

Buy Salesforce.com

David Gardner | May 9, 2019 | Buy Recommendation

CURRENT PRICE: [CRM](#) \$ 188.34 ↑ \$ 2.79 (1.5%) Cväg | Yr B≈ÖG "ÅMÅA" AY IN U

The "inventor" of cloud computing is a matter of debate (many credit Joseph C. R. Licklider's pioneering computer science work in the 1960s). But one company can pretty fairly claim to have made cloud computing a competitive mandate for enterprises looking to manage their customer relationships.

Salesforce.com ([NYSE: CRM](#)) set out in 1999 to remake the approach of old software giants like **SAP** ([NYSE: SAP](#)) and **Oracle** ([NYSE: ORCL](#)). Instead of massive on-premises software installations requiring constant management and maintenance, Salesforce co-founder Marc Benioff saw software as a service. Long before that phrase or its cute acronym (SaaS) became ubiquitous, Benioff realized how much the world needed tools that were always current, transparent, and required far fewer client resources.

Twenty years later, the result is the global leader in customer relationship management (CRM) software, and still one of the SaaS-iest companies you'll find. This is the third time we've recommended Salesforce in *Rule Breakers*. Our original recommendation in 2009 is up 2,270%; a second pick from 2011 is up 560%. That success has been driven by Benioff (a former Oracle employee) and a flight of top-tier management talent who have some aggressive plans for the future. We think Salesforce's success will continue as it widens its focus, provides more to existing customers, and wins new ones.

Inevitable But Still Early

CRM is a necessity, not a luxury. No matter the business, companies need to know who their customers are. Salesforce's tools let clients turn their customers' interest into action, browsing into purchases, familiarity to engagement, and so on. It does this through various "clouds" that are further tailored to specific industries and that businesses can add as their needs or ambitions grow. The company's legacy Sales Cloud (customer intelligence and

[SALESFORCE.COM IN 1 MINUTE](#)

WHAT IT DOES

Salesforce.com is the leader in cloud-based customer relationship management (CRM) software.

WHY BUY

- Salesforce has delivered strong growth and consistent financial outperformance for years.
 - Having recently surpassed \$10 billion in annual revenue, the company has ambitious plans to reach \$60 billion by 2034.
 - The acquisition of former Rule Breaker MuleSoft, along with other additional solutions, furthers the company's strong competitive lead in a business that is still early in its transition to the cloud.

BUYER'S GUIDE

- **Industry:** Software
 - **Size:** Large cap
 - **Region:** Global
 - **May 7 Price:** \$156.90
 - **Allocation:** Many Fools choose to fill out their positions incrementally, starting with a small amount — 2% of their portfolio's overall value, for instance — and adding a little at a time

analytics) is joined by its Service Cloud (multichannel customer service and support), its Marketing and Commerce Clouds (various campaign, engagement, conversion tools), and a wealth of additional tools and platforms. Notably, its recently completed \$6.5 billion acquisition of former Rule Breaker MuleSoft has led to its Integration Cloud — a platform for seamlessly linking together any system, application, data or device, whether it is in the cloud or on-premises.

Salesforce is the clear leader in CRM — far ahead of its rivals in its vision and its ability to execute, according to consulting firm **Gartner** ([NYSE: IT](#)). It's far enough ahead of the pack in most of its focus areas that its ascendance might look like old news. But while companies need CRM and want it in the cloud, that is still a work in progress for many businesses of all sizes. Here's what Salesforce co-CEO Keith Block told investors in the company's most recent conference call:

"I recently spoke with the head of one of the largest consulting firms who said that roughly 85% of their top 50 customers are just getting started on their digital transformations. So clearly, that's an indication that we have tremendous runway ahead of us."

KEY DATA

- **Headquarters:** San Francisco, Calif.
 - **Website:** [Salesforce.com investor relations](https://www.salesforce.com/investor-relations)
 - **Market Cap:** \$125.9 billion
 - **Cash/Debt:** \$4.3 billion / \$3.4 billion
 - **Revenue (TTM):** \$13.3 billion
 - **Earnings (TTM):** \$1.1 billion
 - **Revenue (2016/'17/'18):** \$6.7 billion / \$8.3 billion / \$10.5 billion
 - **Earnings (2016/'17/'18):** (\$47.4 million) / \$323 million / \$360 million

Add CRM to Your Favorites

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Strong demand also shows up in sales trends.

Salesforce's revenue was up 26% last year, remarkable enough for a company this size. But unearned revenue — business that's been booked but not yet fulfilled — was up 24% in constant currency, meaning that the company is pretty much assured of more strong growth ahead.

So where will Salesforce's revenue go? Pick your target. After famously making — and surpassing — an ambitious goal to quickly ramp to \$10 billion in annual revenue, Benioff has laid out a broad vision of the company achieving sales of \$20 billion (in 2022), \$40 billion (2028) and \$60 billion (2034). The company expects sales of \$16 billion this year, a trajectory that suggests the company is actually surpassing its ambitious targets. Indeed, management has already updated this goal to say it expects the top line to come in at \$21 billion to \$23 billion for the fiscal year ending in January 2022, and we believe it will be near the top of that range.

Worth the Price

Today, Salesforce's stock trades at around 45 times free cash flow — which certainly makes the company look pretty expensive, just as it has throughout its stunning ascent. But if revenue reaches \$23 billion in just three years, it's well worth the price. Its current free cash flow margin — 21% — suggests it could produce around \$4.8 billion in cash flow in fiscal 2022 and \$8.4 billion in fiscal 2028, multiples that already start to look less inflated. Moreover, the company has steadily improved its operating margin and cash flow yield and should continue to be able to do so in the future, particularly as it can rely more on cross-selling new tools to existing customers rather than landing new ones.

GET MORE INFO

Talk About CRM

Talk about how CRM fits into *RB* here

- See why Salesforce scores an 8 on our unique 25-point Risk Rating.
 - See how you can tell if this investment is going right — or wrong.

Put another way, Salesforce has a valuation still well under that of Oracle, a company that brought in nearly \$40 billion in revenue last year. When Salesforce reaches that milestone itself in several years, it won't have Oracle's largely stagnant top line, but will instead still be growing rapidly. Oracle commands a valuation of \$204 billion today, net of cash and debt, which is actually a fairly modest multiple of its earnings. We expect Salesforce will command a much higher premium and be worth well more.

Risks and When We'd Sell

Salesforce may be the clear leader in CRM, but it is certainly not without rivals. Success breeds competition, and challengers are coming at Salesforce from many directions. Large incumbents like Oracle have certainly received the wake-up call about cloud software and now have large SaaS businesses of their own. Smaller competitors like **ServiceNow** ([NYSE: NOW](#)) and our own **Zendesk** ([NYSE: ZEN](#)) are also focused on this space, and although they have less depth and breadth, they are improving and winning clients.

The technology behind the business is also rapidly evolving, with artificial intelligence becoming an important component of managing customers, sales, and marketing. That's why Salesforce continues to invest heavily in R&D (over 14% of revenue last year). But other companies — like **Microsoft** ([NASDAQ: MSFT](#)), another competitor — may have an edge in this or other areas. Salesforce is on top now, but if it can't stay ahead, it may not maintain the pace of growth — or the premium valuation — that we expect.

The Foolish Bottom Line

For two decades, Marc Benioff has been making bold claims and then surpassing them. Investors have gotten used to Salesforce being better than its word — and analysts' forecasts. So when management outlines plans to reach \$60 billion in annual revenue over the next 15 years, we should take them seriously.

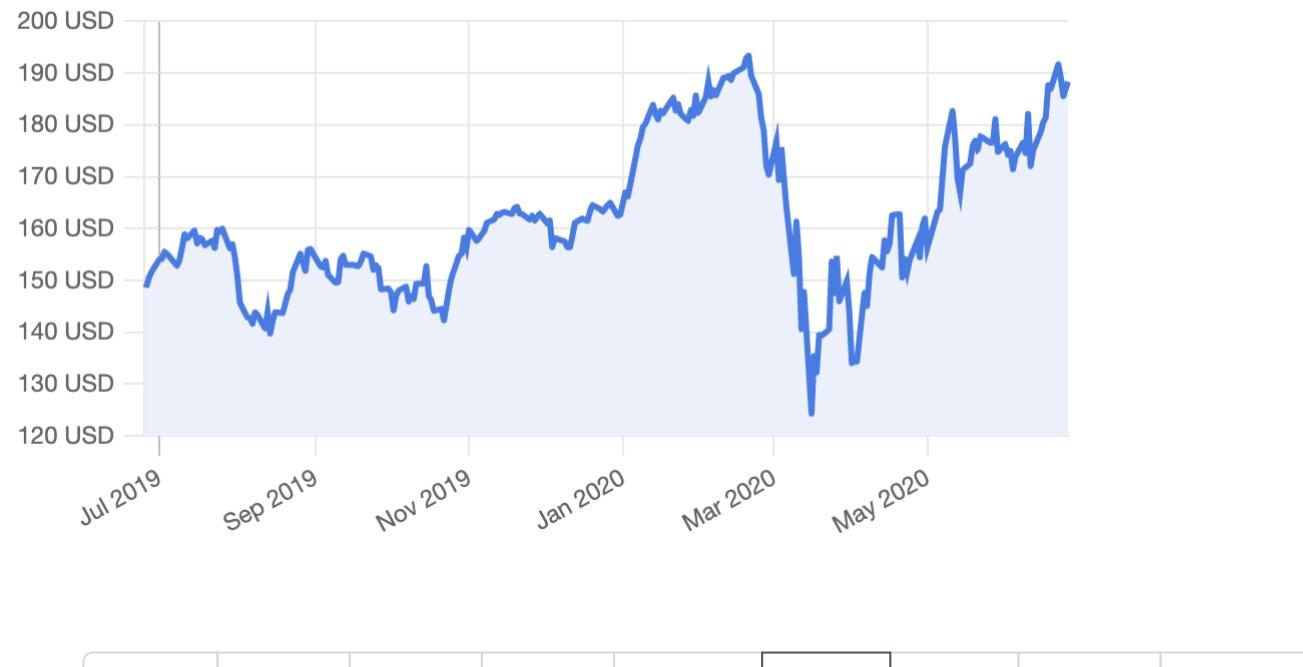
Salesforce's stock has pretty much always looked expensive because the company has always performed well. That's not a guarantee for the future, of course, but this is a company that has an extraordinarily long vision of the future and the track record to back it up. We think today's investors can still find rich rewards.

Karl Thiel contributed to this report.

Teresa Kersten, an employee of LinkedIn, a Microsoft subsidiary, is a member of The Motley Fool's board of directors. [David Gardner](#) owns shares of Zendesk. The Motley Fool owns shares of Microsoft, Salesforce.com, Service Now, and Zendesk. The Motley Fool has a [disclosure policy](#).

See the Trends

The Motley Fool thinks buying and holding for at least 3-5 years sets you up for success.





From the Company Page

Last updated June 25, 4:15 p.m.

Current Price	\$188.34	Today's Change	\$2.79 (1.5%)
Exchange / Symbol	NYSE: CRM	Market Cap	\$167B
Beta	1.075013	Earnings Per Share (Trailing 12 Months)	-\$0.19



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Market data provided by FactSet and Web Financial Group.