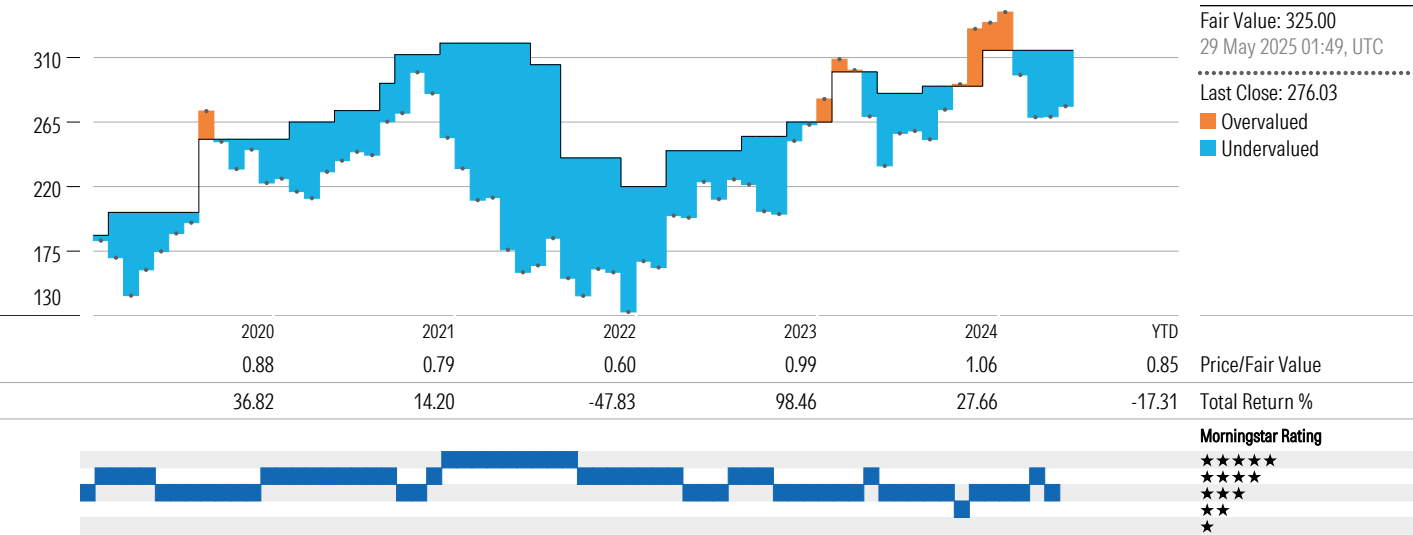


Salesforce Inc CRM ★★★★★ 29 May 2025 01:51, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment¹
276.03 USD 28 May 2025	325.00 USD 29 May 2025 01:49, UTC	0.85	264.84 USD Bil 28 May 2025	Wide	Large Blend	High	Standard	 7 May 2025 05:00, UTC

Price vs. Fair Value



Total Return % as of 28 May 2025. Last Close as of 28 May 2025. Fair Value as of 29 May 2025 01:49, UTC.

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The primary analyst covering this company does not own its stock.

¹The ESG Risk Rating Assessment is a representation of Sustainalytics' ESG Risk Rating.

Salesforce Earnings: Good Quarter With Agentforce Momentum Building

Analyst Note Dan Romanoff, CPA, Senior Equity Analyst, 29 May 2025

Salesforce reported results for its fiscal first quarter that were ahead of the top end of guidance. Revenue growth of 8%, both as reported and in constant currency, to \$9.83 billion was driven primarily by strength in data cloud, while non-GAAP operating margin was 32.3%.

Why it matters: Both subscriptions and services were ahead of our model, with Agentforce and data cloud providing notable strength during the quarter. We see solid results around the world and note management's positive remarks on strength in small business customers.

- Multicloud deals continue to perform well, with more than half of the top 100 deals in the quarter including six or more clouds. Almost 60% of the top 100 deals include both data cloud and artificial intelligence.
- Salesforce has closed more than 8,000 Agentforce deals so far, half of which are paid. Agentforce is generating \$100 million in annually recurring revenue, which is impressive given the solution has been available for just two full quarters.

The bottom line: We are raising our fair value estimate to \$325 per share from \$315 and see shares as attractive. Based on results and guidance that skew positive, we nudged our near-term estimates slightly higher while holding our long-term model in check.

- Management offered broad commentary on the Informatica deal, announced yesterday, noting the

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Sector	Industry
Technology	Software - Application

Business Description

Salesforce provides enterprise cloud computing solutions. The company offers customer relationship management technology that brings companies and customers together. Its Customer 360 platform helps the group to deliver a single source of truth, connecting customer data across systems, apps, and devices to help companies sell, service, market, and conduct commerce. It also offers Service Cloud for customer support, Marketing Cloud for digital marketing campaigns, Commerce Cloud as an e-commerce engine, the Salesforce Platform, which allows enterprises to build applications, and other solutions, such as MuleSoft for data integration.

importance of the firm's data integration tools in the AI age and recommitted to both its capital allocation strategy and margin targets.

Coming up: Management raised guidance for the full-year beyond quarterly upside, including an assist from improving currency impacts. Given product momentum, we see potential for results that track even better throughout the year.

- Guidance for fiscal 2026 includes revenue of \$41.0 billion to \$41.3 billion, up from \$40.5 billion to \$40.9 billion previously, with non-GAAP operating margin unchanged at 34.0%. Second-quarter guidance was better than we were modelling on both the top and bottom lines.

Business Strategy & Outlook Dan Romanoff, CPA, Senior Equity Analyst, 27 Feb 2025

Salesforce has established itself as the clear leader in software for all aspects of the customer relationship journey. As the company has matured and growth slowed, profitability has improved and the capital allocation strategy has evolved. We think the combination of these factors should continue to compound good earnings growth for years to come.

After introducing the software-as-a-service model to the world, Salesforce has assembled a front-office empire that it can build on for years to come, in our view. Sales Cloud represents the original salesforce automation product, which streamlined process management for sales leads and opportunities, contact and account data, process tracking, approvals, and territory tracking. Salesforce's critical differentiator was that the software was accessed through a web browser and delivered over the internet, thus inventing the SaaS software delivery model. Service Cloud brought in customer service applications, and Marketing Cloud delivers marketing automation solutions. Finally, we think Data Cloud helps ties the offerings together. These solutions encompass nearly all aspects of customer acquisition and retention and, in our view, are mission-critical. Salesforce Platform also offers customers a platform-as-a-service solution, complete with the AppExchange, as a way to rapidly create and distribute apps. We believe this further strengthens the substantial community of Salesforce users.

In our view, Salesforce will benefit further from natural cross-selling among its clouds, upselling more robust features within product lines, vertical solutions, pricing actions, and international growth. Salesforce is widely considered a leader in each of its served markets, which is attractive on its own, but the tight integration among the solutions and the natural fit they have with one another makes for a powerful value proposition, in our view. To that end, more than half of enterprise customers use multiple clouds. Further, customer retention has gradually improved over time and is better than 92%, which we expect to grind higher still in the coming years.

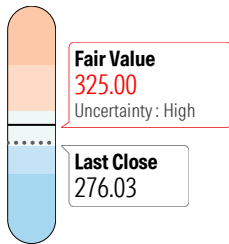
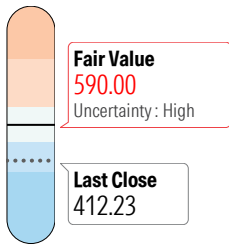
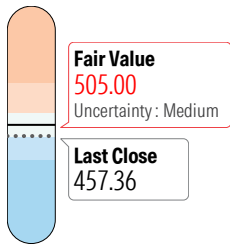
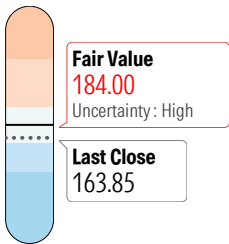
Bulls Say Dan Romanoff, CPA, Senior Equity Analyst, 29 May 2025

- Salesforce dominates salesforce automation but still only controls 30% in a highly fragmented market that continues to grow double digits each year, suggesting there is still room to run.

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Competitors

	Salesforce Inc CRM	Adobe Inc ADBE	Microsoft Corp MSFT	Oracle Corp ORCL
				
Economic Moat	Wide	Wide	Wide	Wide
Currency	USD	USD	USD	USD
Fair Value	325.00 29 May 2025 01:49, UTC	590.00 12 Dec 2024 05:50, UTC	505.00 1 May 2025 01:56, UTC	184.00 11 Mar 2025 03:38, UTC
1-Star Price	503.75	914.50	681.75	285.20
5-Star Price	195.00	354.00	353.50	110.40
Assessment	Fairly Valued 28 May 2025	Undervalued 28 May 2025	Undervalued 28 May 2025	Fairly Valued 28 May 2025
Morningstar Rating	★★★★★ 29 May 2025 01:51, UTC	★★★★★ 28 May 2025 21:32, UTC	★★★★★ 28 May 2025 21:34, UTC	★★★★★ 28 May 2025 21:34, UTC
Analyst	Dan Romanoff, Senior Equity Analyst	Dan Romanoff, Senior Equity Analyst	Dan Romanoff, Senior Equity Analyst	Luke Yang, Equity Analyst
Capital Allocation	Standard	Exemplary	Exemplary	Standard
Price/Fair Value	0.85	0.70	0.91	0.89
Price/Sales	7.12	8.35	12.74	8.29
Price/Book	4.36	13.72	10.64	27.13
Price/Earning	40.43	27.31	35.44	35.71
Dividend Yield	0.58%	0.00%	0.70%	1.05%
Market Cap	264.84 Bil	175.69 Bil	3,399.35 Bil	459.47 Bil
52-Week Range	212.00—369.00	332.01—587.75	344.79—468.35	114.55—198.31
Investment Style	Large Blend	Large Blend	Large Blend	Large Blend

- The company has added legs to the overall growth story, including customer service, marketing automation, e-commerce, analytics, and artificial intelligence.
- Management is likely going to focus on expanding margins after years of subscale profitability.

Bears Say Dan Romanoff, CPA, Senior Equity Analyst, 29 May 2025

- As the company grows larger, it may be increasingly difficult for Salesforce to grow faster than its various end markets.
- Salesforce has entered new areas via acquisition and has arguably paid material premiums in the process. Integration risk is real, as is the risk of increasingly large, dilutive, or ill-conceived deals.
- The company's generative AI strategy has been a series of fits and starts and while Agentforce looks promising, it may be just another iteration in an evolving approach.

Economic Moat Dan Romanoff, CPA, Senior Equity Analyst, 29 May 2025

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For Salesforce overall, we assign a wide economic moat, arising primarily from switching costs, with the network effect serving as a secondary moat source. Based on the company's product lines, we believe Sales Cloud, Service Cloud, and Salesforce Platform and other have earned wide moats, while Salesforce, Marketing and Commerce Cloud, and Data Cloud have carved out narrow moats. While services, which is a small portion of revenue, help facilitate software sales and contribute to customer relationships, we do not think the company's professional services business would warrant a moat on a stand-alone basis. We believe Salesforce's moat will probably allow the company to earn returns in excess of its cost of capital over the next 20 years.

We believe customers value Salesforce's discrete clouds as stand-alone solutions, but the various clouds are highly complementary and are tightly integrated with one another, making the complete set of solutions more compelling. In our opinion, the strength of these clouds is important but should not overshadow the importance of all the solutions being offered under one umbrella by Salesforce as customers are usually looking to consolidate vendors. These factors combine to reinforce our wide moat assertion. As Salesforce offers a wider set of related and best-in-class solutions, we believe it becomes more deeply entrenched in its customers as they adopt multiple clouds.

Switching costs for software are often driven by several factor,s in our view. The more critical the function and the more touch points across an organization a software vendor has, the higher the switching costs. There is also the direct time and expense of implementing a new software package for the customer while maintaining the existing platform and retraining employees on a new system. Additionally, there is operational risk of changing software vendors, including business process re-engineering, loss of data during the changeover, and overall project execution. A major implementation is likely to involve a system integrator and can take in excess of a year in bad cases. Lastly, lost productivity is likely to be an issue as customers move up a learning curve on the new system along with the distraction of users involved in the function where the change is occurring.

Retention metrics typically help inform investors on both the presence and the durability of a moat. These come in two flavors: gross, which describes what percentage of the customer base remains customers after a given period, and net, which highlights what percentage of customer spending is retained by the software provider after a given period. Salesforce's customer retention has been improving gradually over the last 20 years and now sits at approximately 92% annually, which we characterize as good. Software firms regularly see lower retention rates for small-business users than for enterprise customers, so retention is weighed down by a large proportion of small-business customers.

We believe Sales Cloud and Service Cloud enjoy a wide moat based on switching costs. Sales Cloud represents 20%-25% of total revenue, while Service Cloud represents approximately 25% of total revenue. Key modules within Sales Cloud include buyer engagement, sales engagement, team

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collaboration, sales analytics, sales programs, partner management, performance management, configure, price, and quote, and billing. Critical elements of Service Cloud cover customer service automation, field service, self-service experience, omnichannel customer engagement, agent and mobile worker productivity, intelligent service operations, contact center, and voice support.

The CRM and Service suites are mission critical to business users in that they drive the selling and servicing processes, contain all known information on the customer base, and are tied into a variety of other back end systems, such as accounting, accounts receivable, inventory, customer service, customer relationship management, marketing, email, among others. Changing out either the CRM or customer services applications then becomes a monumental task that users are usually unwilling to undertake because of the time, expense, and operational risk involved.

Salesforce revolutionized the software industry in 2000 with the release of its salesforce automation application. It generally had a feature set competitive with other CRM packages but offered workflow streamlining capabilities and was accessed through a browser and delivered over the internet. The streamlining capabilities were critical and represent the automation portion of the product name. We now refer to this business model as software as a service. While the company did not invent the CRM, it represented a variety of critical technology and category advancements. Service Cloud is a natural extension of Sales Cloud and was the company's second core product.

Salesforce is considered a leader in software solutions for both the CRM and customer service industries. We believe the company's offerings are still considered best of breed despite being part of a much larger software provider. There is no shortage of competition, including point solutions from upstart vendors to modules included in enterprise resource planning behemoths, and everything in between. However, we believe that Salesforce's offerings are best in class and that the inclusion of its other offerings cements the company's lead.

We think the Salesforce Platform and other segment enjoys a wide moat based on switching costs and network effects. This segment accounts for approximately 20% of total revenue. Application development platforms are sticky in that they serve as the core platform on which businesses and processes are built, and switching could be highly disruptive and expensive for developers. The network effect arises from the fact that the software is extensible and the company provides software development kits, offers the development platform, offers an application exchange, and has worked with leading system integrators to establish a large ecosystem of consulting partners.

Salesforce was early to the market with a cloud-based application development platform for customers. Use of the platform provided the low-investment benefits of a SaaS product, allowed for immediate and smooth integration with Salesforce's solutions, and also allowed developers to sell and distribute their applications on the company's AppExchange. Developing code is clearly mission critical to users is an

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area that would be extremely difficult to change given ongoing research and development programs, including maintenance of existing code, code repositories, and an always challenging hiring environment for software engineers.

The AppExchange was revolutionary and was very enticing to developers. A variety of publicly traded companies started out as apps developed on the platform and initially distributed on the AppExchange. The popularity of Salesforce's solutions attracts developers, the company provided a robust and easy-to-use application development platform, and developers created additional applications often built as add-ons to various Salesforce solutions to extend the software's functionality. We believe these dynamics allow Salesforce to continue to benefit from network effects. That is, as more customers adopt any of the company's solutions, the AppExchange provides an ever-expanding audience, which makes it incrementally more attractive to developers, thus perpetuating a virtuous cycle. We also think the large ecosystem of consultants that have built practices around Salesforce furthers the network effects.

Salesforce reports Marketing Cloud and Commerce Cloud as a single segment, which represents approximately 15% of total revenue and has a narrow moat based on switching costs in our view. Key Marketing Cloud applications include Data Cloud for marketing, marketing automation, email marketing, mobile advertising, personalization, analytics, and loyalty programs. Commerce Cloud applications include digital storefronts, customer acquisition, loyalty programs, reporting and insights, and order management and fulfillment.

Digital experience solutions are relatively new compared with CRM and customer service and there are a wide variety of large competitors in the various marketing analytics, campaign management, customer engagement, advertising platform, and related areas. While this has been a nascent and rapidly emerging area, more recently we see several companies starting to emerge as leaders with a holistic and complete platform. One of these leaders is Salesforce. We believe Salesforce's tightly integrated and robust platform, with its accelerated innovation based on customer feedback from its extensive customer base is seen as a strong suite by the marketplace, and well positioned to capture an outsize position in this young and growing market.

We view Marketing Cloud and Commerce Cloud as natural extensions of Salesforce's core solutions and they are also mission-critical to the users' operations. Once these applications are integrated in a business process workflow, we believe they are difficult to change. A digital experience platform, by its very nature, is complex involving numerous applications and touching a wide range of systems and data repositories used by the customer.

Unlike salesforce automation, Salesforce does not have a first-mover advantage in these areas. Indeed, the company's first marketing foray was the acquisition of ExactTarget while Commerce Cloud was

Salesforce Inc CRM ★★★★★

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established with the acquisition of Demandware. The company has made other acquisitions to bolster these emerging areas and has also organically added solutions to the portfolio.

We think the Data Cloud segment, which represents approximately 15% of revenue, enjoys a narrow moat based on switching costs. Both MuleSoft and Tableau are included here. We view this segment as an add-on solution to the company's other main offerings. It pulls in data from disparate sources and helps connect data in commerce, sales, marketing, and service areas into a single interface. We therefore think realistically Data Cloud enhances the moat of the other clouds as it makes those solutions more useful to customers. Lastly, professional services represents approximately 5% of revenue and does not warrant an economic moat.

Fair Value and Profit Drivers Dan Romanoff, CPA, Senior Equity Analyst, 29 May 2025

Our fair value estimate for Salesforce is \$325 per share, which implies a fiscal 2026 enterprise value/sales, or EV/S, multiple of 7 times, adjusted price/earnings, or P/E, multiple of 29 times, and a 4% free cash flow yield.

We model a five-year compound annual growth rate, or CAGR, for total revenue of 8% through fiscal 2030, which we think will be driven by solid growth in all clouds, with most notable strength coming from the data cloud. Our revenue forecast assumes modest revenue acceleration after depressed growth in both fiscal 2023 and 2024. We forecast non-GAAP operating margin expanding from 31% in fiscal 2024 (actual) to the upper 30% area in fiscal 2030, which we think is consistent with management's new profitability focus.

We believe the underlying markets are large and growing. According to management, the total addressable market will grow to \$248 billion in 2025, with compound annual growth rates for the markets served by Salesforce's various clouds generally in the low-double-digit percentage area, notwithstanding the post-covid slowdown. In our view the company will benefit from natural cross-selling of solutions among the clouds. To help support a decade of strong growth, we model several hundred million dollars in bolt-on acquisitions annually after a strategic shift away from inorganic growth.

Risk and Uncertainty Dan Romanoff, CPA, Senior Equity Analyst, 30 May 2024

We assign Salesforce a Morningstar Uncertainty Rating of High. From a big-picture perspective, we believe CEO Marc Benioff will be difficult to replace, as he pioneered the software industry, co-founded the company, and led it to be a dominant force with a broad portfolio of sales and marketing related solutions.

We believe the most important metric for Salesforce investors is revenue growth. Therefore, continued deceleration in the Sales Cloud, or growth that does not materialize as expected in the Service,

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Marketing, and Commerce Clouds or the Salesforce Platform would likely have an adverse impact on the stock, in our view.

To help drive growth, Salesforce has also been acquisitive. While we do not believe acquisitions have been transformative, the company has certainly executed some larger transactions in order to help establish an immediate or larger presence with a particular solution. Investors have been concerned at times about rich valuations and organic growth prospects, as was the case with the Slack, Tableau, and Mulesoft acquisitions over the last several years. We believe the company is likely to continue to make acquisitions but has pulled back from larger deals. In these situations, valuation and integration will remain risks.

Building on the acquisition-driven risks, Salesforce is likely to face new competitors as it continues to acquire its way into markets the company was not previously serving. The Demandware acquisition drove entry into a completely new area and brought a wide variety of competitors the company did not previously come across.

While we do not see significant environmental, social, and governance risks, Salesforce faces strong competition for software engineers on the hiring front and also faces risks arising from a potential data breach in its data centers.

Capital Allocation Dan Romanoff, CPA, Senior Equity Analyst, 27 Feb 2025

We assign Salesforce a Standard Capital Allocation Rating. This rating reflects our assessments of a sound balance sheet, fair investments, and appropriate shareholder distributions. Salesforce has dramatically changed its capital allocation strategy beginning in August 2022 when it began a formal share repurchase program. Then in February 2024, the company instituted a quarterly dividend. We expect a balanced approach between buybacks, dividends, and internal investments for product innovation.

While the firm has been active historically from an acquisition standpoint, including large deals, we expect deals to skew smaller and occur with less frequency going forward. We have a strong preference that the company avoid larger deals given the complications arising from integration, the opaque nature of underlying growth of the core business, and the potential to erode investor confidence in management focus.

After spending 13 years at Oracle in various leadership roles in sales and product development, Marc Benioff cofounded Salesforce.com in 1999 with the “end of software” mission statement. In 2000, the company released the original version of its of salesforce automation product and offered it solely in a SaaS model. This delivery model revolutionized the industry, and 20 years after forming the company, while Benioff has yet to fully achieve his goal of ending the on-premises software model, it is clear he has steered the industry along the path he envisioned. Benioff’s constant presence is important because we are somewhat cautious in a steady stream of C-suite executives leaving the firm over the

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last several years, including Keith Block, Bret Taylor, Brian Millham, and Amy Weaver.

Analyst Notes Archive

Salesforce Earnings: Lots of Buzz for Agentforce Even if No Meaningful Revenue Impact Yet Dan Romanoff, CPA,Senior Equity Analyst,27 Feb 2025

We are maintaining our \$315 fair value estimate for wide-moat Salesforce after the company reported solid fiscal 2025 fourth-quarter results. The newly initiated outlook for fiscal 2026 was slightly below our expectations on the top and bottom lines after normalizing for increasing currency headwinds. Management remains excited about Agentforce, which we think represents a good long-term opportunity to transition from a mostly human agent labor force to a mostly virtual agent pool over time. Importantly, management believes consumption pricing will be a meaningful net positive for the company. After a dramatic run from June through November 2024, where we thought shares ended up overvalued, the stock has pulled back, leaving some daylight back up to our fair value estimate.We were impressed by some of the data points on Agentforce, including Data Cloud, but we continue to think of the mature Salesforce as a high-single-digit growth company. Total revenue grew 8% year over year as reported and 9% in constant currency, to \$9.99 billion. Subscriptions were slightly light compared with our model, with all clouds similarly light, while services were slightly better than expected. Multicloud deals continued to perform well, with the top 100 deals averaging six clouds. Management noted some signs of stabilization in the US in the midmarket, while still closing 400 deals at \$1 million or more. The company closed 5,000 Agentforce deals in the quarter, its first full quarter of availability. From a segment perspective, health and life sciences and communications and media performed well, while technology, manufacturing and automotive, and energy were more measured.While profitability remains a source of strength, we see a path for continued margin expansion even as the firm invests in artificial intelligence innovation. Non-GAAP operating margin was 33.1% versus 31.4% a year earlier.Feb. 27, 2025: The quarter reported has been corrected.

Salesforce: Appoints New President, COO, and CFO Dan Romanoff, CPA,Senior Equity Analyst,5 Feb 2025

On Feb. 5, Salesforce announced it appointed Robin Washington as president, chief operating officer, and chief financial officer effective March 21, 2025. Washington has been on Salesforce's board of directors since 2013. She is a well-seasoned leader with approximately 13 years as CFO at Gilead and Hyperion. The company had previously announced that Amy Weaver, current CFO, and Brian Millham, current COO, were stepping down and that a search was underway for their successors. While we have no prior experience with Washington, we expect Salesforce to continue on a path of profitable growth and investor-friendly capital allocation established by her predecessor. The company will report fiscal fourth-quarter earnings on Feb. 26 after the market close. Our fair value estimate remains \$315.

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Salesforce Earnings: Good Results; With Shares Up About 50% In 3 Months, We’re Cautious on Valuation Dan Romanoff, CPA,Senior Equity Analyst,4 Dec 2024

We raise our fair value estimate for wide-moat Salesforce to \$315 per share from \$290 after its third-quarter results, while fourth-quarter guidance was slightly shy of our expectations. Still, third-quarter strength more than makes up for the modest guidance differential. Management is very enthusiastic about Agentforce, which we think represents a good long-term opportunity to transition from a mostly human agent labor force to a mostly virtual agent pool over time. Shares have run dramatically and are up 45% to 50% over the last three months, assuming the 9% after-hours surge holds. Even with our fair value increase today, we see shares as overvalued. Our revenue estimate for next year is 1% above FactSet consensus, while non-GAAP operating margin is approximately in line, and shares are trading above our fair value estimate.To support shares at these levels, investors must believe Agentforce will drive more top-line acceleration or that margin expansion will come faster and prove greater. Both of these things can happen, but we would prefer to see any evidence of the former before we allow our excitement levels to catch up with the stock. Additionally, shares from much of our software coverage have generally performed well over the last several months despite no real change in fundamentals, so investors must be incorporating a more pro-growth stance, including further rate cuts, from the incoming administration.Despite continued macroeconomic pressures, demand came in better than expected, with broad-based strength supporting growth. Current remaining performance obligations, or CRPO, accelerated, which bodes well for revenue acceleration in the coming quarters. Total revenue rose 8% year over year (8% in constant currency) to \$9.444 billion versus the high end of guidance at \$9.360 billion. CRPO grew 10% year over year, accelerated sequentially, and outpaced subscription revenue growth, which are all positive indicators.

Salesforce: Agentforce on Display at Dreamforce Dan Romanoff, CPA,Senior Equity Analyst,19 Sep 2024

While there was no financial update at Salesforce's Dreamforce artificial intelligence event, the firm made various AI-themed announcements. Among these were a heavy dose of Agentforce; a partnership with Nvidia; an expanded partnership with Google; and a deep dive into the data cloud. We made no update to our model and are maintaining our \$290 fair value estimate for shares of wide-moat Salesforce. Share performance has been underwhelming year to date; we think this is partly because investors worry about AI disruption. Given the company's entrenched position with enterprise customers and its leading technology, we conclude that Salesforce is well positioned for the coming wave of generative AI with data cloud and the evolution of both Einstein Copilot and virtual agents. This is combined with the firm's presence in customer-related software. Based on what we saw at Dreamforce, we are incrementally confident in that position, and we see the stock as attractive.Overall, we think Salesforce continues to make strides in its offerings. We also see the evolution of the pricing

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model with the \$2-per-conversation threshold. Clearly, the company is willing to invest in its technology and to try different methods of monetization. We haven't seen the same level of success for Salesforce that enterprise software peer ServiceNow is having in the early days of generative AI, but we think that it's too soon to tell. We do think that Salesforce is positioned to capture its share of this business. While we view Agentforce as evolutionary based on the firm's existing Einstein Copilot offering, we see it as a meaningful advancement. Agentforce agents are designed to run autonomously and operate by using data from the entire Salesforce platform, including all the firm's clouds. The demos were impressive, and we can see the potential for virtual customer-service agents actually becoming helpful instead of being the putative nuisance they currently are.

Salesforce Earnings: Nice Rebound Quarter With Lots of Excitement Around Agentforce Virtual Agents Dan Romanoff, CPA,Senior Equity Analyst,29 Aug 2024

We are raising our fair value estimate for wide-moat Salesforce to \$290 per share from \$285 after the company reported good second-quarter results, while full-year revenue guidance was maintained and profitability raised slightly. Macroeconomic conditions continue to weigh on growth, even as the company delivered upside relative to our expectations on both the top and bottom lines. Recent trends continued, with multicloud deals and vertical domain sales driving relative strength compared with expectations. Management was enthusiastic about its new Agentforce platform, which we think represents a good long-term opportunity to transition from a mostly human agent labor force to a mostly virtual agent pool over time. Monetization will be on a per conversation basis. We see some upside to shares still, but the window has narrowed over the last three months. We wish President and CFO Amy Weaver well, as she announced she is leaving the firm as soon as a successor is found, which may take six months. We have no doubt the firm will attract a variety of top-tier candidates. Weaver's transformation of the company's approach to both profitability and capital allocation is nothing short of remarkable. Revenue rebounded nicely from last quarter's sluggishness. Strength was evenly distributed across solutions, with multicloud performing well and certain verticals, such as health and life sciences, and communications and media, also providing resiliency. Total revenue rose 8% year over year (9% in constant currency) to \$9.325 billion versus the high end of guidance at \$9.25 billion. Both subscriptions and professional services were ahead of our model, with the former growing 9% as reported and the latter contracting 6% year over year as customers continue to take on smaller projects. Current remaining performance obligations grew 10% year over year but decelerated 210 basis points. Still, CRPO outpaced revenue, however modestly, which is a positive indicator.

Salesforce Earnings: Slowing Growth Leaves Us Wondering If Guidance Is Too Aggressive Dan Romanoff, CPA,Senior Equity Analyst,30 May 2024

We are lowering our fair value estimate for wide-moat Salesforce to \$285 per share from \$300 after the company reported lower-than-expected fiscal 2025 first-quarter revenue and guided for second-quarter

Salesforce IncCRM★★★★29 May 2025 01:51, UTC

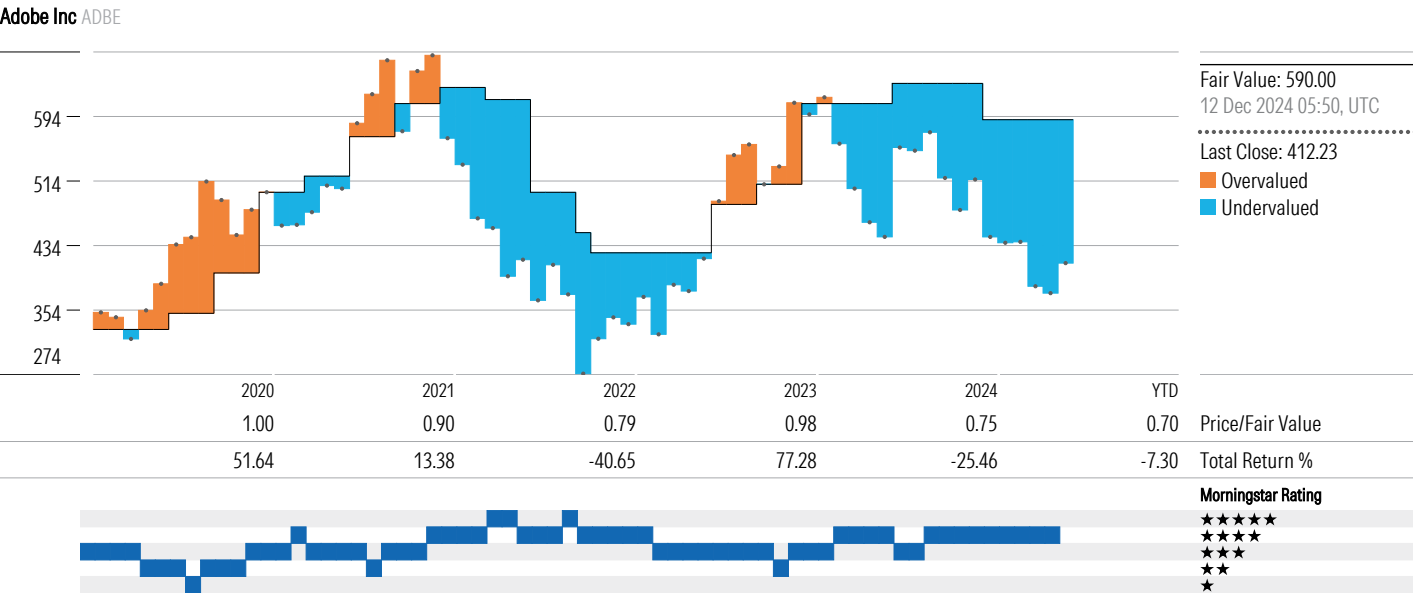
Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment¹
276.03 USD 28 May 2025	325.00 USD 29 May 2025 01:49, UTC	0.85	264.84 USD Bil 28 May 2025	 Wide	 Large Blend	High	Standard	 7 May 2025 05:00, UTC

revenue lower than we anticipated. After robust fourth-quarter results, management pointed to macro trends reverting to where they have been for the last couple of years, with elongated sales cycles and more approvals factoring into guidance. While the second-quarter outlook was light, management maintained its full-year outlook, raising the possibility of further disappointment throughout the rest of the year. The firm had success during the quarter with multicloud deals, while management remains excited about the artificial intelligence opportunity, which we believe Salesforce is well positioned to capitalize on. We see the shares as attractive.Sluggishness in the quarter was driven by weakness in Europe and several verticals, such as technology, retail, and consumer goods. Weakness in Europe and technology is a common thread in our software coverage. Revenue grew 11% year over year (11% in constant currency) to \$9.133 billion versus the midpoint of guidance of \$9.145 billion. Subscriptions and professional services fell short of our model, with the former growing 12% and the latter contracting 9% year over year as customers continue to take on smaller projects. Data cloud and multicloud deals were strong, Canada and Japan were resilient, and the public sector and financials sector performed well in the quarter. Current remaining performance obligations grew 10% year over year but decelerated more than 250 basis points year over year and sequentially, which heightens the risk that achieving revenue growth objectives as the year progresses could be challenging.While profitability remains a bright spot, we see a path for continued margin expansion even as the firm invests in AI innovation. Non-GAAP operating margin was 32.1% versus 27.6% a year ago. ■■

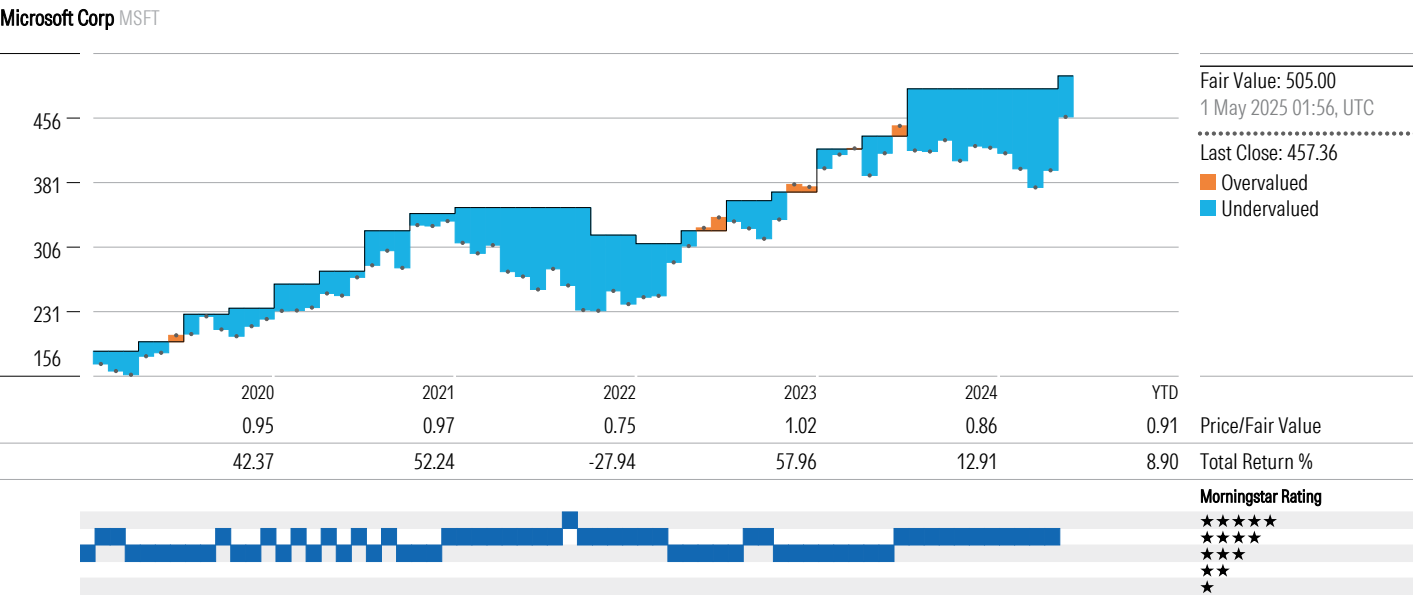
Salesforce IncCRM★★★★★

29 May 2025 01:51, UTC

Competitors Price vs. Fair Value



Total Return % as of 28 May 2025. Last Close as of 28 May 2025. Fair Value as of 12 Dec 2024 05:50, UTC.

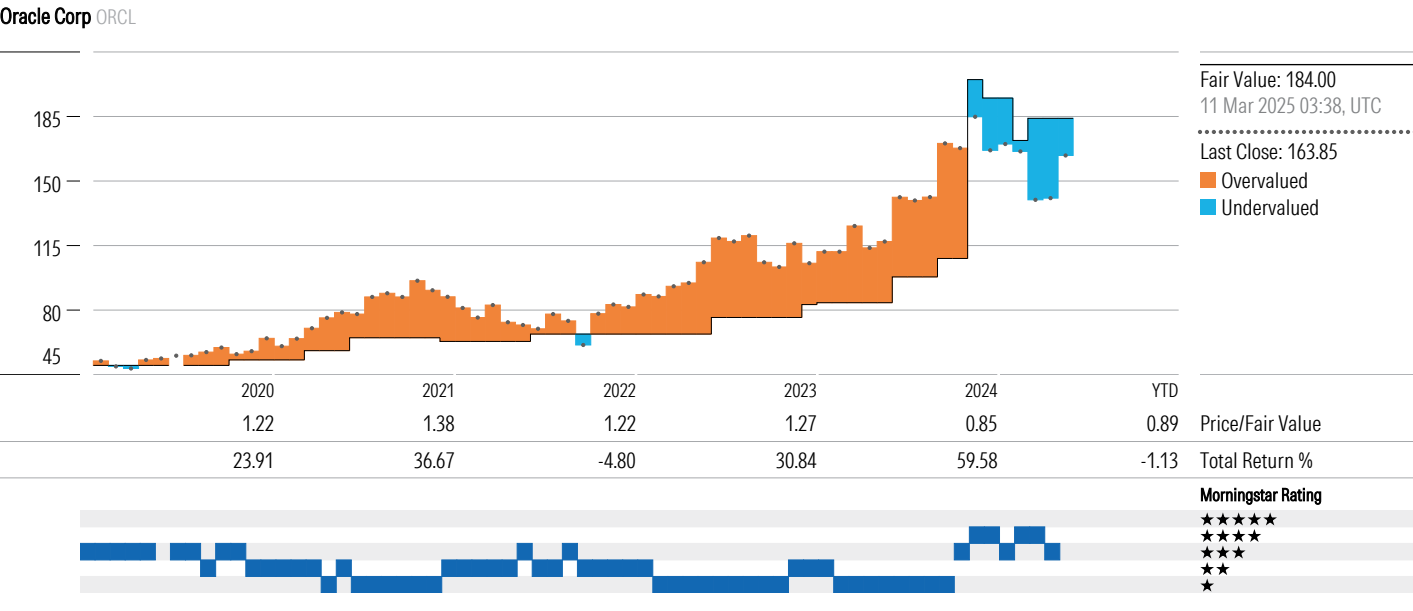


Total Return % as of 28 May 2025. Last Close as of 28 May 2025. Fair Value as of 1 May 2025 01:56, UTC.

Salesforce Inc CRM ★★★★★

29 May 2025 01:51, UTC

Competitors Price vs. Fair Value



Total Return % as of 28 May 2025. Last Close as of 28 May 2025. Fair Value as of 11 Mar 2025 03:38, UTC.

Salesforce Inc CRM ★★★★★

29 May 2025 01:51, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment¹
276.03 USD 28 May 2025	325.00 USD 29 May 2025 01:49, UTC	0.85	264.84 USD Bil 28 May 2025	Wide	Large Blend	High	Standard	 7 May 2025 05:00, UTC

Morningstar Valuation Model Summary

Financials as of 28 May 2025

Fiscal Year, ends 31 Jan	Actual			Forecast				
	2023	2024	2025	2026	2027	2028	2029	2030
Revenue (USD Mil)	31,352	34,857	37,895	41,156	44,545	48,266	52,206	56,385
Operating Income (USD Mil)	1,030	5,011	7,205	8,970	10,439	11,632	13,130	14,773
EBITDA (USD Mil)	3,563	7,950	10,038	11,405	13,245	13,273	14,526	16,147
Adjusted EBITDA (USD Mil)	3,563	7,950	10,038	11,405	13,245	13,273	14,526	16,147
Net Income (USD Mil)	208	4,136	6,197	6,941	8,356	9,035	10,201	11,479
Adjusted Net Income (USD Mil)	5,226	8,087	9,930	10,977	12,193	13,798	15,128	16,515
Free Cash Flow To The Firm (USD Mil)	9,421	11,980	12,860	12,505	13,073	14,081	15,170	16,511
Weighted Average Diluted Shares Outstanding (Mil)	997	984	974	971	975	975	975	975
Earnings Per Share (Diluted) (USD)	0.21	4.20	6.36	7.15	8.57	9.27	10.46	11.77
Adjusted Earnings Per Share (Diluted) (USD)	5.24	8.22	10.20	11.31	12.51	14.15	15.52	16.94
Dividends Per Share (USD)	0.00	0.00	1.60	1.60	1.73	1.87	2.02	2.18

Margins & Returns as of 28 May 2025

	3 Year Avg	Actual			Forecast					5 Year Avg
		2023	2024	2025	2026	2027	2028	2029	2030	
Operating Margin %	12.0	3.3	14.4	19.0	21.8	23.4	24.1	25.2	26.2	24.2
EBITDA Margin %	—	11.4	22.8	26.5	27.7	29.7	27.5	27.8	28.6	—
Adjusted EBITDA Margin %	—	11.4	22.8	26.5	27.7	29.7	27.5	27.8	28.6	28.3
Net Margin %	9.7	0.7	11.9	16.4	16.9	18.8	18.7	19.5	20.4	18.9
Adjusted Net Margin %	22.0	16.7	23.2	26.2	26.7	27.4	28.6	29.0	29.3	28.2
Free Cash Flow To The Firm Margin %	32.8	30.0	34.4	33.9	30.4	29.3	29.2	29.1	29.3	29.5

Growth & Ratios as of 28 May 2025

	3 Year CAGR	Actual			Forecast					5 Year CAGR
		2023	2024	2025	2026	2027	2028	2029	2030	
Revenue Growth %	12.7	18.4	11.2	8.7	8.6	8.2	8.4	8.2	8.0	8.3
Operating Income Growth %	136.0	88.0	386.5	43.8	24.5	16.4	11.4	12.9	12.5	15.4
EBITDA Growth %	47.6	-6.5	123.1	26.3	13.6	16.1	0.2	9.4	11.2	10.1
Adjusted EBITDA Growth %	38.1	-6.5	123.1	26.3	13.6	16.1	0.2	9.4	11.2	10.0
Earnings Per Share Growth %	62.5	-85.9	1914.7	51.4	12.4	19.9	8.1	12.9	12.5	13.1
Adjusted Earnings Per Share Growth %	62.5	9.6	56.8	24.1	10.9	10.6	13.2	9.6	9.2	13.1

Valuation as of 28 May 2025

	Actual			Forecast				
	2023	2024	2025	2026	2027	2028	2029	2030
Price/Earning	32.1	34.2	33.5	24.4	22.1	19.5	17.8	16.3
Price/Sales	5.3	7.8	8.7	6.4	5.9	5.5	5.1	4.7
Price/Book	2.9	4.6	5.4	4.1	3.7	3.3	3.0	2.7
Price/Cash Flow	—	—	—	—	—	—	—	—
EV/EBITDA	46.8	34.4	32.6	23.0	19.8	19.8	18.1	16.2
EV/EBIT	162.0	54.6	45.4	29.2	25.1	22.5	20.0	17.7
Dividend Yield %	—	—	0.5	0.6	0.6	0.7	0.7	0.8
Dividend Payout %	0.0	0.0	15.7	14.1	13.8	13.2	13.0	12.9
Free Cash Flow Yield %	—	—	—	—	—	—	—	—

Operating Performance / Profitability as of 28 May 2025

Fiscal Year, ends 31 Jan	Actual			Forecast				
	2023	2024	2025	2026	2027	2028	2029	2030
ROA %	0.2	4.1	6.0	8.0	8.7	8.9	9.2	9.4
ROE %	0.4	6.9	10.1	10.6	11.3	11.2	11.5	11.7
ROIC %	10.3	16.1	16.3	15.9	15.1	14.6	14.4	14.5

Salesforce Inc CRM ★★★★★

29 May 2025 01:51, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment¹
276.03 USD 28 May 2025	325.00 USD 29 May 2025 01:49, UTC	0.85	264.84 USD Bil 28 May 2025	Wide	Large Blend	High	Standard	 7 May 2025 05:00, UTC

Financial Leverage (Reporting Currency)

Fiscal Year, ends 31 Jan	Actual			Forecast				
	2023	2024	2025	2026	2027	2028	2029	2030
Debt/Capital %	7.7	4.4	3.4	2.5	2.3	1.5	1.4	1.3
Assets/Equity	1.7	1.7	1.7	1.3	1.3	1.3	1.2	1.2
Net Debt/EBITDA	0.4	-0.2	-0.3	0.6	-0.1	-0.6	-1.1	-1.5
Total Debt/EBITDA	4.0	1.6	1.1	0.7	0.6	0.4	0.4	0.4
EBITDA/ Net Interest Expense	—	—	—	—	—	—	—	—

Forecast Revisions as of 28 May 2025

Prior data as of 26 Feb 2025	2026		2027		2028	
	Current	Prior	Current	Prior	Current	Prior
Fair Value Estimate Change (Trading Currency)	325.00	315.11	—	—	—	—
Revenue (USD Mil)	41,156	40,742	44,545	44,106	48,266	47,793
Operating Income (USD Mil)	8,970	8,891	10,439	10,249	11,632	11,518
EBITDA (USD Mil)	11,405	11,297	13,245	13,041	13,273	13,143
Net Income (USD Mil)	10,977	10,958	12,193	11,975	13,798	13,663
Earnings Per Share (Diluted) (USD)	7.15	6.98	8.57	8.29	9.27	9.04
Adjusted Earnings Per Share (Diluted) (USD)	11.31	11.13	12.51	12.10	14.15	13.80
Dividends Per Share (USD)	1.60	1.60	1.73	1.73	1.87	1.87

Key Valuation Drivers as of 28 May 2025

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	5.3
Weighted Average Cost of Capital %	8.8
Long-Run Tax Rate %	22.0
Stage II EBI Growth Rate %	8.0
Stage II Investment Rate %	34.5
Perpetuity Year	20

Additional estimates and scenarios available for download at <https://pitchbook.com/>.

Discounted Cash Flow Valuation as of 28 May 2025

	USD Mil
Present Value Stage I	107,836
Present Value Stage II	68,658
Present Value Stage III	124,973
Total Firm Value	301,468
Cash and Equivalents	14,032
Debt	8,433
Other Adjustments	0
Equity Value	307,067
Projected Diluted Shares	971
Fair Value per Share (USD)	325.00

Salesforce Inc CRM ★★★★★ 29 May 2025 01:51, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment¹
276.03 USD 28 May 2025	325.00 USD 29 May 2025 01:49, UTC	0.85	264.84 USD Bil 28 May 2025	Wide	Large Blend	High	Standard	 7 May 2025 05:00, UTC

ESG Risk Rating Breakdown

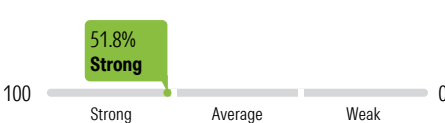
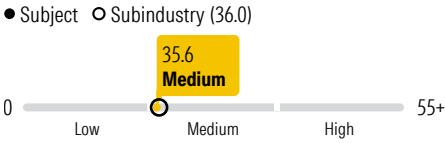
Exposure

Company Exposure¹	35.6
- Manageable Risk	33.1
Unmanageable Risk²	2.5

Management

Manageable Risk	33.1
- Managed Risk³	17.1
Management Gap⁴	15.9

Overall Unmanaged Risk 18.5



- Exposure represents a company's vulnerability to ESG risks driven by their business model
- Exposure is assessed at the Subindustry level and then specified at the company level
- Scoring ranges from 0-55+ with categories of low, medium, and high-risk exposure

- Management measures a company's ability to manage ESG risks through its commitments and actions
- Management assesses a company's efficiency on ESG programs, practices, and policies
- Management score ranges from 0-100% showing how much manageable risk a company is managing

ESG Risk Rating



ESG Risk Ratings measure the degree to which a company's value is impacted by environmental, social, and governance risks, by evaluating the company's ability to manage the ESG risks it faces.

1. A company's Exposure to material ESG issues 2. Unmanageable Risk refers to risks that are inherent to a particular business model that cannot be managed by programs or initiatives 3. Managed Risk = Manageable Risk multiplied by a Management score of 51.8% 4. Management Gap assesses risks that are not managed, but are considered manageable 5. ESG Risk Rating Assessment = Overall Unmanaged Risk = Management Gap plus Unmanageable Risk

ESG Risk Rating Assessment⁵



ESG Risk Rating is of May 07, 2025. Highest Controversy Level is as of May 08, 2025. Sustainalytics Subindustry: Enterprise and Infrastructure Software. Sustainalytics provides Morningstar with company ESG ratings and metrics on a monthly basis and as such, the ratings in Morningstar may not necessarily reflect current Sustainalytics' scores for the company. For the most up to date rating and more information, please visit: [sustainalytics.com/esg-ratings/](https://www.sustainalytics.com/esg-ratings/).

Peer Analysis 07 May 2025

Company Name	Exposure	Management	ESG Risk Rating
Salesforce Inc	35.6 Medium 0 —●— 55+	51.8 Strong 100 —●— 0	18.5 Low 0 —●— 40+
Microsoft Corp	34.9 Low 0 —●— 55+	54.0 Strong 100 —●— 0	17.4 Low 0 —●— 40+
Adobe Inc	33.2 Low 0 —●— 55+	61.5 Strong 100 —●— 0	14.2 Low 0 —●— 40+
Oracle Corp	33.8 Low 0 —●— 55+	61.4 Strong 100 —●— 0	14.4 Low 0 —●— 40+
Pegasystems Inc	42.2 Medium 0 —●— 55+	40.9 Average 100 —●— 0	26.2 Medium 0 —●— 40+

Appendix

Historical Morningstar Rating

Salesforce Inc CRM 28 May 2025 21:34, UTC

Dec 2025	Nov 2025	Oct 2025	Sep 2025	Aug 2025	Jul 2025	Jun 2025	May 2025	Apr 2025	Mar 2025	Feb 2025	Jan 2025
—	—	—	—	—	—	—	★★★	★★★★	★★★	★★★	★★★
Dec 2024	Nov 2024	Oct 2024	Sep 2024	Aug 2024	Jul 2024	Jun 2024	May 2024	Apr 2024	Mar 2024	Feb 2024	Jan 2024
★★★★	★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★	★★★	★★★★	★★★★
Dec 2023	Nov 2023	Oct 2023	Sep 2023	Aug 2023	Jul 2023	Jun 2023	May 2023	Apr 2023	Mar 2023	Feb 2023	Jan 2023
★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★
Dec 2022	Nov 2022	Oct 2022	Sep 2022	Aug 2022	Jul 2022	Jun 2022	May 2022	Apr 2022	Mar 2022	Feb 2022	Jan 2022
★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★
Dec 2021	Nov 2021	Oct 2021	Sep 2021	Aug 2021	Jul 2021	Jun 2021	May 2021	Apr 2021	Mar 2021	Feb 2021	Jan 2021
★★★★	★★★	★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★
Dec 2020	Nov 2020	Oct 2020	Sep 2020	Aug 2020	Jul 2020	Jun 2020	May 2020	Apr 2020	Mar 2020	Feb 2020	Jan 2020
★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★★	★★★★	★★★★	★★★★	★★★

Adobe Inc ADBE 28 May 2025 21:32, UTC

Dec 2025	Nov 2025	Oct 2025	Sep 2025	Aug 2025	Jul 2025	Jun 2025	May 2025	Apr 2025	Mar 2025	Feb 2025	Jan 2025
—	—	—	—	—	—	—	★★★★	★★★★	★★★★	★★★★	★★★★
Dec 2024	Nov 2024	Oct 2024	Sep 2024	Aug 2024	Jul 2024	Jun 2024	May 2024	Apr 2024	Mar 2024	Feb 2024	Jan 2024
★★★★	★★★★	★★★★	★★★★	★★★	★★★	★★★★	★★★★	★★★★	★★★★	★★★	★★★
Dec 2023	Nov 2023	Oct 2023	Sep 2023	Aug 2023	Jul 2023	Jun 2023	May 2023	Apr 2023	Mar 2023	Feb 2023	Jan 2023
★★★	★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★★	★★★★
Dec 2022	Nov 2022	Oct 2022	Sep 2022	Aug 2022	Jul 2022	Jun 2022	May 2022	Apr 2022	Mar 2022	Feb 2022	Jan 2022
★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★
Dec 2021	Nov 2021	Oct 2021	Sep 2021	Aug 2021	Jul 2021	Jun 2021	May 2021	Apr 2021	Mar 2021	Feb 2021	Jan 2021
★★★★	★★★	★★★	★★★	★★	★★★	★★★	★★★	★★★	★★★★	★★★	★★★
Dec 2020	Nov 2020	Oct 2020	Sep 2020	Aug 2020	Jul 2020	Jun 2020	May 2020	Apr 2020	Mar 2020	Feb 2020	Jan 2020
★★★	★★	★★	★★	★	★★	★★	★★	★★★	★★★	★★★	★★★

Microsoft Corp MSFT 28 May 2025 21:34, UTC

Dec 2025	Nov 2025	Oct 2025	Sep 2025	Aug 2025	Jul 2025	Jun 2025	May 2025	Apr 2025	Mar 2025	Feb 2025	Jan 2025
—	—	—	—	—	—	—	★★★★	★★★★	★★★★	★★★★	★★★★
Dec 2024	Nov 2024	Oct 2024	Sep 2024	Aug 2024	Jul 2024	Jun 2024	May 2024	Apr 2024	Mar 2024	Feb 2024	Jan 2024
★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★	★★★	★★★	★★★	★★★	★★★
Dec 2023	Nov 2023	Oct 2023	Sep 2023	Aug 2023	Jul 2023	Jun 2023	May 2023	Apr 2023	Mar 2023	Feb 2023	Jan 2023
★★★	★★★	★★★★	★★★★	★★★	★★★	★★★	★★★	★★★	★★★★	★★★★	★★★★
Dec 2022	Nov 2022	Oct 2022	Sep 2022	Aug 2022	Jul 2022	Jun 2022	May 2022	Apr 2022	Mar 2022	Feb 2022	Jan 2022
★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★
Dec 2021	Nov 2021	Oct 2021	Sep 2021	Aug 2021	Jul 2021	Jun 2021	May 2021	Apr 2021	Mar 2021	Feb 2021	Jan 2021
★★★	★★★	★★★	★★★★	★★★	★★★★	★★★	★★★★	★★★	★★★★	★★★	★★★★
Dec 2020	Nov 2020	Oct 2020	Sep 2020	Aug 2020	Jul 2020	Jun 2020	May 2020	Apr 2020	Mar 2020	Feb 2020	Jan 2020
★★★	★★★	★★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★★	★★★★	★★★

Oracle Corp ORCL 28 May 2025 21:34, UTC

Dec 2025 —	Nov 2025 —	Oct 2025 —	Sep 2025 —	Aug 2025 —	Jul 2025 —	Jun 2025 —	May 2025 ★★★	Apr 2025 ★★★★	Mar 2025 ★★★★	Feb 2025 ★★★	Jan 2025 ★★★★
Dec 2024 ★★★★	Nov 2024 ★★★	Oct 2024 ★	Sep 2024 ★	Aug 2024 ★	Jul 2024 ★	Jun 2024 ★	May 2024 ★	Apr 2024 ★	Mar 2024 ★	Feb 2024 ★★	Jan 2024 ★★
Dec 2023 ★★	Nov 2023 ★	Oct 2023 ★	Sep 2023 ★	Aug 2023 ★	Jul 2023 ★	Jun 2023 ★	May 2023 ★	Apr 2023 ★	Mar 2023 ★	Feb 2023 ★★	Jan 2023 ★★
Dec 2022 ★★	Nov 2022 ★★	Oct 2022 ★★	Sep 2022 ★★★	Aug 2022 ★★	Jul 2022 ★★	Jun 2022 ★★★	May 2022 ★★	Apr 2022 ★★	Mar 2022 ★★	Feb 2022 ★★	Jan 2022 ★★
Dec 2021 ★	Nov 2021 ★	Oct 2021 ★	Sep 2021 ★	Aug 2021 ★	Jul 2021 ★	Jun 2021 ★★	May 2021 ★	Apr 2021 ★★	Mar 2021 ★★	Feb 2021 ★★	Jan 2021 ★★
Dec 2020 ★★	Nov 2020 ★★★★	Oct 2020 ★★★★	Sep 2020 ★★	Aug 2020 ★★★★	Jul 2020 ★★★★	Jun 2020 —	May 2020 ★★★★	Apr 2020 ★★★★	Mar 2020 ★★★★	Feb 2020 ★★★★	Jan 2020 ★★★★

Research Methodology for Valuing Companies

Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar's equity research group ("we," "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a

long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

When considering a company's moat, we also assess whether there is a substantial threat of value destruction, stemming from risks related to ESG, industry disruption, financial health, or other idiosyncratic issues. In this context, a risk is considered potentially value destructive if its occurrence would eliminate a firm's economic profit on a cumulative or midcycle basis. If we deem the probability of occurrence sufficiently high, we would not characterize the company as possessing an economic moat.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working capital accounts, and capital spending. Based on these projections, we calculate earnings before interest,

after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

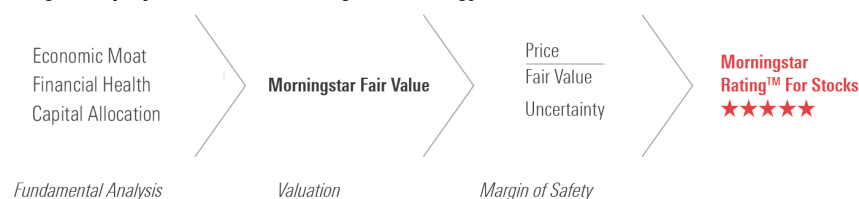
Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty Around That Fair Value Estimate

Morningstar's Uncertainty Rating is designed to capture the range of potential outcomes for a company's intrinsic value. This rating is used to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating is aimed at identifying the confidence we should have in assigning a fair value estimate for a given stock.

Our Uncertainty Rating is meant to take into account anything that can increase the potential dispersion of future

Morningstar Equity Research Star Rating Methodology



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outcomes for the intrinsic value of a company, and anything that can affect our ability to accurately predict these outcomes. The rating begins with a suggested rating produced by a quantitative process based on the trailing 12-month standard deviation of daily stock returns. An analyst overlay is then applied, with analysts using the suggested rating, historical rating data, and their own knowledge of the company to inform them as they make the final Uncertainty Rating decision. Ultimately, the rating decision rests with the analyst. Analysts take into account many characteristics when making their final decision, including cyclical factors, operational and financial factors such as leverage, company-specific events, ESG risks, and anything else that might increase the potential dispersion of future outcomes and our ability to estimate those outcomes.

Our recommended margin of safety—the discount to fair value demanded before we'd recommend buying or selling the stock—widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the potential dispersion of outcomes, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the Uncertainty Rating provides guidance in portfolio construction based on risk tolerance.

Our Uncertainty Ratings are: Low, Medium, High, Very High, and Extreme.

Margin of Safety		
Qualitative Analysis	★★★★★ Rating	★ Rating
Uncertainty Ratings		
Low	20% Discount	25% Premium
Medium	30% Discount	35% Premium
High	40% Discount	55% Premium
Very High	50% Discount	75% Premium
Extreme	75% Discount	300% Premium

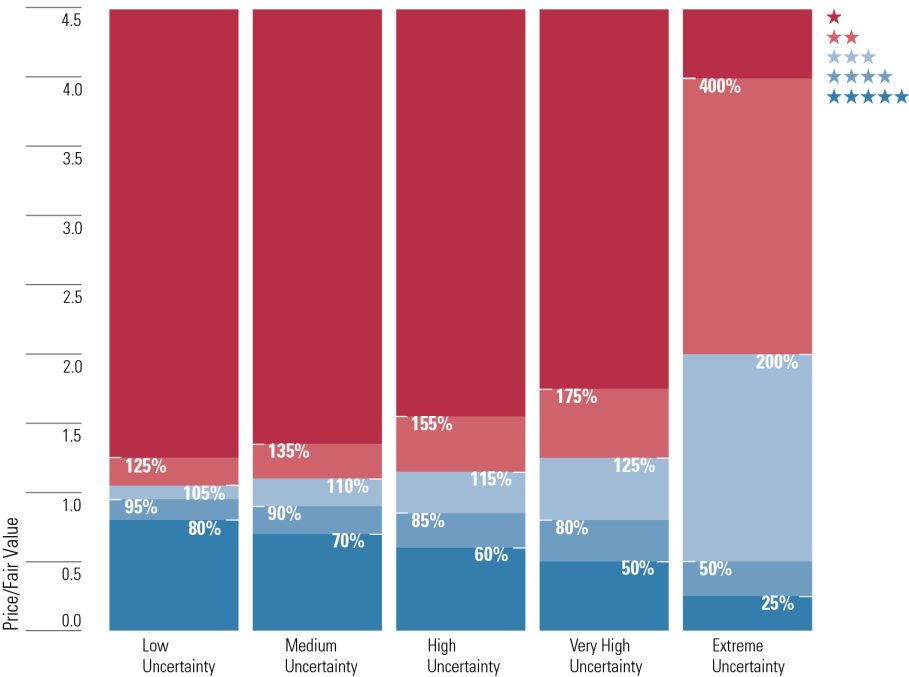
Our uncertainty rating is based on the interquartile range, or the middle 50% of potential outcomes, covering the 25th percentile–75th percentile. This means that when a stock hits 5 stars, we expect there is a 75% chance that the intrinsic value of that stock lies above the current market price. Similarly, when a stock hits 1 star, we expect there is a 75% chance that the intrinsic value of that stock lies below the current market price.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more details about our methodology, please go to <https://shareholders.morningstar.com>

Morningstar Equity Research Star Rating Methodology



Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

★★★★★ We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

★★★★ We believe appreciation beyond a fair risk-adjusted return is likely.

★★★ Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

★★ We believe investors are likely to receive a less than fair risk-adjusted return.

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multi-year time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Capital Allocation Rating: Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments,

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and shareholder distributions. Analysts consider companies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exemplary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

Capital Allocation (or Stewardship) analysis published prior to Dec. 9, 2020, was determined using a different process. Beyond investment strategy, financial leverage, and dividend and share buyback policies, analysts also considered execution, compensation, related party transactions, and accounting practices in the rating.

Capital Allocation Rating: Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments, and shareholder distributions. Analysts consider companies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exemplary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

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Sustainalytics ESG Risk Rating Assessment: The ESG Risk Rating Assessment is provided by Sustainalytics; a Morningstar company.

Sustainalytics' ESG Risk Ratings measure the degree to which company's economic value at risk is driven by environment, social and governance (ESG) factors.

Sustainalytics analyzes over 1,300 data points to assess a company's exposure to and management of ESG risks. In other words, ESG Risk Ratings measures a company's unmanaged ESG Risks represented as a quantitative score.

Unmanaged Risk is measured on an open-ended scale starting at zero (no risk) with lower scores representing less unmanaged risk and, for 95% of cases, the unmanaged ESG Risk score is below 50.

Based on their quantitative scores, companies are grouped into one of five Risk Categories (negligible, low, medium, high, severe). These risk categories are absolute, meaning that a 'high risk' assessment reflects a comparable degree of unmanaged ESG risk across all subindustries covered.

The ESG Risk Rating Assessment is a visual representation of Sustainalytics ESG Risk Categories on a 1 to 5 scale. Companies with Negligible Risk = 5 Globes, Low Risk = 4, Medium Risk = 3 Globes, High Risk = 2 Globes, Severe Risk = 1 Globe. For more information, please visit sustainalytics.com/esg-ratings/

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