Salesforce Inc CRM ★★★★ 2 Mar 2023 04:08, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
167.35 USD 1 Mar 2023	245.00 USD 2 Mar 2023 04:06, UTC	0.68	163.61 USD Bil 28 Feb 2023	Wide	Positive	High	Standard	1 Feb 2023 06:00, UTC

Dan Romanoff
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Contents

Reporting Currency: USD | Trading Currency: USD
Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

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

Salesforce Goes All in on Margin Expansion and Share Buybacks; FVE Increased to $245

Analyst Note Dan Romanoff, Senior Equity Analyst, 2 Mar 2023

Salesforce delivered an epic quarter in what we believe is truly a seminal moment within its lifecycle. For its fiscal fourth quarter, the company delivered substantial upside to both revenue and profitability, which is an impressive achievement. However, the company's pivot toward profitability over the next two years was well beyond our expectations. Further, the company has already expanded its share repurchase authorization to $20 billion, from $10 billion previously, while also disbanding its mergers and acquisitions committee as the company focuses on organic growth. We think this margin expansion is achievable and, in turn, we are raising our fair value estimate to $245 per share from $220. Shares look attractive even after an aftermarket pop, and the stock remain one of our top picks.

Revenue grew 14% year over year (17% in constant currency) to $8.384 billion, compared with the high end of guidance of $8.032 billion. Both MuleSoft and Tableau license deals were strong in the quarter, which drove abnormal upside given the license model that is more prominent in those units and sees immediate revenue recognition. Current remaining performance obligations, or CRPO, grew 13% year over year in constant currency, which continues to lag revenue growth. The demand environment remains challenging, with small business notably weaker but vertical solutions stronger. Management noted eight of the company's 13 cloud products had annual recurring revenue, or ARR, year-over-year growth of 50% or more.

We were most impressed by Salesforce's profitability, where the firm achieved a non-GAAP operating margin of 29.2%, versus 15.0% last year and our near-consensus estimate of 21.8%. Management previously guided for

Financial Summary and Key Statistics

	Actual		Forecast	
	2022	2023	2024	2025
Revenue (USD Mil)	26,492	31,352	34,675	38,592
Revenue Growth %	24.7	18.4	10.6	11.3
Operating Income (Mil)	548	1,858	3,876	6,029
Operating Margin %	2.1	5.9	11.2	15.6
Adjusted EBITDA (Mil)	6,625	8,923	9,302	11,355
Adjusted EBITDA Margin %	25.0	28.5	26.8	29.4
Earnings Per Share (Diluted) (USD)	1.51	0.21	2.40	4.70
Adjusted Earnings Per Share (Diluted) (USD)	4.78	5.24	7.14	8.98
Adjusted EPS Growth %	-2.9	9.6	36.2	25.8
Price/Earnings	48.7	32.1	23.4	18.6
Price/Book	3.8	2.9	2.6	2.4
EV/EBITDA	30.7	26.3	18.2	14.9
Free Cash Flow Yield %	2.6	2.7	4.6	6.3

Source: Morningstar Valuation Model. Data as of 01 Mar 2023.

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Sector	Industry
Technology	Software - Application

Business Description

Salesforce Inc 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.

25% margins in fiscal 2026, but now believes it will achieve 27% in fiscal 2024. Factors driving this performance and guidance include headcount reductions, real estate consolidation, and other ongoing efficiency measures.

As we dissect Salesforce's revenue trends, we see steady, but good performance overall with no worsening of macro trends that continue to drive longer sales cycles, more approvals, and compressed deal sizes. On a year-over-year and constant-currency basis, sales cloud grew 16%, service cloud grew 15%, platform grew 18% (includes Slack), marketing and commerce cloud grew 16%, and data grew 20%. Relative to our model, all segments were ahead, with both the platform and data units driving the most upside, which is consistent with management's commentary. Churn remains at historically low levels below 7.5%.

Salesforce provided investors with healthy guidance for both the first quarter and the full year for fiscal 2024. First-quarter guidance calls for $8.160 billion to $8.180 billion in revenue and $1.60 to $1.61 in non-GAAP EPS. Full-year guidance includes $34.5 billion to $34.7 billion in revenue and $7.12 to $7.14 in non-GAAP EPS. The revenue outlook for the quarter was better than we expected, while the full-year figure was slightly less than we anticipated. Profitability, however, was much better than we had modeled. In fact, management not only boosted its formal margin guidance to 27% in fiscal 2024, but also previewed that they expect the company to hit 30% non-GAAP operating margins early in fiscal 2025. Both margins would be well above the company's goal from just a few months ago of hitting 25% in fiscal 2026.

We see the fingerprints of multiple activist shareholders all over the company's results and guidance. The acceleration of margin improvement, the stressing of profitability on the earnings call, the expanded share buyback authorization, the slowdown in stock-based compensation in the future, the disbanding of the M&A committee, and the new board members are likely all the result of the multiple activist shareholders that have taken a stake in Salesforce over the last several months. We are pleased by these moves as we have maintained for years that Salesforce generates substandard margins and has placed too much emphasis on acquisitions.

Business Strategy & Outlook Dan Romanoff, Senior Equity Analyst, 2 Mar 2023

We believe Salesforce represents one of best long-term investment opportunities in software, particularly as the company should provide investors with a nice balance between revenue growth and improving profitability. Even as revenue growth has decelerated over time, we believe a new focus on margin expansion should continue to compound strong earnings growth for years to come.

After introducing the software-as-a-service model to the world, Salesforce.com 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, Senior Equity Analyst, 2 Mar 2023

- Salesforce.com dominates the SFA space 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.
- 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, Senior Equity Analyst, 2 Mar 2023

- 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.
- Despite its size, Salesforce has generated substandard margins in recent years, and its renewed focus on profitability may negatively affect already-slowing growth.

Fair Value and Profit Drivers Dan Romanoff, Senior Equity Analyst, 2 Mar 2023

Our fair value estimate for Salesforce.com is $245 per share, which implies a fiscal 2024 enterprise value/sales, or EV/S, multiple of 7 times, adjusted price/earnings, or P/E, multiple of 34 times, and a 3% free cash flow yield.

We model a five-year compound annual growth rate, or CAGR, for total revenue of 12% through fiscal 2028, which we think will be driven by strength in platform and marketing clouds. Our revenue forecast assumes modest revenue acceleration after depressed growth in both fiscal 2023 and 2024. We forecast non-GAAP operating margin expanding from 23% in fiscal 2023 (actual) to the low 30% area in fiscal 2028, 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 by 2025, with compound annual growth rates for the markets served by Salesforce's various clouds generally ranging from 12% to 20%. 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 $500 million of acquisitions annually after a strategic shift away from inorganic growth.

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Economic Moat Dan Romanoff, Senior Equity Analyst, 1 Jun 2022

For Salesforce.com overall, we assign a wide moat rating arising primarily from switching costs, with support from a network effect as well.

Salesforce.com revolutionized the software industry in 2000 with the release of its salesforce automation, or SFA, application. The feature set was generally similar to those offered by peers: streamlined process management for sales leads and opportunities, contact and account data, process tracking, approvals, and territory tracking. Salesforce.com's critical differentiator was that the software was accessed through a web browser and delivered over the internet. Taken for granted now, this was a novel concept during the internet bubble. The company paved the way for the software industry as it exists now by first selling the concept of software as a service to prospective customers and then selling the actual SFA product.

The SaaS business model, and Salesforce's SFA application, rose in popularity as customers were able to avoid high up-front costs and lengthy installations or potentially painful upgrade cycles, were always running the latest version, had more predictable operating expenses and capital outlays, and were running modern best-of-breed applications. Further, the SaaS vendors benefited from more predictable revenue streams, the elimination of piracy, and supporting only one product version. Thus, a new way to consume software was born, with all parties benefiting.

Salesforce.com remains the clear leader in salesforce automation (Sales Cloud). The company has gone from no product to 33% market share over the last 20 years. Customers and industry observers alike view Salesforce.com as the clear front-runner in a category that increases the productivity of sales representatives. In other words, this is mission-critical software that helps drive revenue for users. We believe this segment enjoys a wide moat--indeed the widest moat as a stand-alone product among Salesforce.com's four cloud solutions. A variety of industry data points clearly indicate the Sales Cloud SFA solution is a best-of-breed solution, which by itself creates a certain amount of organizational inertia, as IT managers and executives engage in self-serving behavior. That is, they can jeopardize their own careers by pushing to switch from a leading solution that is functioning well and meeting their corporate needs. We believe customers are also reluctant to switch away from Sales Cloud because of the time, expense, and risk of implementing new applications and migrating data and the time, expense, and lost productivity of retraining the workforce on a new platform. SFA is a revenue-driving initiative and therefore is critical to users. The organizational risk of making a change is high, in our view.

There is a school of thought that asserts switching costs are lower on SaaS software solutions. We do not subscribe to that position. While it may be easier to physically switch from one vendor to another in a SaaS model, the data generally do not show increased churn as the industry has shifted from on-premises perpetual licenses to cloud-delivered SaaS solutions. We attribute the lack of customer churn in SaaS in general to easier integration with existing applications and infrastructure, best-of-breed solutions, the time, expense, and risk of moving mission-critical data, and the retraining of the workforce to learn a new application. We think these same considerations drive highly recurring revenue for Salesforce.com. Along those lines, we believe the company's retention has improved modestly over time, from 88% to approximately 92%, but has remained relatively stable for nearly 20 years. In fact, nearly all other SaaS companies we have analyzed demonstrate similar such retention.

The SaaS model, and indeed the company's initial SFA solution were both envisioned as an SMB product. As the company added features and continually honed the product and would-be buyers became more comfortable with SaaS, it evolved into an enterprise class product. As the original salesforce automation product added features, the use cases similarly grew. Salesforce.com ultimately separated out products into separate "clouds" (suites). The company currently offers four different clouds: Sales Cloud, Service Cloud, Marketing and Commerce Cloud, and Salesforce Platform and Other. Salesforce is generally considered a leader in each. That said, the lines between the company's clouds are at times blurry, as similar features can be found in multiple clouds.

In our view, Service Cloud is a natural extension of the Sales Cloud and is a clear example of two segments offering some similar features. Service Cloud includes a set of solutions aimed at helping an enterprise deliver customer service and support at scale. Customer service is another mission-critical function that directly helps a company attract and retain customers and therefore also is associated with driving revenue. We believe that Salesforce.com enjoys a wide moat based on switching costs here as well for the same reasons as its SFA offering. In addition to being a best-of-breed product, customers are reluctant to invest the time and expense of converting a critical revenue-driving function from one application to another, including the implementation and retraining of the workforce, in our view. We think the organizational risk is high for the revenue-driving function that Service Cloud covers. It is more expensive to find a new customer than it is to retain an existing customer.

Salesforce.com discusses Marketing Cloud and Commerce Cloud as one segment for now likely based on the underlying size of each offering. As a business segment, it is the company's smallest and represents 15% of revenue. Marketing Cloud involves marketing automation, or the ability to create mass-customized cross-platform campaigns to targeted audiences, and by itself represents another natural extension of SFA. While we do not see Commerce Cloud as a clear add-on to SFA, we do see a more obvious relation to Marketing, as it enables an e-commerce engine driven by data and analytics. Digital Marketing is more dynamic in our view, as it is a newer category that has been somewhat fluid in its evolution as leading stand-alone products have become standard features of a good digital marketing platform. There are more contenders, a variety of point solutions, and no single clear leader. Adobe's Digital Experience suite seems to have a narrow but growing lead, with Salesforce right there as well. IBM, SAS, Oracle, and SAP should be thought of as other leading competitors. The company's solution suite has been assembled less organically and more by acquisitions in a niche that has seen a wide variety of private and public company takeouts in the last decade. Key acquisitions for the company include ExactTarget, Buddy Media, Radian6, and a variety of smaller deals. As a stand-alone solution, Salesforce.com's Marketing Cloud benefits from a narrow moat driven by high switching costs, in our opinion. Again, the time, expense, and riskiness of migrating data and applications away from already leading solutions, along with organizational inertia, help keep customer relationships sticky. While we believe the company's overall moat is strengthened by offering Marketing Cloud alongside the other clouds, because it has been assembled largely by acquisitions in a niche that is rapidly evolving, we do not believe it has established a wide moat.

Commerce Cloud is based on the July 2016 acquisition of Demandware and generates 15%-20% of the combined Marketing and Commerce Cloud. At the time of the acquisition, we believe Demandware was the leading independent platform that allowed customers to easily launch and manage multiple e-commerce sites, initiate marketing campaigns more quickly, and improve e-commerce site traffic. We believe Salesforce.com has since bolstered platform functionality. Like the industry that Marketing Cloud operates within, we believe Commerce Cloud is also a newer niche market that has evolved over the last several years. It is also the smallest market represented by each of the company's clouds. Because Salesforce.com moved into a young and evolving space with the acquisition of the generally strong Demandware platform, we believe it has a narrow moat supported by switching costs.

Salesforce Platform and other includes the May 2018 acquisition of MuleSoft. MuleSoft slides into this segment naturally in that it helps customers solve a major pain point: integrating data and applications across platforms. We believe this segment enjoys a wide moat supported by high switching costs and a network effect. 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 company 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.com's solutions, and also allowed developers to sell (or give away) the applications they developed on the company's AppExchange.

The AppExchange was not just a novel concept at the time (it predated Apple's App Store by two years), it was revolutionary and by itself 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. In the early years, the popularity of the SFA product attracted developers, Salesforce.com provided a robust and easy-to-use application development platform, and developers created additional applications often built as add-ons to various Salesforce.com solutions. 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 the AppExchange incrementally more attractive to developers, thus perpetuating a virtuous cycle.

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. We believe customers value Salesforce.com'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. Customers are also looking to consolidate vendors. These factors combine to reinforce our wide moat assertion. As the company 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.

Moat Trend Dan Romanoff, Senior Equity Analyst, 2 Mar 2022

In our opinion, Salesforce.com warrants a positive moat trend rating. We reiterate the importance of the Sales, Service, and Marketing Clouds being offered together by one vendor. We believe the synergistic combination of solutions lead to higher switching costs and an increasing network effect. The percentage of contract value that is allocated across multiple clouds has increased in each of the last two years, indicating that customers are becoming even more entrenched in Salesforce's solutions.

At this point, the company's dominance in SFA is obvious. We hesitate to label this a mature market, but it is the most mature opportunity the company is pursuing. This is why investing in the other clouds over the last 10 years has been so critical. Rather than waiting for growth to slow in its core SFA product, Salesforce.com has been seeding and investing in these areas for the last decade. The SFA solution on its own may not be increasing its lead, but by virtue of offering additional directly related strong offerings, we assert that the SFA product is increasingly attractive to customers. Therefore, Salesforce.com's Sales Cloud is experiencing a positive moat trend, as switching costs are increasing.

In our view, Service Cloud is experiencing a positive moat trend, also driven by increasing switching costs. We believe that Service Cloud on its own is a very strong product and receives consideration from any customers looking to invest in a customer engagement suite. In our view, the company's offering and market position are simply that strong. Further, the combination of Service Cloud with either the dominant SFA product or a leading and robust marketing suite makes for a very compelling combination of solutions.

Marketing Cloud is experiencing a positive moat trend, in our opinion. We believe feature-driven acquisitions are making the company's already strong platform more robust and are thus driving switching costs up. Beyond the Marketing Cloud itself, we again argue that dominant offerings in directly related areas for SFA and customer engagement make for a natural cross-selling opportunity.

We believe the moat trend for Commerce Cloud is positive. We believe Demandware was a strong offering before it was acquired. In our experience, there might have been some initial pause from some potential customers as they sought to better understand how Demandware was going to be integrated and what the product roadmap will look like. After nearly three years, we believe any initial trepidation has subsided and the benefits of including a commerce engine in Salesforce.com's broader customer experience platform provides a more robust solution and compelling value proposition.

We believe the moat trend for Salesforce's Platform and other business segment is positive, with both switching costs and the network effect strengthening. The Salesforce Platform is a robust offering but the AppExchange created something unique for developers and Salesforce.com customers alike. At this point, we believe the network effect is self-maintaining where the developers are attracted to the tools and the audience, and Salesforce customers are attracted to the core products and the add-ons. While we are sympathetic to the argument that the company paid a steep price for MuleSoft, we believe it is hard to debate strategic fit. One of the biggest IT frustrations executives have is the difficulty or even inability to extract data from legacy systems into modern cloud-based applications or move data from application to application. MuleSoft is an API vendor that helps clients with data integration across platforms and applications. This acquisition, therefore, fills an important need across the company's various clouds.

Risk and Uncertainty Dan Romanoff, Senior Equity Analyst, 29 Sep 2022

We assign Salesforce.com a Morningstar Uncertainty Rating of High. From a big picture perspective, we believe Marc Benioff will be difficult to replace. 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.com investors is revenue growth. Therefore, continued deceleration in the Sales Cloud, or growth that does not materialize as expected in Service, 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.com has also been acquisitive. While we do not believe acquisitions have been transformative, the company has certainly made some larger acquisitions in order to help establish an immediate or larger presence in 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, and occasionally will pursue a larger deal. In these situations, valuation and integration will remain risks.

Building on the acquisition-driven risks, Salesforce.com 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 ESG risks, we note Salesforce faces strong competition for software engineers on the hiring front, and also faces risks arising from a potential data breach within its data centers.

Financial Strength Dan Romanoff, Senior Equity Analyst, 2 Mar 2023

We believe Salesforce.com is a financially sound company. Revenue is showing solid growth, while margins are expanding rapidly. As of January 2023, Salesforce had $12.5 billion in cash and investments, offset by $10.6 billion in debt, mostly related to the Slack acquisition, resulting in a solid net cash position. Gross leverage sits at 1.9 times trailing non-GAAP EBITDA, which we do not view as problematic given that we expect the company's free cash flow to grow rapidly in the coming years.

Operating margins are increasing as Salesforce continues to scale and, for the first time, has emphasized profitability. Management expects rapid expansion of non-GAAP operating margins over the next several years. Further, Salesforce generated free cash flow margins in excess of 16% in each of the last five years, including 21% in fiscal 2023. We believe that margins should ultimately exceed 30% as growth slows and we appreciate management's more balanced approach between growth and margins.

In terms of capital deployment, Salesforce is pivoting away from acquisitions in favor of share buybacks for the first time. We think shareholders had become increasingly frustrated with large deals, culminating with the 2021 acquisition of Slack for $28 billion. While the company just began share repurchases late in calendar year 2022, we think small tuck-in acquisitions will continue at a more moderate pace.

Capital Allocation Dan Romanoff, Senior Equity Analyst, 2 Mar 2023

We assign Salesforce a Standard capital allocation rating. This rating reflects our assessments of a sound balance sheet, fair investments, and appropriate shareholder distributions. We think investments back into the business are most likely to be the key driver of total shareholder returns and are therefore appropriately prioritized over other capital returns such as dividends. That said, beginning in August 2022 the board authorized a $10 billion share repurchase program that has already been expanded, which we think investors will welcome. The balance sheet is sound with $12.5 billion in cash offset by $10.6 billion in debt, mostly from the Slack acquisition. Given the company's renewed focus on margins, we expect this debt level to be repaid relatively quickly and without any stress on Salesforce's financial position.

Salesforce’s capital deployment strategy is evolving from reinvesting in the business and acquisitions to reinvesting in the business and share buybacks. The company does not pay a dividend, nor do we expect it to do so over the next several years.

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.

Since its salesforce automation foundation, the company has greatly expanded its portfolio to include Sales cloud, Service cloud, Marketing cloud, and other areas such as platform, e-commerce, integration, business intelligence, and collaboration. While much development has been organic, Salesforce has completed many tuck-in acquisitions and several larger deals, including ExactTarget, Demandware, MuleSoft, Tableau and Slack. While we applaud the company’s strategic acquisitions and focus on growth initiatives, the acquisition price has often been steep, with MuleSoft checking in at a staggering 22 times trailing sales. Further, the size of these larger acquisitions has grown, culminating with the 2021 acquisition of Slack for $28 billion. We think the time is right to shift away from its acquisition strategy.

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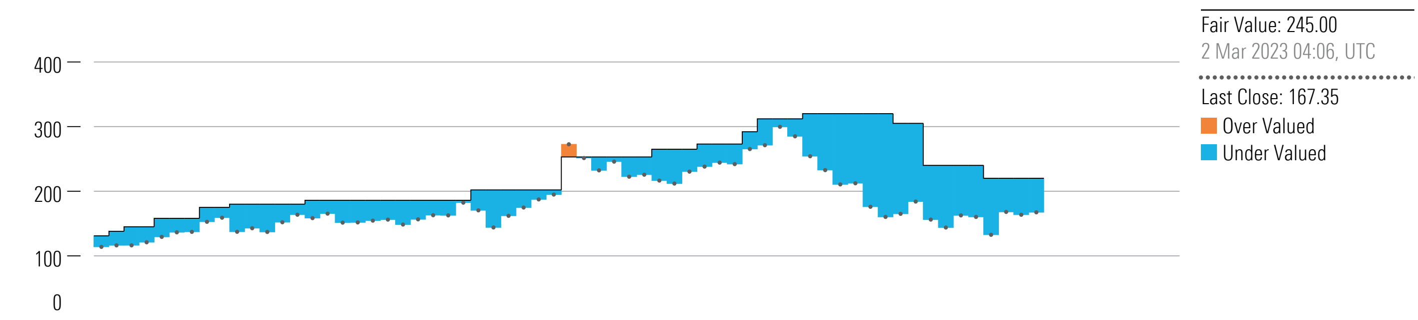
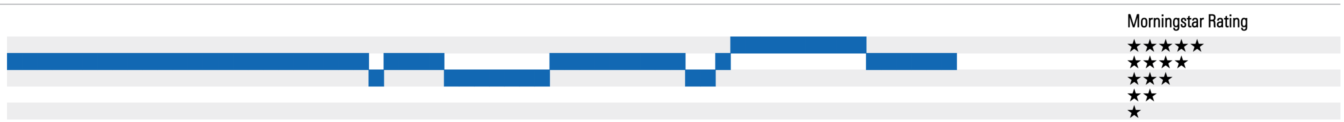
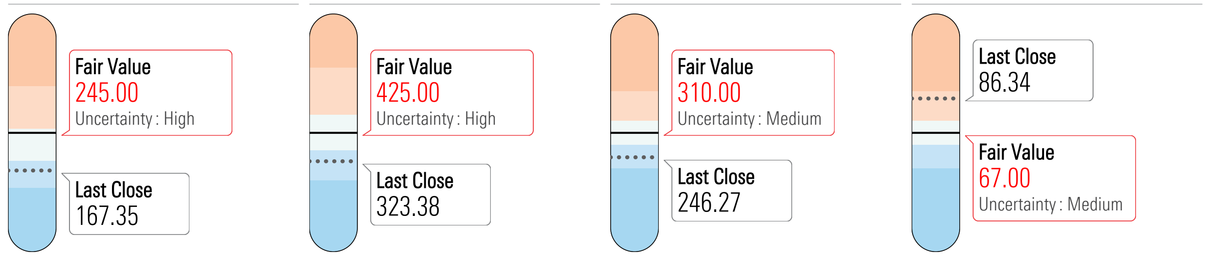
Price vs. Fair Value



2018	2019	2020	2021	2022	YTD	
0.76	0.87	0.88	0.79	0.60	0.68	Price/Fair Value
33.98	18.74	36.82	14.20	-47.83	26.22	Total Return %



Competitors



	Salesforce Inc CRM	Adobe Inc ADBE	Microsoft Corp MSFT	Oracle Corp ORCL
Economic Moat	Wide	Wide	Wide	Narrow
Moat Trend	Positive	Stable	Stable	Negative
Currency	USD	USD	USD	USD
Fair Value	245.00 2 Mar 2023 04:06, UTC	425.00 2 Mar 2023 04:06, UTC1	310.00 2 Mar 2023 04:06, UTC2	67.00 2 Mar 2023 04:06, UTC3
1-Star Price	379.75	658.75	418.50	90.45
5-Star Price	147.00	255.00	217.00	46.90
Assessment	Under Valued 1 Mar 2023	Under Valued 1 Mar 2023	Under Valued 1 Mar 2023	Over Valued 1 Mar 2023
Morningstar Rating	★★★★2 Mar 2023 04:08, UTC	★★★★1 Mar 2023 22:27, UTC	★★★★1 Mar 2023 22:27, UTC	★★1 Mar 2023 22:27, UTC
Analyst	Dan Romanoff, Senior Equity Analyst	Dan Romanoff, Senior Equity Analyst	Dan Romanoff, Senior Equity Analyst	Julie Bhusal Sharma, Equity Analyst
Capital Allocation	Standard	Exemplary	Exemplary	Poor
Price/Fair Value	0.68	0.76	0.79	1.29
Price/Sales	5.53	8.65	9.05	5.15
Price/Book	2.82	10.54	10.01	47.38
Price/Earnings	643.65	32.02	27.36	27.15
Dividend Yield	—	—	1.06%	1.48%
Market Cap	163.61 Bil	148.30 Bil	1,856.63 Bil	235.65 Bil
52-Week Range	126.34—222.16	274.73—479.21	213.43—315.95	60.78—91.22
Investment Style	Large Growth	Large Growth	Large Growth	Large Core

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Morningstar Valuation Model Summary

Financials as of 01 Mar 2023	Actual			Forecast				
Fiscal Year, ends 31 Jan	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**
Revenue (USD Mil)	21,252	26,492	31,352	34,675	38,592	43,735	49,268	55,160
Operating Income (USD Mil)	455	548	1,858	3,876	6,029	7,435	9,065	10,922
EBITDA (USD Mil)	3,301	3,846	4,816	5,110	7,573	8,419	10,063	12,051
Adjusted EBITDA (USD Mil)	5,491	6,625	8,923	9,302	11,355	12,574	14,620	17,015
Net Income (USD Mil)	4,072	1,444	208	2,378	4,733	5,691	6,942	8,367
Adjusted Net Income (USD Mil)	4,580	4,568	5,200	7,089	9,041	10,305	11,855	13,549
Free Cash Flow To The Firm (USD Mil)	-2,747	-12,816	2,517	3,454	6,084	7,208	8,135	9,751
Weighted Average Diluted Shares Outstanding (Mil)	930	955	992	993	1,007	1,005	1,005	1,005
Earnings Per Share (Diluted) (USD)	4.38	1.51	0.21	2.40	4.70	5.66	6.91	8.32
Adjusted Earnings Per Share (Diluted) (USD)	4.92	4.78	5.24	7.14	8.98	10.25	11.79	13.48
Dividends Per Share (USD)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Margins & Returns as of 01 Mar 2023		Actual			Forecast					
	3 Year Avg	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**5 Year Avg**
Operating Margin %	3.4	2.1	2.1	5.9	11.2	15.6	17.0	18.4	19.8	16.4
EBITDA Margin %	—	15.5	14.5	15.4	14.7	19.6	19.3	20.4	21.9	—
Adjusted EBITDA Margin %	26.4	25.8	25.0	28.5	26.8	29.4	28.7	29.7	30.9	29.1
Net Margin %	8.5	19.2	5.5	0.7	6.9	12.3	13.0	14.1	15.2	12.3
Adjusted Net Margin %	18.5	21.6	17.2	16.6	20.4	23.4	23.6	24.1	24.6	23.2
Free Cash Flow To The Firm Margin %	-17.8	-12.9	-48.4	8.0	10.0	15.8	16.5	16.5	17.7	15.3

Growth & Ratios as of 01 Mar 2023		Actual			Forecast					
	3 Year CAGR	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**5 Year CAGR**
Revenue Growth %	22.4	24.3	24.7	18.4	10.6	11.3	13.3	12.7	12.0	12.0
Operating Income Growth %	58.9	-1.7	20.4	239.0	108.6	55.6	23.3	21.9	20.5	42.5
EBITDA Growth %	0.0	—	—	—	—	—	—	—	—	0.0
Adjusted EBITDA Growth %	26.7	25.3	20.7	34.7	4.2	22.1	10.7	16.3	16.4	13.8
Earnings Per Share Growth %	19.5	—	—	—	—	—	—	—	—	20.8
Adjusted Earnings Per Share Growth %	19.5	60.5	-2.9	9.6	36.2	25.8	14.2	15.0	14.3	20.8

Valuation as of 01 Mar 2023	Actual			Forecast				
	2021	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**
Price/Earnings	45.8	48.7	32.1	23.4	18.6	16.3	14.2	12.4
Price/Sales	7.7	7.8	7.3	4.8	4.3	3.8	3.4	3.0
Price/Book	5.1	3.8	2.9	2.6	2.4	2.3	2.1	1.9
Price/Cash Flow	39.8	39.2	36.4	21.6	15.8	14.1	12.7	11.1
EV/EBITDA	29.6	30.7	26.3	18.2	14.9	13.5	11.6	10.0
EV/EBIT	356.9	371.1	126.3	43.7	28.1	22.8	18.7	15.5
Dividend Yield %	—	—	—	—	—	—	—	—
Dividend Payout %	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free Cash Flow Yield %	2.5	2.6	2.7	4.6	6.3	7.1	7.9	9.0

Operating Performance / Profitability as of 01 Mar 2023	Actual			Forecast				
Fiscal Year, ends 31 Jan	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**
ROA %	6.7	1.8	0.2	2.3	4.3	4.8	5.3	5.9
ROE %	10.8	2.9	0.4	3.9	7.2	7.9	8.9	9.8
ROIC %	20.4	19.0	21.8	28.3	28.7	27.4	27.3	28.7

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Salesforce Inc CRM ★★★★ 2 Mar 2023 04:08, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
167.35 USD 1 Mar 2023	245.00 USD 2 Mar 2023 04:06, UTC	0.68	163.61 USD Bil 28 Feb 2023	Wide	Positive	High	Standard	1 Feb 2023 06:00, UTC

Financial Leverage	**Actual**			**Forecast**				
Fiscal Year, ends 31 Jan	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**
Debt/Capital %	7.6	16.3	16.1	13.0	10.9	10.2	9.4	8.6
Assets/Equity	1.6	1.6	1.7	1.7	1.6	1.7	1.7	1.7
Net Debt/EBITDA	-2.6	0.2	-0.3	-1.4	-1.9	-2.5	-2.9	-3.3
Total Debt/EBITDA	0.6	1.7	1.3	1.0	0.7	0.7	0.6	0.5
EBITDA/ Net Interest Expense	-2.6	-6.7	24.1	—	—	287.5	296.8	308.5

Key Valuation Drivers as of 01 Mar 2023	
Cost of Equity %	9.0
Pre-Tax Cost of Debt %	5.5
Weighted Average Cost of Capital %	8.8
Long-Run Tax Rate %	23.0
Stage II EBI Growth Rate %	10.2
Stage II Investment Rate %	22.7
Perpetuity Year	20

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

Discounted Cash Flow Valuation as of 01 Mar 2023	**USD Mil**
Present Value Stage I	65,256
Present Value Stage II	64,264
Present Value Stage III	110,032
Total Firm Value	**239,553**
Cash and Equivalents	12,508
Debt	-11,191
Other Adjustments	2,500
Equity Value	**243,370**
Projected Diluted Shares	1,000
Fair Value per Share (USD)	**245.00**

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Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
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Income Statement (USD)	Actual			Forecast				
Fiscal Year, ends 31 Jan	2021	2022	2023	2024	2025	2026	2027	2028
Revenue (Mil)	**21,252**	**26,492**	**31,352**	**34,675**	**38,592**	**43,735**	**49,268**	**55,160**
Cost of Goods Sold (Mil)	5,438	7,026	8,360	9,069	9,916	11,043	12,194	13,376
Gross Profit (Mil)	**15,814**	**19,466**	**22,992**	**25,605**	**28,676**	**32,692**	**37,074**	**41,784**
Selling, General, Administrative & Other Expenses (Mil)	11,761	14,453	16,079	16,573	17,080	18,981	20,964	23,002
Advertising & Marketing Expenses	—	—	—	—	—	—	—	—
Research & Development	—	—	—	—	—	—	—	—
Depreciation & Amortization (if reported separately) (Mil)	0	0	0	0	0	0	0	0
Adjusted Operating Income (Mil)	**455**	**548**	**1,858**	**3,876**	**6,029**	**7,435**	**9,065**	**10,922**
Financial Non-Cash (Gains)/Losses (Mil)	0	0	0	0	0	0	0	0
Irregular Cash (Gains)/Losses (Mil)	0	0	828	846	0	0	0	0
Operating Income (Mil)	**455**	**548**	**1,030**	**3,030**	**6,029**	**7,435**	**9,065**	**10,922**
Net Interest Expense (Mil)	-2,106	-984	370	0	0	44	49	55
Income Tax Expense (Mil)	-1,511	88	452	651	1,296	1,700	2,074	2,499
After-Tax Items (Mil)	0	0	0	0	0	0	0	0
(Minority Interest) (Mil)	—	—	—	0	0	0	0	0
Net Income (Mil)	**4,072**	**1,444**	**208**	**2,378**	**4,733**	**5,691**	**6,942**	**8,367**
Adjusted Net Income (Mil)	**4,580**	**4,568**	**5,200**	**7,089**	**9,041**	**10,305**	**11,855**	**13,549**
Weighted Average Diluted Shares Outstanding (Mil)	930	955	992	993	1,007	1,005	1,005	1,005
Diluted Earnings Per Share	**4.38**	**1.51**	**0.21**	**2.40**	**4.70**	**5.66**	**6.91**	**8.32**
Diluted Adjusted Earnings Per Share	**4.92**	**4.78**	**5.24**	**7.14**	**8.98**	**10.25**	**11.79**	**13.48**
Dividends Per Common Share (USD)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EBITDA (Mil)	**3,301**	**3,846**	**4,816**	**5,110**	**7,573**	**8,419**	**10,063**	**12,051**
Adjusted EBITDA (Mil)	**5,491**	**6,625**	**8,923**	**9,302**	**11,355**	**12,574**	**14,620**	**17,015**

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Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
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Key Cash Flow Items (USD)	Actual			Forecast as of 1 Mar				
Fiscal Year, ends 31 Jan	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**
Cash from Working Capital (Mil)	960	1,750	1,443	756	1,486	2,055	1,766	1,867
(Capital Expenditures) (Mil)	-710	-717	-798	-832	-965	-984	-1,109	-1,241
Depreciation (Mil)	2,846	3,298	3,786	236	-29	-356	20	404
Amortization (Mil)	—	—	—	1,844	1,573	1,340	978	725
Net New (Investment), Organic (Mil)	**944**	**923**	**919**	**-269**	**278**	**643**	**676**	**1,116**
(Purchases)/Sales of Companies & Assets (Mil)	-1,299	-14,393	-634	-500	-500	-500	-500	-500
Net New (Investment), Total (Mil)	**-355**	**-13,470**	**285**	**-769**	**-222**	**143**	**176**	**616**
Other Non-Cash Items, From Cash Flows (Mil)	-3,115	137	1,907	1,844	1,573	1,340	978	725
Free Cash Flow to the Firm (Mil)	**-2,747**	**-12,816**	**2,517**	**3,454**	**6,084**	**7,208**	**8,135**	**9,751**

Balance Sheet (USD)	Actual			Forecast				
Fiscal Year, ends 31 Jan	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**
Assets								
Cash and Equivalents (Mil)	6,195	5,464	7,016	11,198	17,182	24,354	32,451	42,159
Inventory (Mil)	—	—	—	0	0	0	0	0
Accounts Receivable (Mil)	7,786	9,739	10,755	12,255	13,639	15,457	17,412	19,495
Net Property, Plant and Equipment (Mil)	2,459	2,815	3,702	4,318	5,332	6,692	7,801	8,657
Goodwill (Mil)	26,318	47,937	48,568	48,818	49,068	49,318	49,568	49,818
Other Intangibles (Mil)	4,114	8,978	7,125	5,506	4,158	3,043	2,290	1,790
Other Operating Assets (Mil)	9,749	10,419	11,519	12,570	13,796	15,088	16,382	17,651
Non-Operating Assets (Mil)	3,909	4,784	4,672	4,672	4,672	4,672	4,672	4,672
Total Assets (Mil)	**66,301**	**95,209**	**98,849**	**104,828**	**113,339**	**124,116**	**136,068**	**149,734**
Liabilities								
Accounts Payable (Mil)	4,355	5,474	6,743	7,206	7,878	8,774	9,688	10,628
Debt (Mil)	3,439	11,278	11,191	9,419	8,419	8,419	8,419	8,419
Other Operating Liabilities (Mil)	17,014	20,326	22,556	24,966	28,172	32,364	36,458	40,818
Non-Operating Liabilities (Mil)	0	0	0	0	0	0	0	0
Total Liabilities (Mil)	**24,808**	**37,078**	**40,490**	**41,590**	**44,469**	**49,557**	**54,565**	**59,865**
Equity								
Shareholders' Equity (Mil)	41,493	58,131	58,359	63,237	68,870	74,560	81,502	89,869
Minority Interest (Mil)	—	—	—	0	0	0	0	0
Total Equity (Mil)	**41,493**	**58,131**	**58,359**	**63,237**	**68,870**	**74,560**	**81,502**	**89,869**

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Salesforce Inc CRM ★★★★ 2 Mar 2023 04:08, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
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Management & Ownership

Management Activity as of 31 Mar 2023

Name	Position	Share Held	Report Date*	Insider Activity
Alan G. Hassenfeld	Independent Director	84,517	31 Mar 2023	3,620
Craig A. Conway	Independent Director	12,194	31 Mar 2023	3,622
Laura J. Alber	Director	4,099	31 Mar 2023	3,622
Marc Benioff	Chairman of the Board and Chief Executive Officer	27,877,841	31 Mar 2023	2,414,986
Parker Harris	Director and Chief Technology Officer	102,371	31 Mar 2023	885,680
Oscar Munoz	Independent Director	4,314	31 Mar 2023	3,622
Maynard G. Webb	Independent Director	9,542	31 Mar 2023	3,622
Robin L. Washington	Independent Director	40,154	31 Mar 2023	3,622
Sanford R. Robertson	Lead Independent Director	30,317	31 Mar 2023	25,620
Susan D. Wojcicki	Independent Director	3,416	31 Mar 2023	3,622

Fund Ownership as of 28 Feb 2023

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
Vanguard Total Stock Market Index Fund	2.91	0.39	224,874	31 Jan 2023
Vanguard US Total Market Shares ETF	2.91	0.42	224,874	31 Jan 2023
Vanguard Instl Ttl Stck Mkt Idx Tr	2.89	0.33	670,471	31 Dec 2022
Vanguard 500 Index Fund	2.32	0.49	54,872	31 Jan 2023
Fidelity® 500 Index Fund	1.10	0.41	167,660	31 Dec 2022
Concentrated Holders				
Federated Hermes MDT Market Neutral Inst	0.00	56.68	22,600	31 Dec 2022
I.B.I Tracker Solactive US Internet	0.00	10.66	-235	30 Nov 2022
T. Rowe Price Science and Tech Eq Fd	0.00	9.87	-15	31 Jan 2023
Montaka Global Extension ETF	0.00	9.84	-407	30 Jun 2022
iShares Expanded Tech-Software Sect ETF	0.27	9.22	-31,648	24 Feb 2023

Institutional Transactions as of 28 Feb 2023

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shrs Bought/Sold (k)	Portfolio Date
Parnassus Investments, LLC	0.60	1.98	6,018,220	31 Dec 2022
Capital Research Global Investors	0.37	0.15	3,688,307	31 Dec 2022
Point72 Asset Management, L.P.	0.33	1.51	3,345,741	31 Dec 2022
Starboard Value LP	0.30	7.69	3,025,982	31 Dec 2022
Amundi	0.67	0.62	2,865,784	30 Sep 2022
Top 5 Sellers				
Jennison Associates LLC	0.76	1.02	-6,096,773	31 Dec 2022
FMR Inc	4.30	0.65	-5,974,352	30 Sep 2022
T. Rowe Price Associates, Inc.	2.63	0.56	-4,093,933	31 Dec 2022
DZ BANK AG Deutsche Zentral-Genossenschaftsbank Frankfurt am Main	0.13	0.29	-3,163,736	31 Dec 2022
Akre Capital Management, LLC	0.00	—	-3,095,500	31 Dec 2022

*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

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Salesforce Inc CRM ★★★★ 2 Mar 2023 04:08, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
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Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Valuation Analysis as of 01 Mar 2023

Company/Ticker	Price/Earnings 2023	2024(E)	2025(E)	EV/EBITDA 2023	2024(E)	2025(E)	Price/Free Cash Flow 2023	2024(E)	2025(E)	Price/Book 2023	2024(E)	2025(E)	Price/Sales 2023	2024(E)	2025(E)
Adobe Inc ADBE	27.7	23.6	21.2	20.8	17.5	15.3	23.3	20.0	16.4	11.2	10.8	5.1	10.2	8.4	7.5
Microsoft Corp MSFT	26.5	22.9	20.5	16.5	14.7	13.2	25.6	21.5	19.0	8.9	7.4	6.2	8.8	7.9	7.2
Oracle Corp ORCL	14.7	18.3	15.7	17.3	19.2	15.9	38.2	27.0	24.4	-31.4	-55.7	345.4	4.5	4.7	4.3
Average	23.0	21.6	19.1	18.2	17.1	14.8	29.0	22.8	19.9	-3.8	-12.5	118.9	7.8	7.0	6.3
Salesforce Inc CRM	**32.1**	**23.4**	**18.6**	**26.3**	**18.2**	**14.9**	**36.5**	**21.6**	**15.8**	**2.9**	**2.6**	**2.4**	**7.3**	**4.8**	**4.3**

Returns Analysis as of 01 Mar 2023

Company/Ticker	ROIC % 2023	2024(E)	2025(E)	Adjusted ROIC % 2023	2024(E)	2025(E)	Return on Equity % 2023	2024(E)	2025(E)	Return on Assets % 2023	2024(E)	2025(E)	Dividend Yield % 2023	2024(E)	2025(E)
Adobe Inc ADBE	63.5	67.2	54.3	30.6	31.6	27.5	34.4	33.0	24.4	18.7	17.5	13.1	—	—	—
Microsoft Corp MSFT	33.2	34.2	35.4	46.1	48.4	50.8	37.3	35.2	33.0	17.9	18.3	18.0	1.1	1.2	1.3
Oracle Corp ORCL	20.3	25.6	24.8	10.5	14.2	14.3	NM	-147.4	-603.3	5.6	6.5	8.1	1.5	1.4	1.5
Average	39.0	42.3	38.2	29.1	31.4	30.9	35.8	-26.4	-182.0	14.1	14.1	13.1	1.3	1.3	1.4
Salesforce Inc CRM	**21.8**	**28.3**	**28.7**	**7.8**	**10.7**	**11.9**	**0.4**	**3.9**	**7.2**	**0.2**	**2.3**	**4.3**	**—**	**—**	**—**

Growth Analysis as of 01 Mar 2023

Company/Ticker	Revenue Growth % 2023	2024(E)	2025(E)	EBIT Growth % 2023	2024(E)	2025(E)	EPS Growth % 2023	2024(E)	2025(E)	FCF Growth % 2023	2024(E)	2025(E)	DPS Growth % 2023	2024(E)	2025(E)
Adobe Inc ADBE	22.7	11.5	11.7	36.9	5.1	12.1	23.5	10.0	11.1	-28.8	84.0	-304.1	—	—	—
Microsoft Corp MSFT	5.5	10.4	10.7	2.7	12.7	11.7	1.0	15.5	12.0	122.2	-8.7	38.7	8.1	7.5	6.9
Oracle Corp ORCL	4.9	16.3	9.9	-28.9	22.6	24.8	4.9	-4.0	17.1	-63.8	-516.4	-137.4	0.0	15.4	6.7
Average	11.0	12.7	10.8	3.6	13.5	16.2	9.8	7.2	13.4	9.9	-147.0	-134.3	2.7	7.6	4.5
Salesforce Inc CRM	**18.4**	**10.6**	**11.3**	**239.0**	**108.6**	**55.6**	**9.6**	**36.2**	**25.8**	**-119.6**	**37.2**	**76.2**	**—**	**—**	**—**

Profitability Analysis as of 01 Mar 2023

Company/Ticker	Gross Margin % 2023	2024(E)	2025(E)	EBITDA Margin % 2023	2024(E)	2025(E)	Operating Margin % 2023	2024(E)	2025(E)	Net Margin % 2023	2024(E)	2025(E)	FCF Margin % 2023	2024(E)	2025(E)
Adobe Inc ADBE	88.2	87.7	87.7	48.5	47.7	48.7	36.8	34.6	34.8	38.0	36.7	36.2	43.7	42.0	45.9
Microsoft Corp MSFT	68.5	68.6	69.0	51.9	52.8	53.2	40.9	41.8	42.2	33.2	34.5	34.7	34.2	37.0	37.8
Oracle Corp ORCL	79.1	72.9	74.4	33.6	33.3	36.8	26.2	27.6	31.3	32.2	25.9	27.3	11.9	17.5	17.5
Average	78.6	76.4	77.0	44.7	44.6	46.2	34.6	34.7	36.1	34.5	32.4	32.7	29.9	32.2	33.7
Salesforce Inc CRM	**73.3**	**73.8**	**74.3**	**28.5**	**26.8**	**29.4**	**5.9**	**11.2**	**15.6**	**16.6**	**20.4**	**23.4**	**20.1**	**22.3**	**27.4**

Leverage Analysis as of 01 Mar 2023

Company/Ticker	Debt/Equity % 2023	2024(E)	2025(E)	Debt/Total Cap % 2023	2024(E)	2025(E)	EBITDA/Net Int. Exp 2023	2024(E)	2025(E)	Total Debt/EBITDA 2023	2024(E)	2025(E)	Asset/Equity 2023	2024(E)	2025(E)
Adobe Inc ADBE	27.9	25.8	46.4	21.8	20.5	31.7	79.0	93.3	99.6	0.5	0.4	1.4	1.8	1.9	1.8
Microsoft Corp MSFT	21.4	17.3	13.8	17.6	14.7	12.1	-559.4	—	NM	0.4	0.3	0.3	2.0	1.9	1.8
Oracle Corp ORCL	NM	NM	NM	109.2	104.8	99.3	5.2	5.0	7.0	5.3	5.6	4.4	-17.2	-31.0	201.7
Average	24.6	21.6	30.1	49.5	46.7	47.7	-158.4	49.1	53.3	2.1	2.1	2.0	-4.5	-9.1	68.4
Salesforce Inc CRM	**19.2**	**14.9**	**12.2**	**16.1**	**13.0**	**10.9**	**24.1**	**—**	**—**	**1.3**	**1.0**	**0.7**	**1.7**	**1.7**	**1.6**

Liquidity Analysis as of 01 Mar 2023

Company/Ticker	Cash per Share 2023	2024(E)	2025(E)	Current Ratio 2023	2024(E)	2025(E)	Quick Ratio 2023	2024(E)	2025(E)	Cash/Short-Term Debt 2023	2024(E)	2025(E)	Payout Ratio % 2023	2024(E)	2025(E)
Adobe Inc ADBE	12.0	13.0	30.1	1.2	1.1	1.9	1.2	1.1	1.9	—	—	—	0.0	0.0	0.0
Microsoft Corp MSFT	18.9	22.4	28.8	2.1	2.2	2.4	2.1	2.2	2.4	62.8	55.5	60.5	28.8	26.8	25.6
Oracle Corp ORCL	7.9	2.7	1.2	1.6	0.8	0.6	1.6	0.8	0.6	5.8	1.9	0.4	43.1	41.8	32.1
Average	11.5	12.3	19.3	1.5	1.3	1.6	1.5	1.3	1.6	18.2	17.2	15.2	18.0	17.2	14.4
Salesforce Inc CRM	**7.1**	**11.3**	**17.1**	**1.0**	**1.2**	**1.3**	**1.0**	**1.2**	**1.3**	**4.0**	**11.2**	**—**	**0.0**	**0.0**	**0.0**

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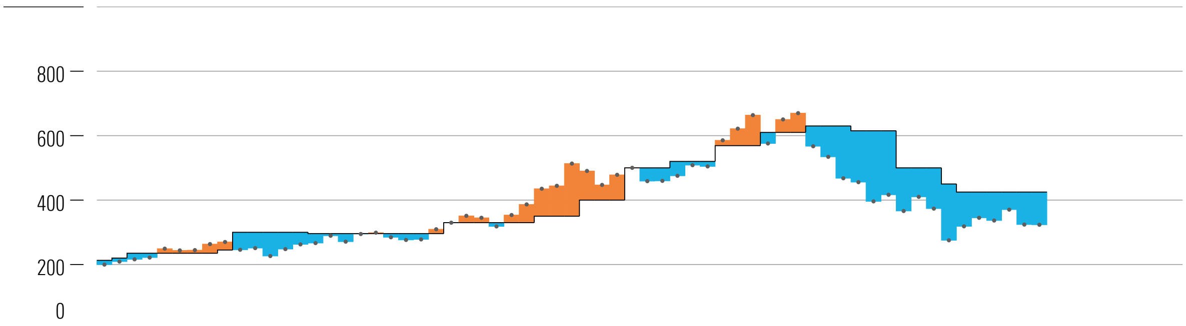
Salesforce Inc CRM ★★★★ 2 Mar 2023 04:08, UTC

Competitors Price vs. Fair Value

Adobe Inc ADBE



Fair Value: 425.00
19 Oct 2022 07:17, UTC

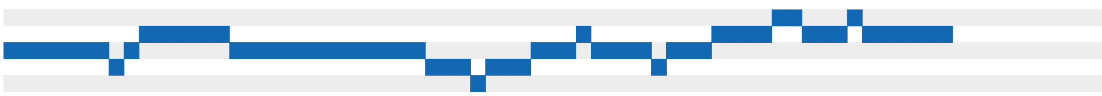
Last Close: 323.38

Over Valued

Under Valued

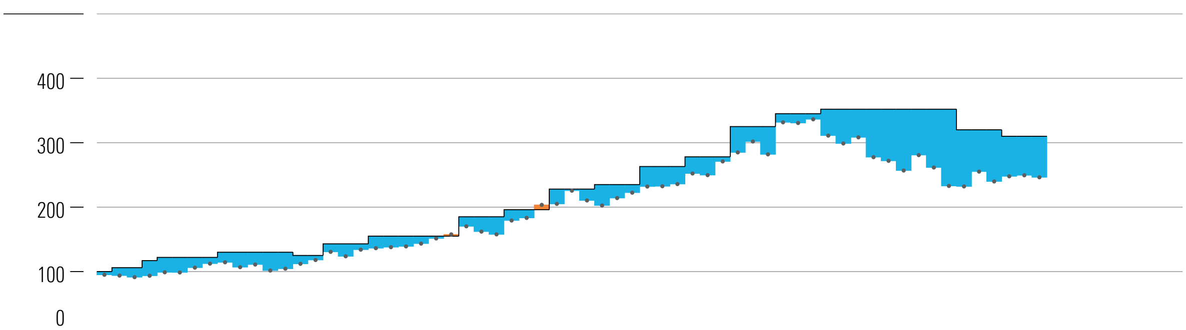
	2018	2019	2020	2021	2022	YTD
Price/Fair Value	0.75	1.00	1.00	0.90	0.79	0.76
Total Return %	29.10	45.78	51.64	13.38	-40.65	-3.91

Morningstar Rating



Total Return % as of 1 Mar 2023. Last Close as of 1 Mar 2023. Fair Value as of 19 Oct 2022 07:17, UTC.

Microsoft Corp MSFT



Fair Value: 310.00
25 Jan 2023 04:36, UTC

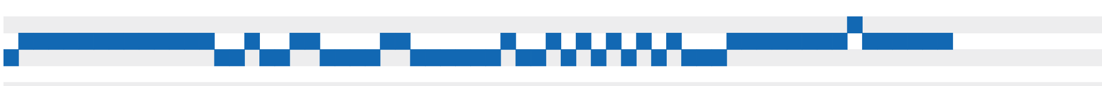
Last Close: 246.27

Over Valued

Under Valued

	2018	2019	2020	2021	2022	YTD
Price/Fair Value	0.78	1.02	0.95	0.97	0.75	0.79
Total Return %	20.75	57.12	42.37	52.24	-27.94	2.97

Morningstar Rating



Total Return % as of 1 Mar 2023. Last Close as of 1 Mar 2023. Fair Value as of 25 Jan 2023 04:36, UTC.

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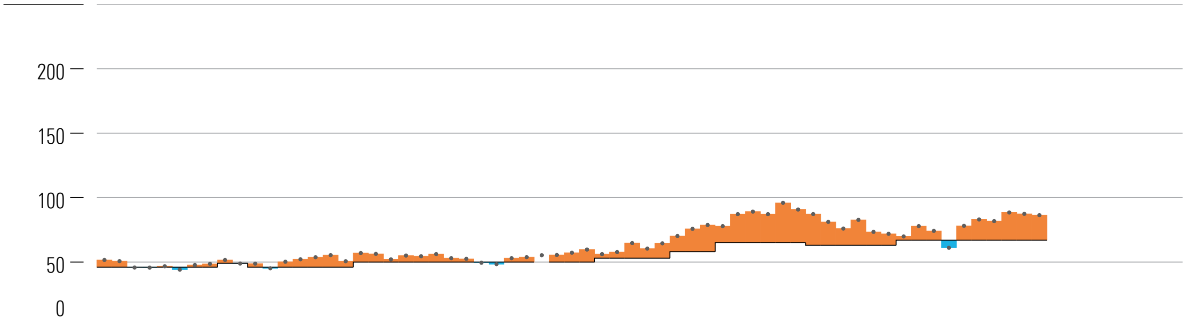
Salesforce Inc CRM ★★★★ 2 Mar 2023 04:08, UTC

Competitors Price vs. Fair Value (Continued)

Oracle Corp ORCL



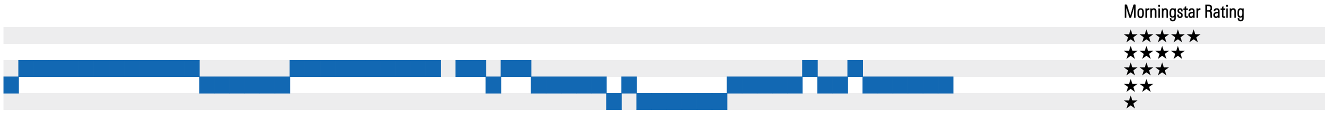
Last Close: 86.34

Fair Value: 67.00
14 Jun 2022 03:30, UTC

Over Valued
Under Valued

2018	2019	2020	2021	2022	YTD	
0.98	1.06	1.22	1.38	1.22	1.29	Price/Fair Value
-2.90	19.36	23.91	36.67	-4.80	6.02	Total Return %

Morningstar Rating



Total Return % as of 1 Mar 2023. Last Close as of 1 Mar 2023. Fair Value as of 14 Jun 2022 03:30, UTC.

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Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
167.35 USD 1 Mar 2023	245.00 USD 2 Mar 2023 04:06, UTC	0.68	163.61 USD Bil 28 Feb 2023	Wide	Positive	High	Standard	1 Feb 2023 06:00, UTC

Recent Analyst Notes

Strong Profitability for Salesforce, but Demand Environment Is Not Improving; FVE Cut to $220 Dan Romanoff,Senior Equity Analyst,1 Dec 2022

For its fiscal third quarter, Salesforce delivered modest upside relative to our revenue expectations and more meaningfully outperformed our margin estimate despite foreign currency headwinds that continue to worsen. Fiscal fourth-quarter guidance, however, was slightly shy of our model. Sales cycle elongation and deal size compression that began in July intensified this quarter, while management commented they expect these conditions to persist into next year. We lowered our estimates for fiscal 2024 in anticipation of a persistently challenging macro environment and then also made some minor related smoothing adjustments to our model. As a result, we are lowering our fair value estimate for wide-moat Salesforce to $220, from $240 previously. On the positive side, management stated the firm continues to build a healthy sales pipeline, and the company bought back 11 million shares for $1.7 billion. Salesforce remains one of our top software picks and we applaud the company’s increasing focus on margins along with the newly implemented $10 billion buyback program.Salesforce also announced co-CEO Bret Taylor was leaving the company. We believe Salesforce has a deep bench given global operations, a massive sales organization, a leading engineering team, and a variety of leaders from acquired companies that the firm could elevate should it feel the need to do so. In the meantime, founder and co-CEO Marc Benioff remains at the helm, so there is little immediate change other than Salesforce once again does not have an immediate succession plan.Revenue grew 14% year over year (19% in constant currency) to $7.84 billion, compared with FactSet consensus of $7.83 billion. Current remaining performance obligations, or CRPO, grew 15% year over year in constant currency, which lagged revenue growth for the fifth straight quarter, and further supports our downward estimate revisions.A previous version of this note was published with the incorrect name of the co-CEO.

Genie Out of the Bottle; Salesforce Throws a Margin Gauntlet Down; FVE Steady at $240 Dan Romanoff,Senior Equity Analyst,22 Sep 2022

The biggest investor news from wide-moat Salesforce’s investor day was the reiteration of full-year guidance of $31 billion at the high end for fiscal 2023; the reiteration of $50 billion in revenue for fiscal 2026—despite a $2 billion headwind from foreign exchange over the last year; and the new long-term guidepost for 25% or higher non-GAAP operating margin for fiscal 2026. Along with several other product announcements, the company also introduced Genie, a new customer data platform to infuse real-time data across clouds. Lastly, Salesforce also provided an updated capital allocation strategy, a current total addressable market, or TAM, analysis, and incremental disclosures around contract length, cloud uptake, cohort analysis, and retention. We continue to view the stock as one of our top picks, maintain our fair value estimate of $240 per share, and see shares as attractive.Tactically, management noted that the demand environment remains healthy and pipeline generation has been good—deals are still being seen and the cost of new technology is being scrutinized, but revenue guidance for the year of $30.9 billion to $31.0 billion was reiterated, which we take as a modest positive in that the environment is not deteriorating further. Longer-term, CFO Amy Weaver reiterated the company's $50 billion target for revenue in fiscal 2026, along with a new 25% or higher non-GAAP operating margin target. Management sees the most opportunity for operating leverage over the next several years in the sales and marketing and general and administrative expense lines. Our model is several billion dollars shy of this revenue yardstick, as we see macroeconomic pressure extending into next year, but fairly close on the margin marker. Finally, Salesforce updated its TAM, which as usual was based on Gartner data. The new TAM is $290 billion in 2026, up from $248 billion last year, and should support healthy growth over the next five years.

Good Results for Salesforce but Outlook Lowered; Announces $10 Billion Buyback; FVE Cut to $240 Dan Romanoff,Senior Equity Analyst,25 Aug 2022

Wide-moat Salesforce delivered upside relative to our expectations for revenue and profitability despite worsening currency headwinds and buying patterns that began to deteriorate in July, when sales cycles began to elongate and deal sizes were pressured. The company lowered its outlook for the year based on worsening currency effects and the expectation that buying behavior will not change from what it experienced in July. On the positive side, management still characterized the demand environment and new pipeline generation as solid, with an emphasis on front office digital transformation efforts, which is Salesforce's sweet spot. The company also announced a $10 billion stock buyback program, a first for the company. Given deteriorating conditions and a more pessimistic outlook, we are reducing our estimates and cutting our fair value estimate to $240 from $305. Salesforce remains one of our top software picks and we applaud the company's increasing focus on margins along with the new buyback program.Revenue grew 22% year over year (26% in constant currency) to $7.72 billion, compared with FactSet consensus of $7.70 billion. Current remaining performance obligations, or CRPO, grew 19% year over year in constant currency, which lagged revenue growth for the fourth straight quarter, and further supports our downward estimate revisions. On a year-over-year and as-reported basis, Sales Cloud grew 15%, Service Cloud grew 14%, Platform grew 57% (includes Slack), Marketing and Commerce Cloud grew 17%, and Data grew 18%. In our view, Platform and Services were both strong, while the other line items were slightly light. Management noted small business showed signs of slowing and that Commerce Cloud was seeing gross merchandise volume decelerating toward prelockdown levels. Slack remains a highlight, with the solution regularly included in large deals, while industry-specific versions also performed well. Salesforce's churn remains at historic lows at 7.5%.

Salesforce Delivers Solid Results to Battered Investors; Sees Strong Demand; Modest FVE Cut to $305 Dan Romanoff,Senior Equity Analyst,1 Jun 2022

Investors looking for signs of broader enterprise software slowdowns will have to look elsewhere after wide-moat Salesforce reported solid results in the face of a variety of macroeconomic headwinds. Both revenue and non-GAAP operating margin a bit better than our expectations, while full-year revenue guidance was lowered slightly entirely due to the surging dollar, and full-year non-GAAP operating margin guidance was raised modestly. Management acknowledged the same macro headline issues we see every day but noted the firm is seeing no weakness in demand and that its pipeline for the year remains robust. Given the macro storm clouds, we are taking our estimates from above previous guidance, to more in-line with new guidance, and are therefore lowering our fair value estimate to $305 per share, from $320 per share. Salesforce remains one of our top software picks and we view shares as attractive, as we think investors are overly pessimistic on near-term fears.Revenue grew 24% year over year to $7.41 billion, compared with FactSet consensus of $7.38 billion. Strength was apparent in all segments and all geographies. On a year-over-year basis, sales cloud grew 18%, service cloud grew 17%, platform/other (including Slack) grew 46%, marketing/commerce cloud grew 22%, and data grew 15%. In fact, sales cloud grew 20% organically in constant currency. We are impressed by sales cloud's ability to accelerate both year over year and sequentially 23 years after its creation. Management noted strength in all segments, all geographies, and all customer sizes. We see deal sizes continuing to grow, with a 45% year-over-year increase in the number of customers spending $100,000 or more annually. Management noted that Slack continues to outpace expectations and is included in virtually all customer conversations. Churn remained in its best-ever range at 7.0% to 7.5%. CRPO grew 21% year over year to $21.5 billion, which has now lagged revenue growth for the third straight quarter.

Salesforce Strength Continues in Q4; Bumps 2023 Revenue Guidance Up; Maintain $320 FVE Dan Romanoff,Senior Equity Analyst,2 Mar 2022

Wide-moat Salesforce reported good results from almost any angle, including upside beyond the high end of guidance for both revenue and non-GAAP EPS, along with an improved revenue outlook for the year. Our model already contemplated near-term strength, so we retain our $320 fair value estimate. Salesforce is one of our top software picks and we view shares as attractive. We see decelerating CRPO growth as unsurprising given the size and foreign exchange headwind, and are not troubled by this in the near term. We are pleased to hear about the robust sales pipeline, that larger acquisitions are unlikely in the near term, and the firm remains focused on profitable growth.Revenue grew 26% year over year to $7.326 billion, compared to FactSet consensus of $7.232 billion. Strength was apparent in all segments and all geographies. On a year-over-year basis, sales cloud grew 17%, service cloud grew 18%, platform/other (including Slack) grew 53%, marketing/commerce cloud grew 20%, and data grew 23%. We are impressed by sales cloud's ability to defy gravity 23 years after its creation. Management noted strength in all segments, all geographies, and all customer sizes. We see deal sizes continuing to grow, with million dollar deals up 34% year over year, and ten million dollar deals more than doubled. Management noted that Slack continues to outpace internal expectations. Churn again improved to its best-ever level at 7.0% to 7.5%. CRPO grew 22% year over year to $22.0 billion, which is below revenue growth for the second straight quarter, but not alarmingly so, as currency hurts growth by 200 basis points.We remain constructive on the company's long-term margin potential. Non-GAAP operating margin was solid, despite headwinds from the Slack acquisition, at 15.0%, compared to 17.5% last year and 19.8% last quarter.

Management reiterated an outlook to expand margins by 100 to 125 basis points annually based on better expense management, COVID-19 best practices, and scale.

Salesforce Shares Look Increasingly Attractive in the Face of Tech Sell-Off; $320 FVE Dan Romanoff,Senior Equity Analyst,31 Jan 2022

We view shares of wide-moat Salesforce.com as increasingly attractive in the recent sell-off related to growth-oriented technology stocks, and we highlight it among our top picks. While shares sold off on the company's most recent quarter, we view results more constructively and believe that after reports from other large software peers 2022 should see continued robust demand. We think the company benefited from strong demand throughout COVID-19, as customer-related software became an imperative for companies trying to do business in a new remote reality. Coming out of the pandemic now we see hybrid work environments driving durable digital transformation investments over the next couple years, and we reiterate our $320 fair value estimate.We believe Salesforce.com represents one of best long-term growth stories in large cap software due to its ever expanding portfolio of complimentary solutions that allow users to completely embrace their customers, thereby building relationships, strengthening retention, and driving revenue. In our view, the firm will benefit further from natural cross-selling among its clouds, upselling more robust features within product lines, pricing actions, international growth, and continued acquisitions such as the recent deals for Slack and Tableau. 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 make for a powerful value proposition, in our view.

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, indepth 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 shortterm market-price movements), but we believe these negatives are mitigated by deep analysis and our longterm 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 singlepoint 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.

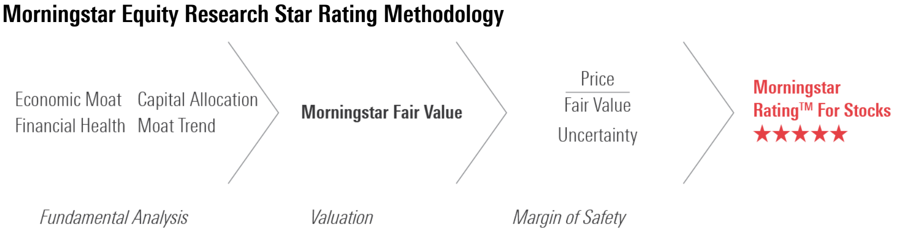
When considering a company's moat, we also assess whether there is a substantial threat of value destruction, stemming from risks related to ESG, industry disruption, financial health, or other idiosyncratic issues. In this context, a risk is considered potentially value destructive if its occurrence 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.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

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.

Morningstar Equity Research Star Rating Methodology



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 workingcapital 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

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Research Methodology for Valuing Companies

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 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 considerations 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.

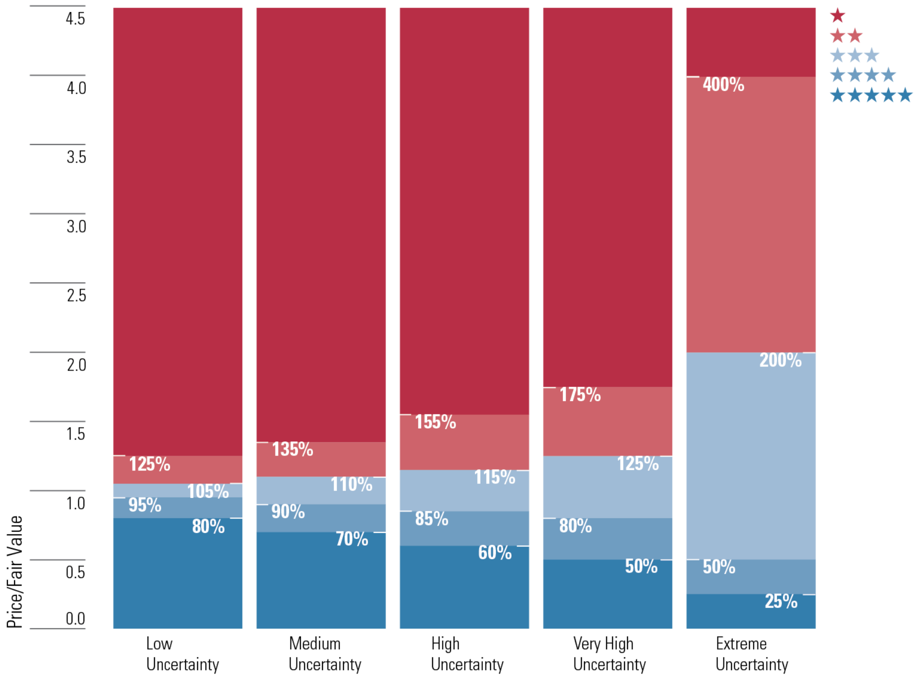
Our recommended margin of safety—the discount to fair value demanded before we'd recommend buying or selling the stock—widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the potential dispersion of outcomes, the greater the discount we require relative 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 Uncertainty Ratings	★★★★★Rating	★Rating
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.

Morningstar Equity Research Star Rating Methodology



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 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 multiyear

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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, 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.

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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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