,883.95	
52.56134	1.018973773	2014-05-01	1,923.57	1.021030282
58.004234	1.103553182	2014-06-01	1,960.23	1.019058313
54.179226	0.9340564	2014-07-01	1,930.67	0.984920137
59.012913	1.089216612	2014-08-01	2,003.37	1.037655322
57.454948	0.973599592	2014-09-01	1,972.29	0.984486141
63.906521	1.11228925	2014-10-01	2,018.05	1.023201456
59.791893	0.935614896	2014-11-01	2,067.56	1.024533584
59.232628	0.990646474	2014-12-01	2,058.90	0.995811488
56.376358	0.951778773	2015-01-01	1,994.99	0.968959153
69.28949	1.229052256	2015-02-01	2,104.50	1.054892506
66.722839	0.962957571	2015-03-01	2,067.89	0.982603944
72.724998	1.089956589	2015-04-01	2,085.51	1.008520763
72.65509	0.999038735	2015-05-01	2,107.39	1.010491439
69.539162	0.957113425	2015-06-01	2,063.11	0.978988227
73.204376	1.052707193	2015-07-01	2,103.84	1.01974204
69.269516	0.946248295	2015-08-01	1,972.18	0.937419195
69.339424	1.001009217	2015-09-01	1,920.03	0.97355718

Beta	1.301275759
Geomean	0.87%
Rm	10.90%
Ra	Rf+beta*(Rm-Rf)
Rf	4.39%
Ra	12.86%

10 Year Treasury Rate (I:10YTCMR)

4.39% for Apr 05 2024



### Insights:

- Salesforce's beta of 1.301 indicates that the company's stock is more volatile than the overall market. This higher risk may influence investors' decisions and perceptions of the company's stock.
- The geometric mean return of 0.87% suggests the average annual return investors could expect from holding Salesforce stock over the specified time period. The relatively low geometric mean return suggests that investors may need to carefully weigh the risk-return trade-off when considering investing in Salesforce stock.
- Based on the CAPM output, Salesforce's required rate of return ( $R_a$ ) is calculated to be 12.86%, while the market return ( $R_m$ ) is 10.90%.
- Salesforce's required rate of return ( $R_a$ ) is higher than the market return ( $R_m$ ). This suggests that investors demand a higher return for holding Salesforce stock compared to investing in the overall market.

### Free Cash Flow

Free Cash Flow	
Operating Cash Flow	\$10,234,000
Capital Expenditure	-\$736,000
<b>Free Cash Flow</b>	<b>\$9,498,000</b>

- Positive Free Cash Flow indicates that the company has generated more cash from its operations than it has spent on investments in property, plant, and equipment.
- A positive Free Cash Flow is generally considered favorable, as it suggests the company has sufficient liquidity to fund its operations, pay dividends, reduce debt, or pursue growth opportunities.
- Salesforce has a healthy Free Cash Flow of \$9,498,000, indicating strong cash generation from its operations and prudent capital expenditure management.

### Weighted Average Cost of Capital (WACC)

WACC, or Weighted Average Cost of Capital, is a crucial financial metric utilized by businesses and investors to assess the cost of financing a firm's operations. It represents the average rate of return a company is expected to pay to all its stakeholders, including debt holders and equity investors, to finance its assets.

Calculating Cost of Equity	
Risk free rate (Rf)	4.39%
Beta	1.30
Market Return (Rm)	10.90%
<b>Cost of Equity</b>	<b>12.86%</b>

Calculating Cost of Debt	
Income Before Tax	\$4,950,000
Income Tax Expense	\$814,000
<b>Interest Expense</b>	<b>\$4,136,000</b>
Current Debt	\$999,000
Long Term Debt	\$9,419,000
<b>Total Debt</b>	<b>\$10,418,000</b>
<b>Cost of Debt</b>	<b>39.70%</b>

Calculating Tax Rate	
Income Before Tax	\$4,950,000
Income Tax Expense	\$814,000
<b>Tax Rate</b>	<b>16.44%</b>

Calculating After tax Cost of Debt	
Cost of Debt	39.70%
Tax Rate	0.16
<b>After Tax Cost of Debt</b>	<b>33.17%</b>

Calculating Weight of Debt and Equity	
Market Value of Equity (E)	\$58,359,000
Market Value of Debt (D)	\$10,418,000
Total Market Value of the Firm (V)	\$68,777,000
<b>Weight of Equity</b>	<b>0.848524943</b>
<b>Weight of Debt</b>	<b>0.151475057</b>

WACC	15.94%
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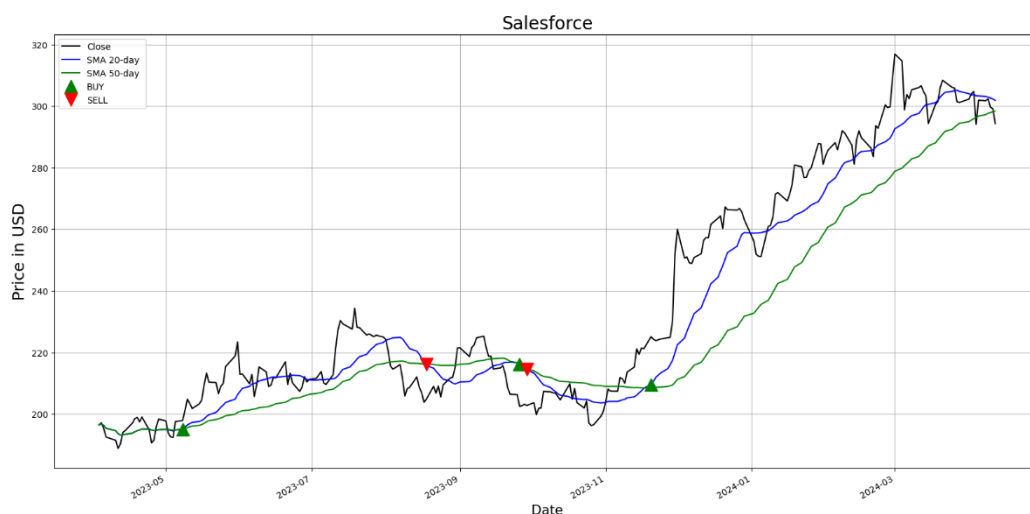
A WACC of 15.94% suggests that Salesforce faces a relatively high cost of capital, which may impact its profitability and investment decisions. Higher WACC implies higher financial risk and may constrain the company's ability to pursue projects with returns below this threshold.

## TECHNICAL ANALYSIS

### Simple Moving Average

Simple Moving Average (SMA) is a widely used technical analysis tool used to analyze and interpret financial data trends. It calculates the average of a specified number of data points over a defined period, smoothing out fluctuations and highlighting underlying trends. By providing a clear representation of price movements over time, the SMA assists traders and analysts in identifying potential entry and exit points in the market. This straightforward yet powerful indicator serves as a foundational component in the analysis of financial markets, offering valuable insights into market direction and momentum.

### SMA 20 & SMA 50

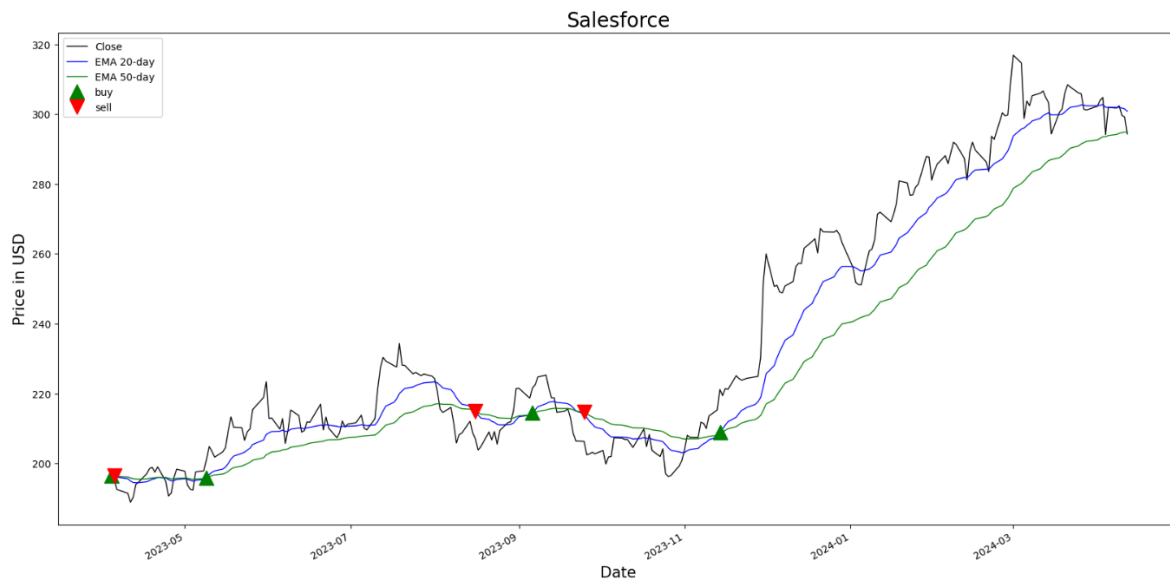


### Exponential Moving Average

The Exponential Moving Average (EMA) is a type of moving average that places more weight and significance on recent data points compared to older ones. It achieves this by giving exponentially decreasing weights to past observations, with the most recent data points

having the highest weight. As a result, the EMA responds more quickly to recent price changes, making it more responsive to short-term fluctuations compared to the Simple Moving Average (SMA). This characteristic makes the EMA a popular choice among traders and analysts for identifying trends and potential entry or exit points in financial markets.

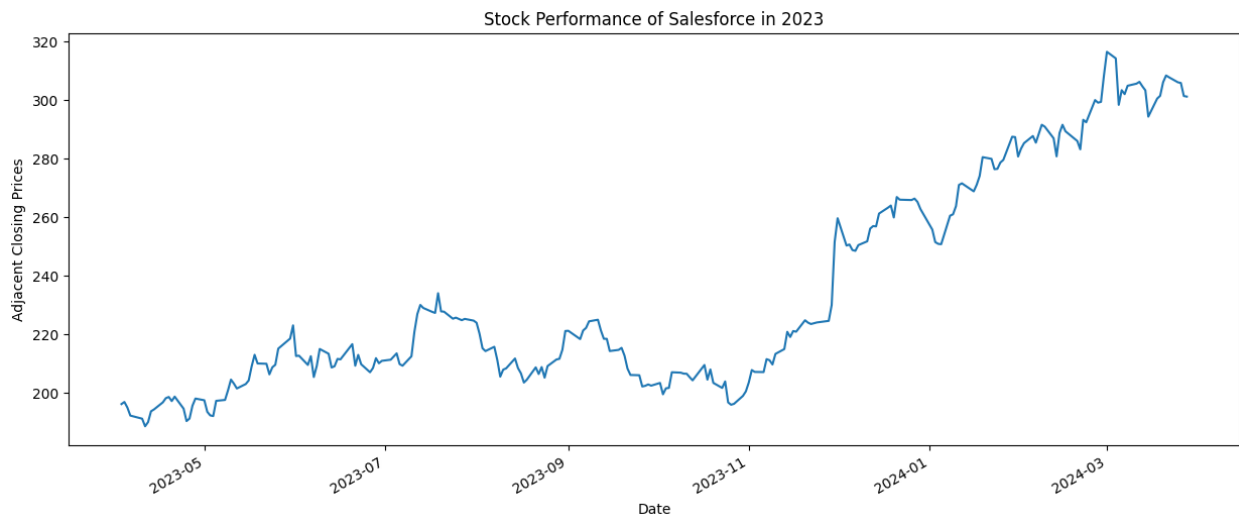
## EMA 20 & EMA 50



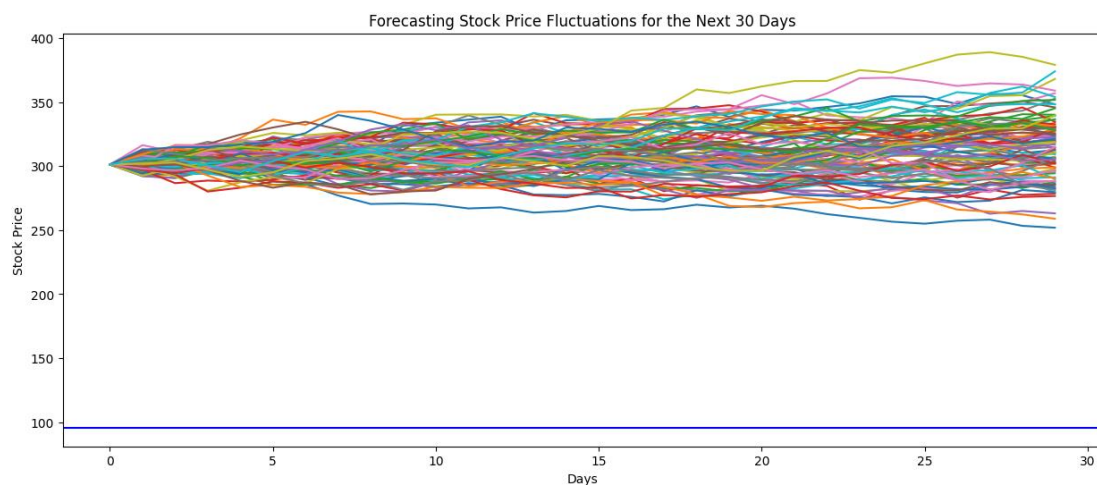
## Monte- Carlo Simulation

Monte Carlo simulation serves as a powerful tool for modelling the likelihood of various outcomes in situations where predictions are challenging due to the influence of random factors. This method enables a comprehensive analysis of risk and uncertainty, allowing for a deeper understanding of potential impacts on the process under consideration.

## Graphical representation of the one-year stock prices as of 2023

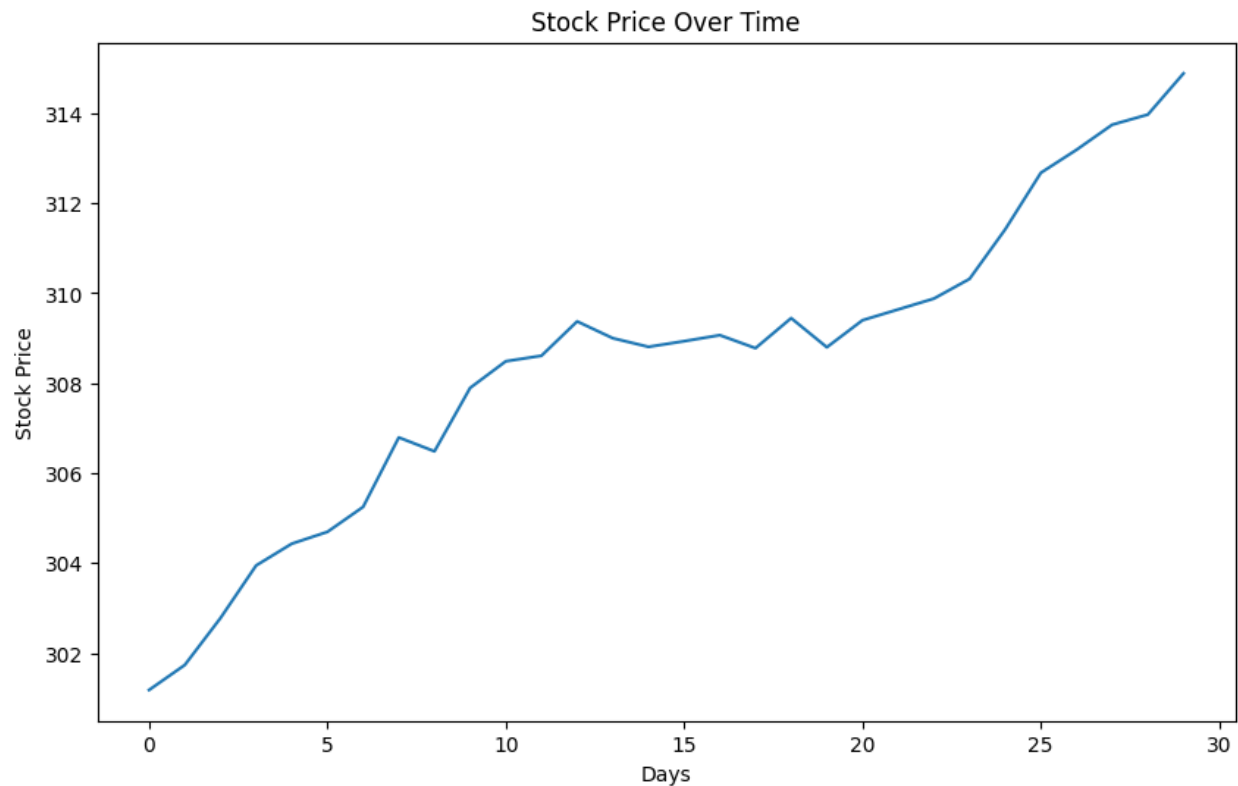


- The stock price for Salesforce shows a consistent upward trend throughout the year, reflecting a positive trajectory for the company.
- Milestone Increases: Notable spikes in the stock price occur at specific points, suggesting significant events or market reactions.
- The steady ascent underscores investor confidence in the company's potential for growth.



The Monte Carlo simulation predicts stock prices ranging from 251.89 to 388.95. To enhance clarity, we computed the average stock prices across 100 simulations and

present the results in the following graph.



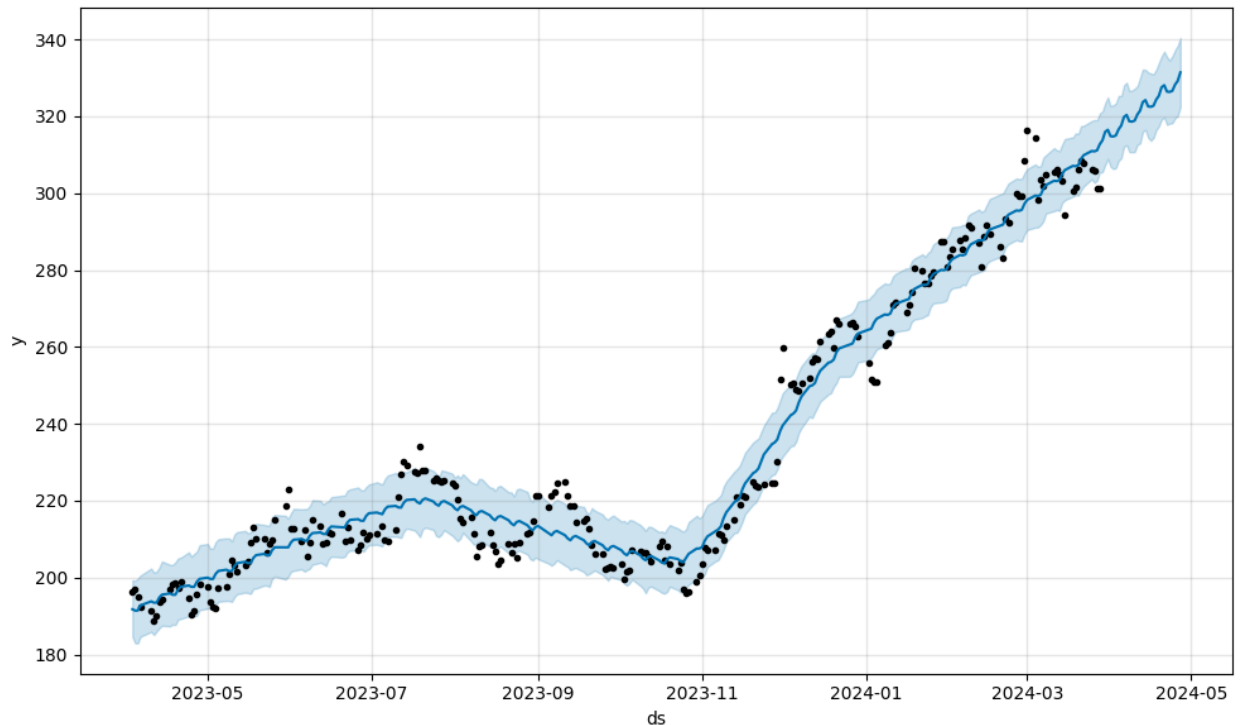
The graph depicts the stock performance of Salesforce over a 30-day period.

- The stock price exhibits a consistent upward trajectory.
- While the overall trend is positive, there are short-term fluctuations.
- The graph shows where the price tends to bounce back and where it faces selling pressure.

### FB Prophet Analysis

Facebook Prophet is an open-source forecasting tool designed to handle time series data. Developed by Facebook's Core Data Science team, Prophet is particularly useful for analysts and data scientists who need to forecast time series data with irregular trends and seasonality.





- The line graph indicated the forecasted trend based on the historical data and predictive algorithm.
- The predicted line continues to be in the upward trajectory even if there are short term fluctuations.
- The shaded area is the confidence interval where the stock prices is likely to fall.
- Based on the FB Prophet analysis, Salesforce's stock shows a consistent upward trajectory, indicating growth potential for investors.

## RECOMMENDATIONS

Salesforce exhibits strong fundamentals and a solid market position in the CRM industry. Its consistent revenue growth, innovative product offerings, and strategic acquisitions position it as a leader in cloud-based software solutions. Therefore, it could be considered a promising investment opportunity for long-term growth-oriented investors.

Based on the quick ratio of 1.09, Salesforce demonstrates an adequate level of liquidity to cover its short-term obligations, providing a positive indication of financial health. Furthermore, profitability ratios such as a gross profit margin of 75.50%, return on equity (ROE) of 7.09% and a positive free cash flow of \$9,498,000 reveal strong operational efficiency and effective management of resources, leading to healthy profitability levels. The price-to-earnings (P/E) ratio of 70.87 suggests that investors have high expectations for

the company's future earnings growth, although at a relatively high valuation. The debt-to-equity ratio of 0.18 indicates a low level of debt relative to shareholder's equity, signifying a lower financial risk and a healthier balance sheet. However, Salesforce's beta of 1.301 indicates higher stock volatility, which may influence investor perceptions and decisions. Overall, while Salesforce demonstrates solid financial performance and growth potential, investors should carefully consider the risk-return trade-off before investing.

Based on the analysis, Salesforce appears to be a company with significant growth potential and a solid foundation. For investors already holding the stock, holding onto it may be advisable, especially considering its positive outlook and potential for further growth. For prospective investors, buying Salesforce stock could be considered, particularly for those with a higher risk tolerance and a long-term investment horizon.

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