



Equity Team

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# Security

Salesforce Inc.  
\$CRM

# View

Moderately Bullish

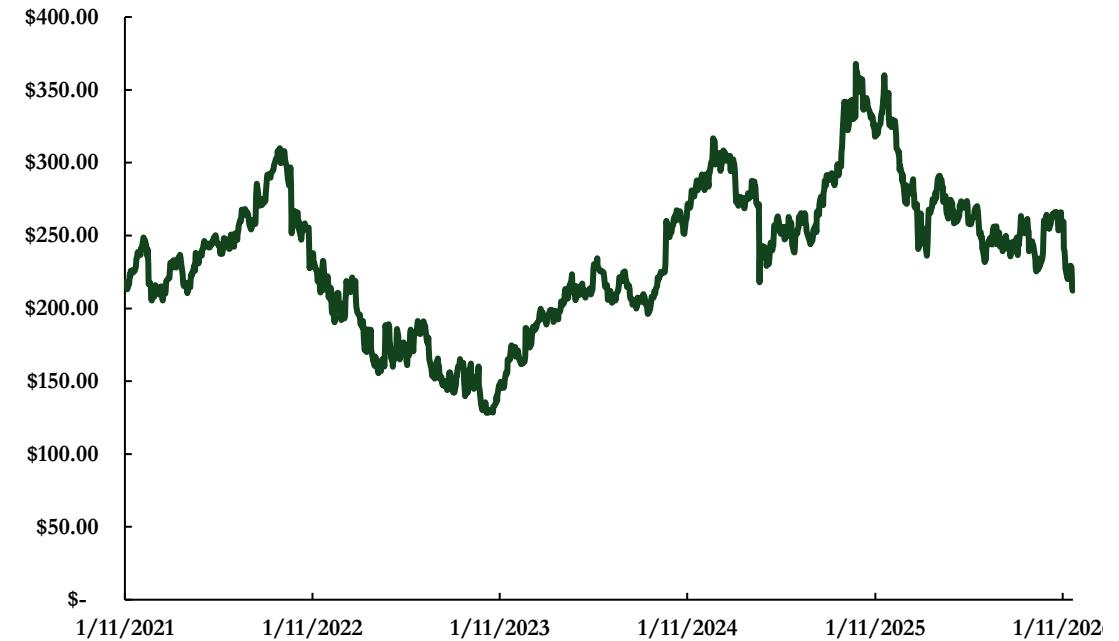
# Investment

Bull Call Spread

# About Salesforce

- Salesforce is the world's leading CRM provider, holding the largest global market share
- Salesforce serves approximately 90% of Fortune 500 companies, demonstrating strong enterprise penetration
- Salesforce offers an integrated suite of products, including Sales Cloud, Service Cloud, Marketing Cloud, and Data Cloud

**5 Year Price Chart**



## Thesis

- **Strong fundamentals and low valuation:** Salesforce is trading at its lowest forward valuation in nearly a decade despite strong financials and continuous growth
- **AI segment growth potential:** Agentforce's AI platform is scaling quickly, supported by strong ARR growth and contract conversions
- **Strategic acquisitions and contract expansion:** Acquisitions and large enterprise contracts are positioning Salesforce as a core automation platform

## Thesis Risks

- **Slowing revenue growth:** Revenue growth has slowed to around 10%, and further deceleration could justify Salesforce's lower valuation multiple
- **AI disruption:** AI-driven automation could enable greater competition or in-house solutions, pressuring Salesforce's pricing power and weakening its competitive moat

# Strong Fundamentals & Low Valuation

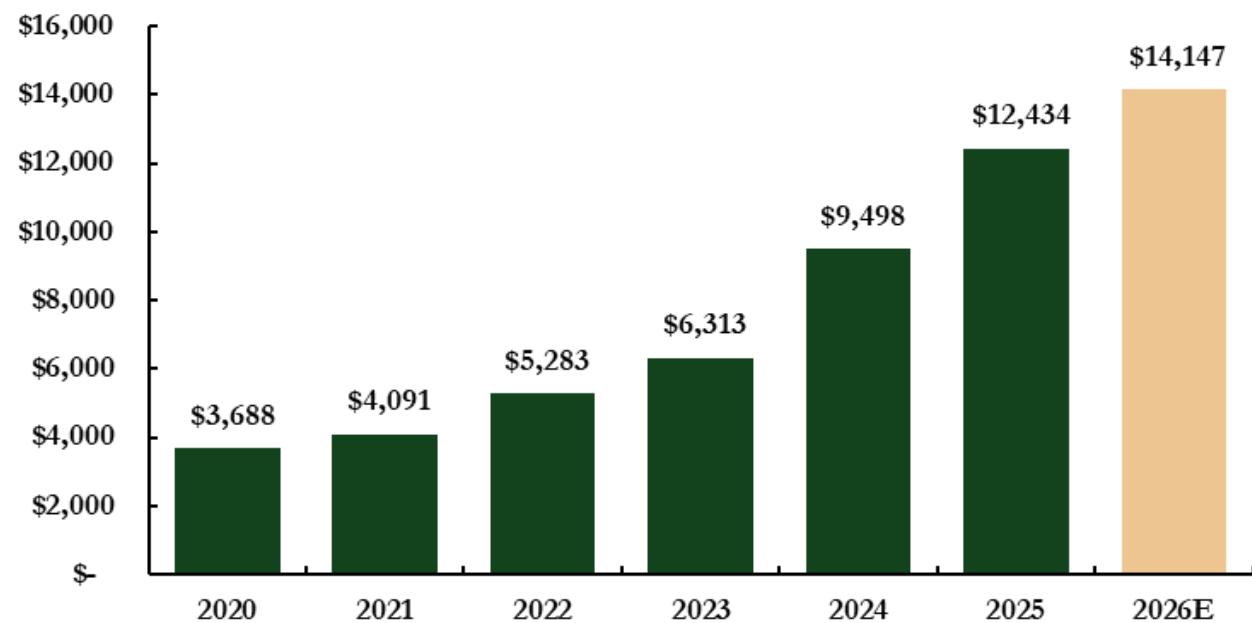
- **Valuation Disconnect**

Forward P/E remains materially below historical averages, implying limited confidence in normalization despite stable revenue visibility and earnings durability

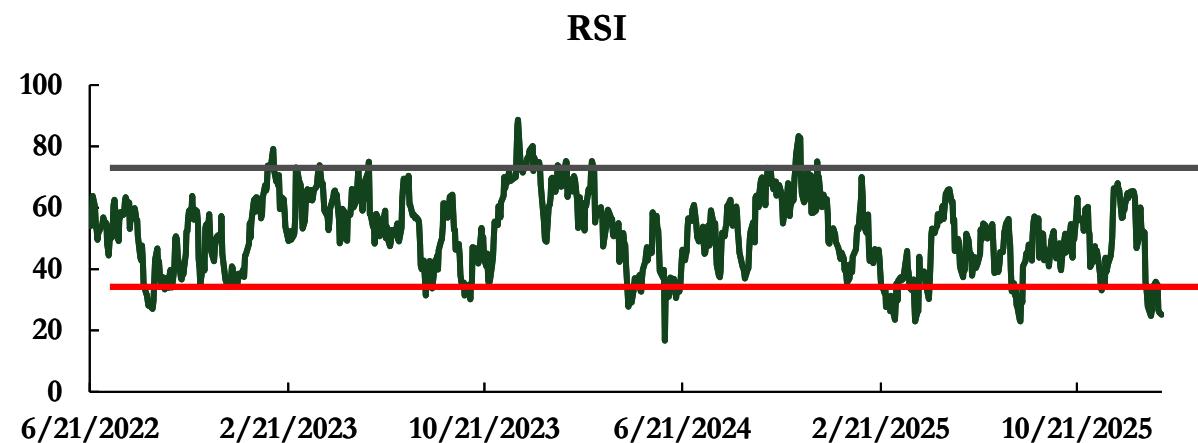
- **Capital Return Inflection**

The company has authorized substantial share repurchases and initiated a dividend, reflecting a clear shift toward shareholder return and balance-sheet confidence

Free Cash Flow (In Millions)



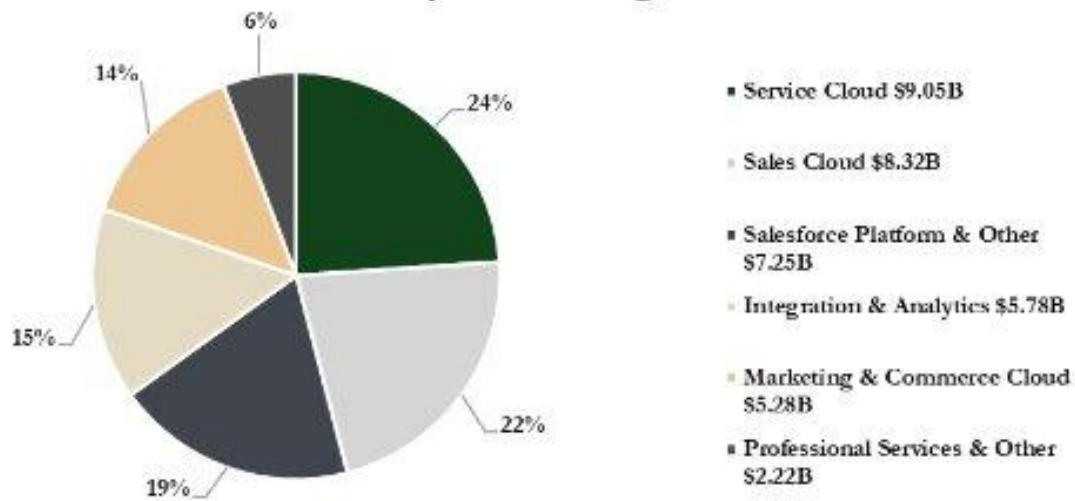
# Strong Fundamentals & Low Valuation



- **Sustained Profitability Improvement**  
Non-GAAP operating margins have structurally expanded, driven by cost discipline and a higher-margin product mix, reducing downside earnings risk
- **Market Positioning and Sentiment**  
Shares have experienced a prolonged drawdown and are trading near long-term support levels, suggesting sentiment may be overly compressed relative to fundamentals

# Agentforce

Salesforce Revenue by Product Segement - FY2025



- AI Growth Driver: Agentforce strengthens Salesforce's customer service and automation capabilities, improving productivity and retention
- Rapid Revenue Growth: Generated \$540M ARR, growing 330% YoY, reflecting strong enterprise adoption
- High-Quality Recurring Revenue: Subscription-based revenue supports long-term visibility and margin expansion

# Acquisitions

- Major Government Contract: Salesforce secured a U.S. Army IDIQ contract worth up to \$5.6B over 10 years to deploy cloud, AI, and Slack collaboration tools for mission-critical operations
- Public Sector Expansion: The deal underscores Salesforce's ability to deliver large-scale government digital transformation beyond traditional CRM, opening a substantial and strategic growth market
- Missionforce Growth: The Missionforce division uses real-time data and automation to improve defense and government operations, highlighting the scalability and impact of its AI-driven solutions

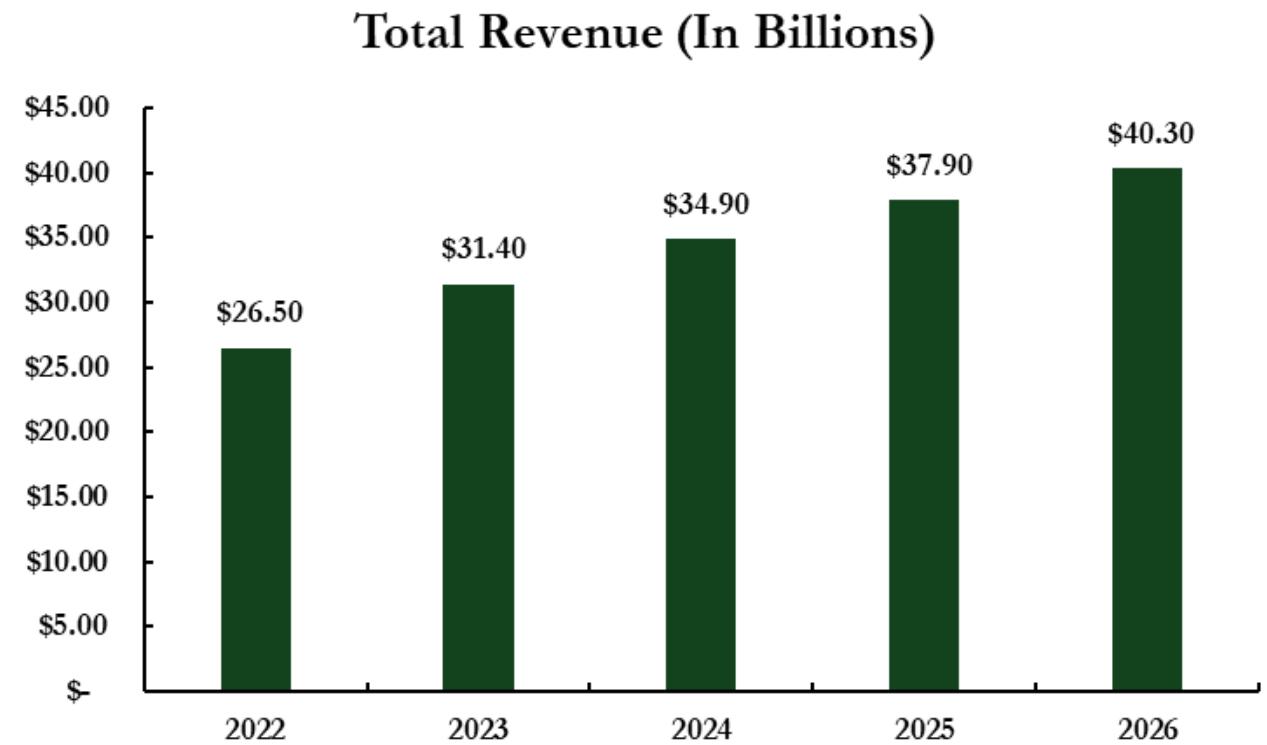
Year	2023	2023	2024	2024	2025
Acquisition	Airkit.ai	Spiff	Own Company	Moonhub	Informatica
Deal Size	\$300M	\$250M	\$1.9B	Undisclosed	\$8.0B

# AI Disrupts Core Business Model

- Companies stay with Salesforce because data was too hard and expensive to transfer, AI makes this more accessible and easier for businesses to do themselves
- Salesforce is exposed to unfavorable negotiations when business automate their data collection and consumer analysis
- Investors are starting to view Salesforce as a more developed company rather than an AI innovator, which limits their ability to rapidly jump in stock price

# Lack of Revenue Growth

- Year-over-year revenue growth rate has dropped from 18.5% to 6.3% the last four years
- Slowing growth limits Salesforce's ability to expand profit margins
- With growth at only 6.3%, small shocks in the market will have a disproportionately larger impact on the stock

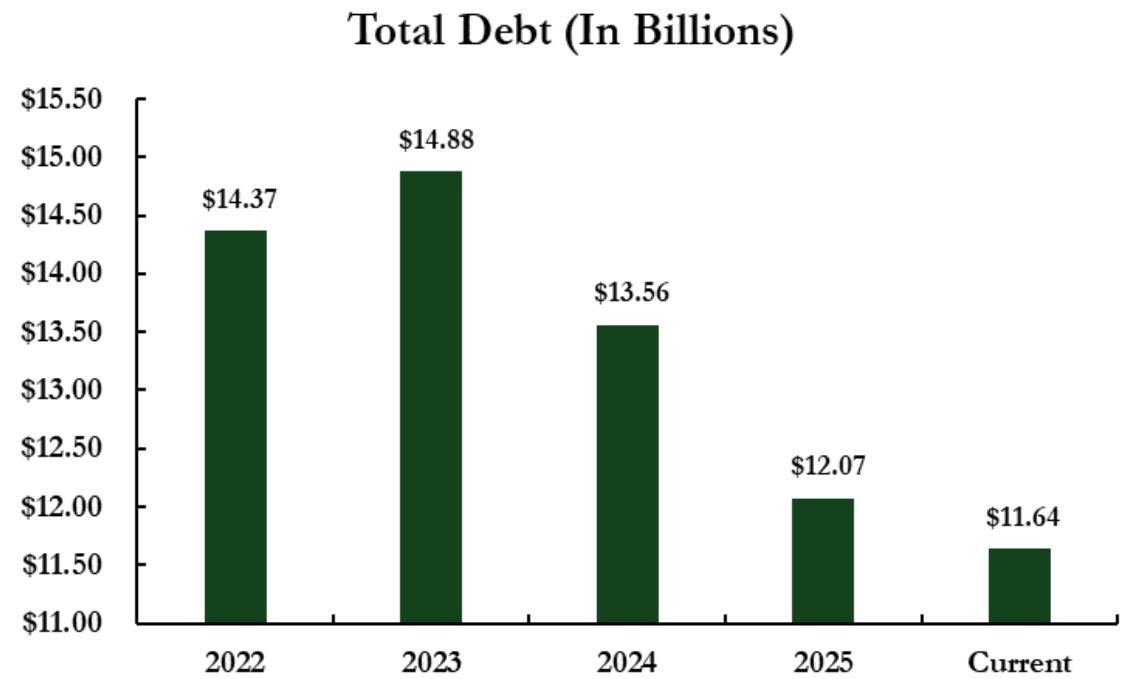


# Fundamental Analysis

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# Debt Overview

- Salesforce maintains an A+ credit rating, signaling very low default risk, as well as providing low borrowing costs
- Total debt has decreased \$3.1B from 2023 to the present, falling from its peak of \$14.88B
- With a debt/EBITDA of 0.902, Salesforce could wipe out all of their debt within the year



# 3Q Earnings and Guidance

## 3Q Earnings

Metric	Growth (YoY)
Revenue	+ 8.6% (Missed)
EPS	+ 35% (Beat)
cRPO	+ 11.1% (Beat)
RPO	+ 12.1% (Beat)

- EPS beat expectations on strong operating leverage, with record non-GAAP operating margins of 35.5%
- RPO and billings growth exceeded expectations, led by Agentforce and Data Cloud

## Full-Year FY26 Guidance

Metric	Current Guidance	Prior Guidance
Revenue	+ 9% - 10%	+ 8.5% - 9%
EPS	+ 15%	+ 11%
OCF	+ 13% - 14%	+ 12% - 13%
FCF	+ 13% - 14%	+ 12% - 13%

- Revenue and EPS guidance were raised, with improved cash flow outlook supporting a steady outlook
- Management reiterated that Salesforce is on track to reaccelerate within a year and that Agentforce is key for this acceleration

# CRM's Competitors and Relative Valuation

	CRM	MSFT	NOW	WDAY
EV / FCF	15.41	40.86	33.27	18.36
P/E	23.55	27.98	70.09	79.41
PEG	1.58	1.73	1.05	2.01

- CRM's implied per share price from comps analysis was **\$351.98**
- Salesforce maintains a ~92% retention rate (based on consistent ~8% gross attrition rate)
  - High switching costs
  - Network effect (AppExchange)
- **EV/FCF** indicates CRM is superior to all selected competitors in converting revenue into actual cash flow
- Salesforce's access to decades worth of customer data gives their AI tool Agentforce an inherent advantage over competitors

# SWOT & ESG Analysis

Strengths	Weakness
<ul style="list-style-type: none"> <li>Market Leadership/ Brand Recognition</li> <li>Integrated Products</li> </ul>	<ul style="list-style-type: none"> <li>High Cost of Ownership</li> <li>Platform Complexity</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>AI Automation and Growth</li> <li>Growing CRM Demand Worldwide</li> </ul>	<ul style="list-style-type: none"> <li>Intensifying Competition</li> <li>AI Disruption and Monetization Risk</li> </ul>

- Market Dominance:** Controls 90% of Fortune 500 accounts
- AI Opportunity:** Expanding rapidly through Agentforce and Einstein, with Data Cloud/AI revenue growing 120% YoY
- Adoption Barriers:** High cost and complexity may deter small businesses

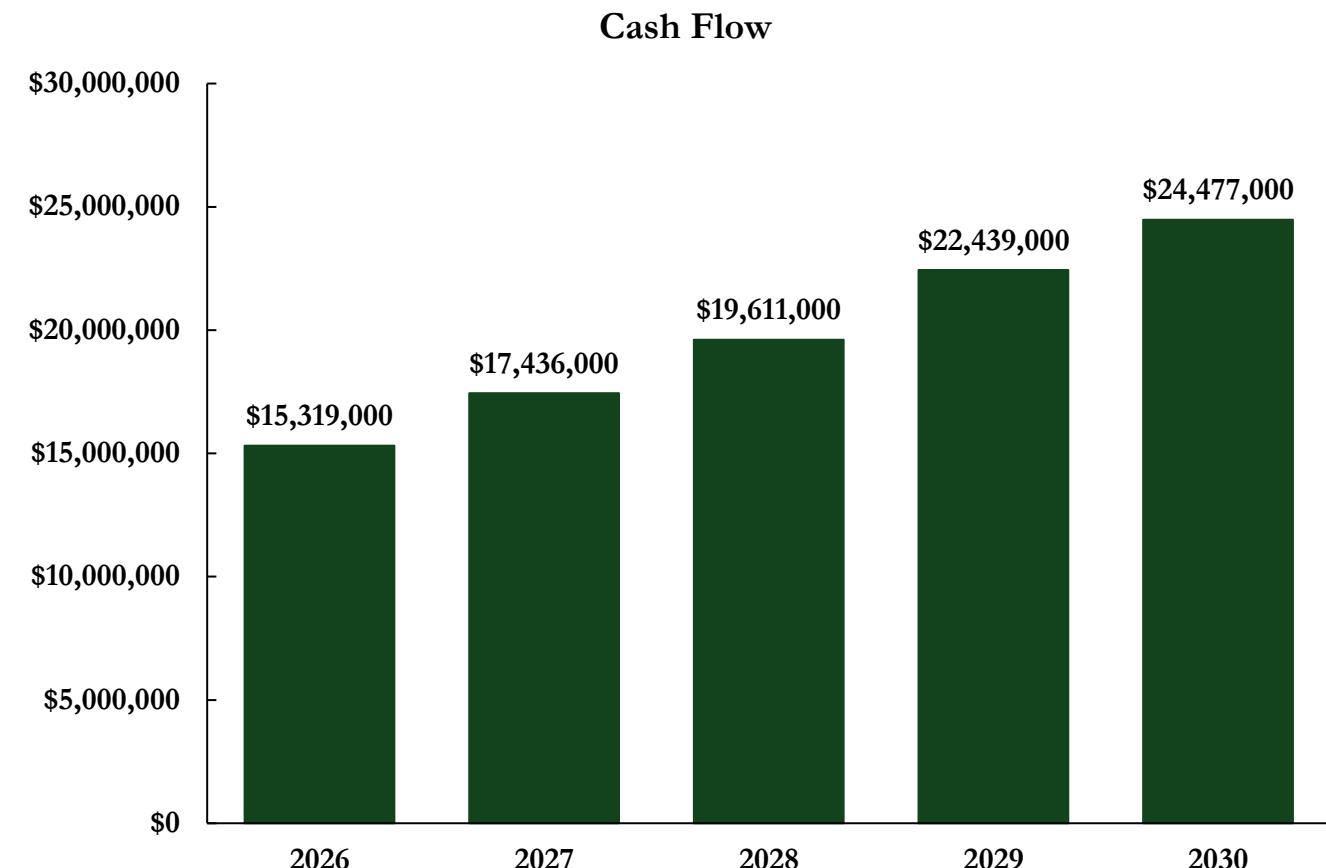
ESG Metric	Score	Peer Rank
Environmental	6.41	Leading
Social	3.67	Leading
Governance	7.43	Leading

- Industry-Leading Ratings:** Achieved "Leading" peer ranks across Environmental (6.41), Social (3.67), and Governance (7.43) metrics, with an overall score 114% higher than the industry median
- Environmental Impact:** Achieved net-zero emissions across the entire value chain in 2021
- Social & Governance Accountability:** Executive pay is linked to ESG goals, including a 40% non-binary/women-identifying workforce target by 2026

# DCF

Intrinsic Value	
Enterprise Value	\$259,918,889
Cash	\$14,032,000
Debt	\$11,640,000
Equity Value	\$262,558,889
Equity Value Per Share	\$280.21

Rate of Return	
Target Price Upside	42%
Internal Rate of Return	23%



# Position Overview

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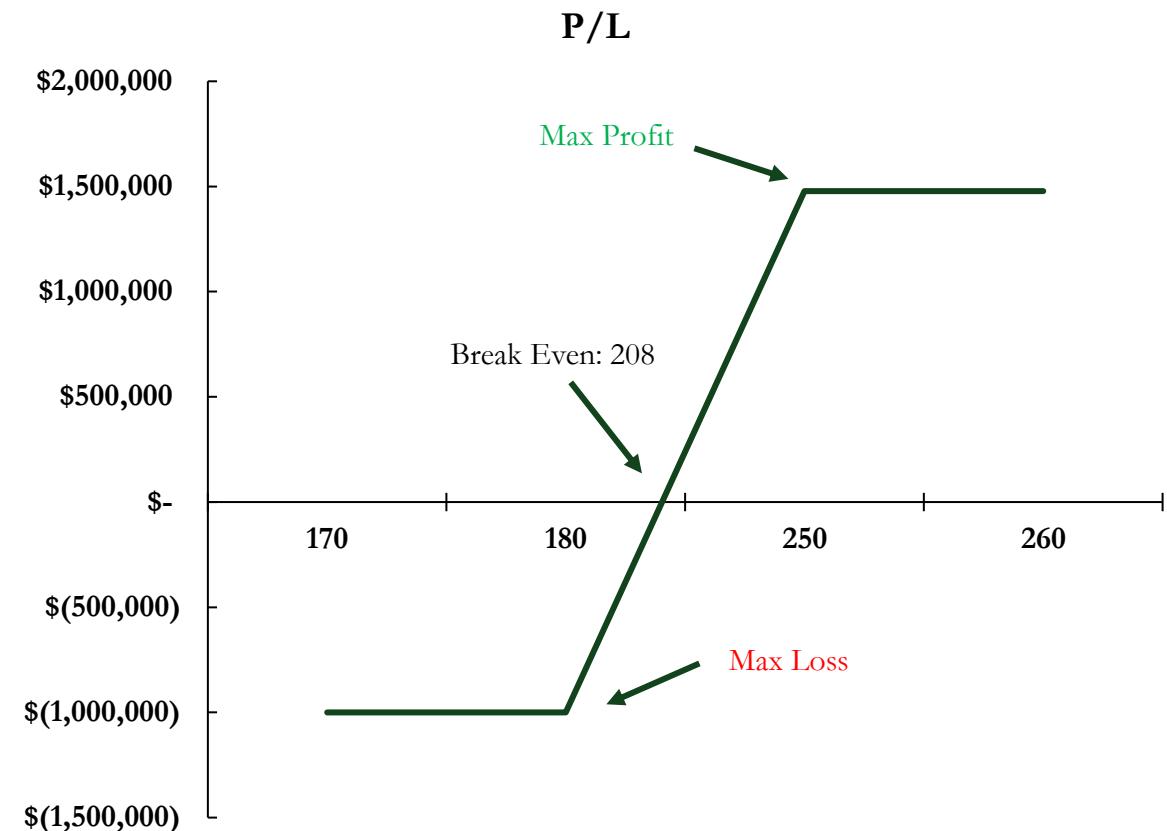
# Bull Call Spread (Call Debit Spread)

## How it works:

A bull call spread is an options strategy where an investor buys a call option at a lower strike price and sells a call at a higher strike price with the same expiration date

## Why use a Bull Call Spread:

A bull call spread is used when the investor expects a moderate increase in the underlying asset's price, while limiting both risk and potential profit



# Greeks

Long Call	
Strike	180
Expiration	6/17/2027
Premium	\$50.00
Contracts	354
Delta	0.689
Gamma	0.007
Vega	0.814
Theta	-0.029

Short Call	
Strike	250
Expiration	6/17/2027
Premium	\$21.75
Contracts	354
Delta	-0.431
Gamma	-0.008
Vega	-0.906
Theta	0.034

Overall	
Net Debit	\$28.25
Contracts	354
Delta	0.258
Gamma	-0.001
Vega	-0.092
Theta	0.005
Total Premium	\$1,000,050

## Liquidity Concerns

To mitigate execution risk and adverse price impact, the team will consider scaling out of the spread incrementally rather than exiting all contracts at once

# Appendix

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# Appendix A: SWOT Analysis

## Strengths

- **Market Leadership / Brand Recognition**

Salesforce is the world's leading CRM provider, holding the largest global market share. Salesforce serves 150,000+ customers worldwide, including approximately 90% of Fortune 500 companies, demonstrating strong enterprise penetration.

- **Cloud Ecosystem and Switching Costs**

Salesforce offers an integrated suite of products, including Sales Cloud, Service Cloud, Marketing Cloud, and Data Cloud. This deep integration increases efficiency while creating high switching costs for customers.

## Opportunities

- **AI Automation and Growth**

Salesforce is expanding its AI offerings such as Einstein and Agentforce. AI and Data Cloud segments show rapid growth (e.g., Data Cloud/AI ARR growing 120% YoY), indicating strong demand for AI-powered CRM.

- **Growing CRM Demand Worldwide**

The CRM software market continues to grow as digital transformation expands across industries. Salesforce's top share positions it to capture more cloud CRM spend globally.

## Weaknesses

- **High Cost of Ownership**

Salesforce's licensing, add-ons, and customization costs can be higher than competitors', which may limit adoption among smaller businesses or cost-conscious buyers. Typical pricing ranges from ~\$25 to ~\$330+ per user/month.

- **Platform Complexity**

The platform requires significant training and often dedicated administrators or consultants for implementation, as reflected in the fact that thousands of certified Salesforce partners and consultants exist globally.

## Threats

- **Intensifying Competition**

Salesforce faces growing competition from Microsoft Dynamics 365, Oracle, SAP, Adobe, and emerging AI-native platforms. Large competitors can bundle CRM with broader enterprise software at lower incremental cost, while AI-first tools may reduce switching costs..

- **AI Disruption and Monetization Risk**

If customers adopt standalone or embedded AI tools that replicate Salesforce workflows, Salesforce may face pricing pressure or slower seat expansion unless it successfully monetizes AI features such as Einstein at scale.

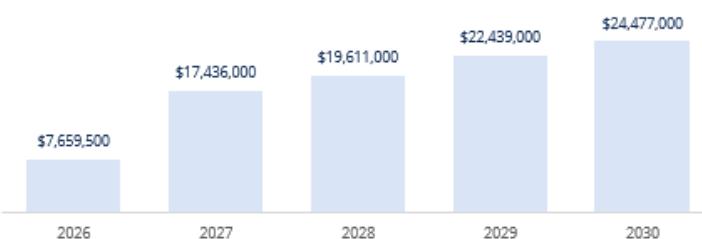
# DCF

## DCF Model

### Assumptions

Tax Rate	21%
Discount Rate	13%
Perpetual Growth Rate	3%
EV/EBITDA Multiple	13.8x
Transaction Date	12/31/2025
Fiscal Year End	1/31/2026
Current Price	197.54
Shares Outstanding	937,000
Debt	11,392,000
Cash	14,032,000
Capex	(658,000)

### Cash Flow



### Market Value vs Intrinsic Value



### Discounted Cash Flow

	Entry	2026	2027	2028	2029	2030	Exit
Date	12/31/2025	6/30/2026	6/30/2027	6/30/2028	6/30/2029	6/30/2030	6/30/2030
Time Periods		0	1	2	3	4	
Year Fraction		0.50	1.00	1.00	1.00	1.00	
EBIT		15,900,000	18,200,000	20,700,000	23,900,000	26,100,000	
Less: Cash Taxes		3,339,000	3,822,000	4,347,000	5,019,000	5,481,000	
Plus: D&A		3,200,000	3,500,000	3,800,000	4,200,000	4,600,000	
Less: Capex		(658,000)	(658,000)	(658,000)	(658,000)	(658,000)	
Less: Changes in NWC		1,100,000	1,100,000	1,200,000	1,300,000	1,400,000	
Unlevered FCF		15,319,000	17,436,000	19,611,000	22,439,000	24,477,000	
(Entry)/Exit	(182,454,980)						337,886,550
Transaction CF	-	7,659,500	17,436,000	19,611,000	22,439,000	24,477,000	337,886,550
Transaction CF	(182,454,980)	7,659,500	17,436,000	19,611,000	22,439,000	24,477,000	337,886,550

### Intrinsic Value

Enterprise Value	259,918,889
Plus: Cash	14,032,000
Less: Debt	11,392,000
Equity Value	262,558,889

Equity Value/Share 280.21

### Market Value

Market Cap	185,094,980
Plus: Debt	11,392,000
Less: Cash	14,032,000
Enterprise Value	182,454,980

Equity Value/Share 197.54

### Terminal Value

Perpetual Growth	252,113,100
EV/EBITDA	423,660,000
Average	337,886,550

### Rate of Return

Target Price Upside	42%
Internal Rate of Return	23%

### Market Value vs Intrinsic Value

Market Value	197.54
Upside	82.67
Intrinsic Value	280.21

# Appendix B: Revenue and Free Cash Flow

**Revenue (In Millions)**

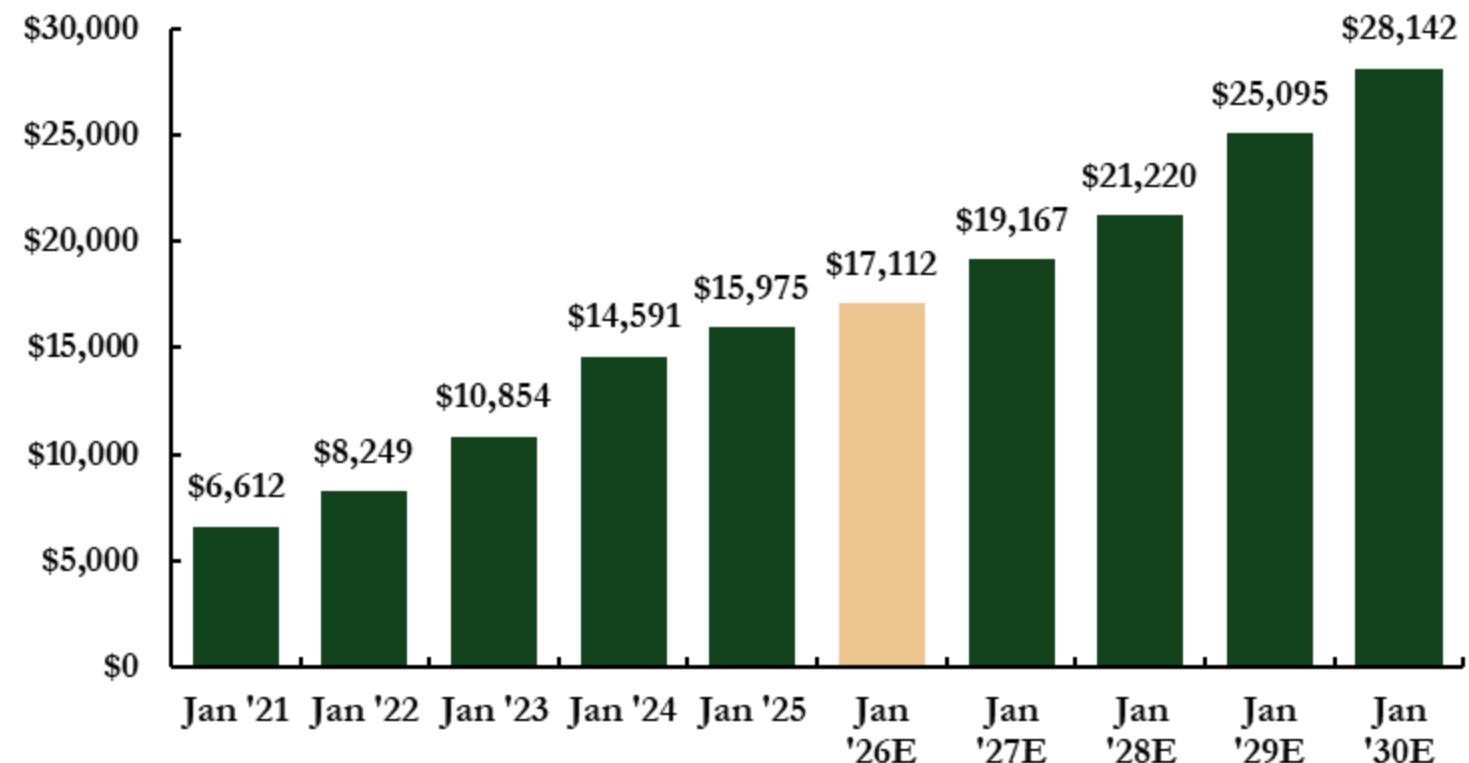
Year	Q1	Q2	Q3	Q4	FY
2024	9,287	9,133	9,325	9,444	37,895
2025	9,829	10,236	10,259	11,180 (E)	41,497
2026 (E)	11,016	11,409	11,480	12,224	46,108

**Free Cash Flows (In Millions)**

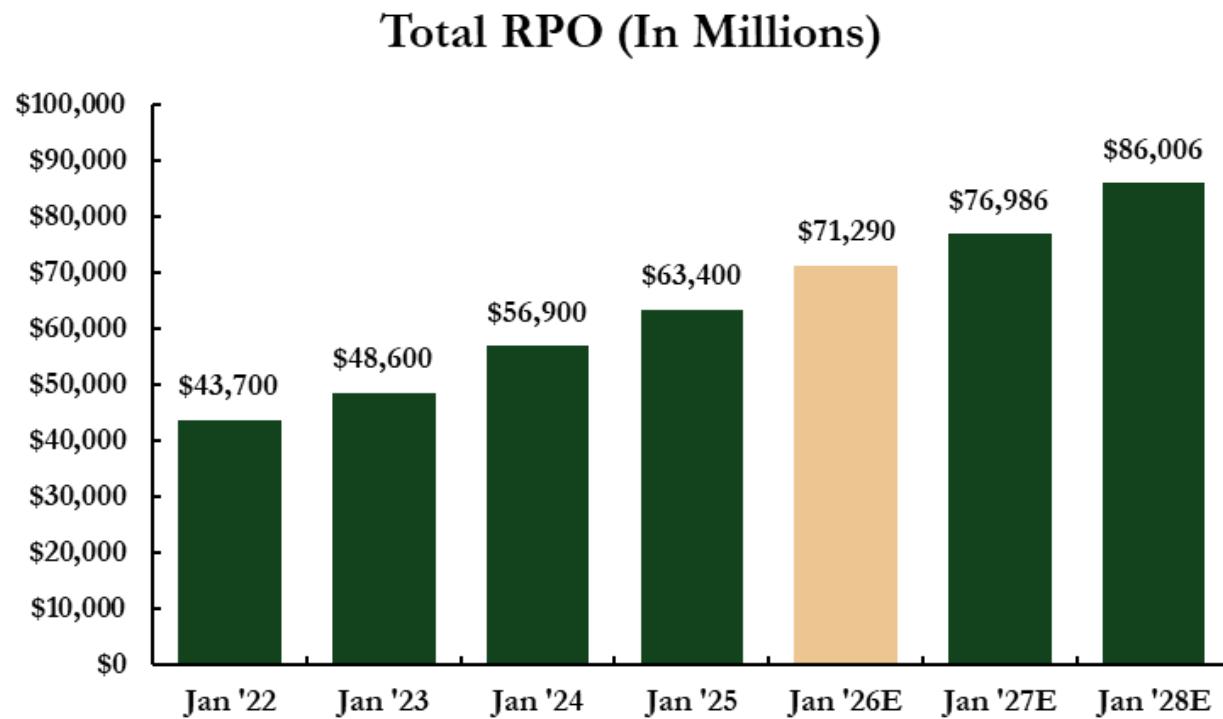
	2020	2021	2022	2023	2024	2025
<b>FCF</b>	3,688	4,091	5,283	6,313	9,498	12,434
<b>FCF to firm</b>	3,711	-	5,487	6,403	-	-
<b>FCF to equity</b>	3,619	4,067	11,988	6,309	7,795	10,831

# Appendix C: EBITDA

**EBITDA (In Millions)**



# Appendix D: Total RPO



Remaining performance obligation (RPO) is a simple concept that helps businesses and investors understand future revenue.

RPO is the total amount of money a company expects to earn from its existing contracts with customers.

RPO is unearned revenue that provides a clear picture of future earnings.

# Appendix E: ESG

ESG Metric	Score	Peer Rank
Environmental	6.41	Leading
Social	3.67	Leading
Governance	7.43	Leading

**Salesforce's ESG score is 5.51**, which is leading compared to its peers in the industry. The median ESG score of Salesforce's peer group is 2.58. which is 114% less than Salesforce's score.

# Appendix F: Comps Model

## Comparable Company Analysis

	P/S	P/E	P/B	EV/FCF	EV/EBITDA
MSFT	10.34	27.98	10.72	40.86	16.80
NOW	9.30	70.09	9.44	33.27	39.22
WDAY	5.06	79.41	5.16	18.36	32.68
Average Multiples	8.23	59.16	8.44	30.83	29.57

CRM Info	Sales	Profit	Book value	FCF	EBITDA	Shares Outstanding	Equity Value
Value	40,317,000,000	8,979,000,000	41,755,000,000	12,895,000,000	9,320,000,000	952,000,000	197,530,000,000
CRM Implied Price	348.68	557.98	370.18	417.60	289.46		

Weights	P/S	P/E	P/B	EV/FCF	EV/EBITDA
% Weight	0.30	0.05	0.15	0.15	0.35
<b>Estimated Price</b>					
CRM Weighted Price	<b>351.98</b>				