



CLUB

Salesforce beats on earnings, declares dividend. Those selling the stock are missing the big picture

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In this article

META -0.97 (-0.20%) 



A sign is posted at Salesforce headquarters on February 28, 2024 in San Francisco, California.

Justin Sullivan | Getty Images

[Salesforce](#) finished its fiscal 2024 on a strong note, as the enterprise software giant continued to deftly balance sales and profit growth. The company also boosted its stock buyback program, and management even tossed in its first-ever dividend — a sign of its confidence in the business. We're still believers, too.



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...er, exceeding the \$2.26 amount expected by analysts, according to estimates compiled by LSEG, formerly Refinitiv.

- Adjusted earnings per share of \$2.29 rose 36% on an annual basis and topped the \$2.26 predicted by analysts, LSEG data showed.
- Adjusted operating margin expanded to 31.4% in the quarter, missing estimates of 31.55%, according to FactSet. On a GAAP basis, quarterly operating margin checked in at 17.5%, below the 18% expected. GAAP stands for generally accepted accounting principles.

The stock initially dipped more than 5% in extended trading due to [elevated expectations](#) and a fiscal 2025 revenue forecast that was slightly below expectations. By the end of the conference call, though, shares erased those losses and moved slightly higher, before fading back into the red. Up or down Thursday, it's been quite a run for Salesforce. The stock rallied nearly 14% this year through Wednesday's close after almost doubling in 2023. We think more gains lie ahead.

Salesforce Inc
CRM:NYSE

+

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**299.77** ▲ +0.27 (+0.09%)

Close

1D 5D 1M 3M 6M YTD **1Y** 5Y ALL Comparison

Salesforce's stock performance over the past 12 months.

Bottom line

Were the results perfect? No, but it was an overall solid quarter for Salesforce, with the company beating on most key metrics. Operating margins slightly fell short of Wall Street's high hopes, but the expansion on an annual basis was significant, and a



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response to activist investors who demanded improved profitability.

Instead of quibbling over a slight miss on margin, we'd rather focus on the direction where it is headed. And that's higher, with CEO Marc Benioff and Co. projecting fiscal year 2025 to be another one of margin expansion.

The external narrative surrounding the quarter may play up a slight miss on the revenue guide, but what happens when the broader deal environment — plagued by measured spending and elongated sales cycles for going on two years now — improves? After all, Salesforce management said it is seeing “green shoots” in certain areas because every customer wants to find ways to utilize AI and become more productive. It's certainly possible that the company's sales growth guidance proves to be conservative.

This balance of margin expansion with the potential for faster topline growth is why we continue to think Salesforce is a company to own for the next few years, at least. For a stock growing its earnings per share by nearly 20% but trading at roughly 31 forward estimates, its valuation is undemanding, as well. If the stock were to get hit Thursday and slide in the days or weeks ahead, we'd think of it as a buying opportunity.

We're maintaining our 2 rating on Salesforce shares and increasing our price target to \$340 a share, from \$320.

Quarterly commentary



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Adjusted Earnings-Per-Share (EPS)	2.29	2.20	1.68	36%
Companywide (in millions)				
GAAP Operating Margin %	17.5	18.38	4.2	1,320 bps
Adjusted Operating Margin %	31.4	31.55	29.2	220 bps
Operating Cash Flow	3,403	2,655	2,788	22%
Capital Expenditures	147	217	218	-32.6%
Free Cash Flow	3,256	2,354	2,570	27%
Remaining Performance Obligation (RPO)	56,900	n/a	48,600	17%
Current Remaining Performance Obligation (cRPO)	27,600	27,095	24,600	12%
Segment Sales Results				
Subscription and support	8,748	8,617	7,789	12%
Professional services and other	539	606	595	-9%
Subscription and Support Revenue Breakdown				
Sales Cloud	1,969	1,969	1,787	10%
Service Cloud	2,158	2,141	1,924	12%
Platform and Other	1,720	1,728	1,557	10%
Marketing and Commerce	1,274	1,281	1,177	8%
Data	1,627	1,500	1,344	21%
Notes:				
<ul style="list-style-type: none"> • All estimates are from FactSet except for EPS and sales, which come from LSEG. The individual cloud estimates are from Bloomberg. • Unless otherwise noted, all numbers are in millions • Yellow = matched estimates; green = beat; red = miss • 100 basis points (BPS) = 1 percentage point • Margin change in BPS • YoY = Year-over-Year • GAAP = Generally Accepted Accounting Principles • N/A = Not Available • RPO represents all future revenue under contract that has not yet been recognized as revenue • cRPO represents future revenue under contract that is expected to be recognized as revenue in the next 12 months 				

Salesforce's fourth-quarter results.

Salesforce continues to see strong adoption of its so-called “full cocktail” of clouds, with eight of its top 10 deals in the quarter including six or more clouds, which are reported as five units. Salesforce also saw an 80% increase in deals valued at more than \$10 million in fiscal 2024.

Geographically, on a constant currency basis, sales increased 10% year over year in the Americas, 12% in EMEA (Europe, the Middle East, and Africa), and 22% in the



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new business growth in Latin America, India, and Canada while indicating parts of EMEA are constrained.

At the same time, Salesforce's revenue attrition rate was roughly in line with recent quarters at slightly above 8% — notable given the company's 9% price hike implemented in August, which were [the first increases to list prices in seven years](#). The relatively low attrition rate is a sign that customers, hesitant to drop Salesforce's software, are willing to pay higher prices as their deals come up for renewal.

By cloud unit, the biggest upside surprise in the quarter came from the Data Cloud, a real-time customer data platform comprised of Analytics (from the Tableau acquisition) and Integration (from the MuleSoft acquisition.) To be sure, it wasn't too surprising to see the outperformance here. As Benioff explained last quarter, increased interest in AI is driving a surge of new demand for this cloud. In fact, the company said Data Cloud has become its fastest growing product ever. It is levered to AI through MuleSoft's integration technology, which helps customers unlock trapped data across legacy systems, cloud apps, and devices. Tableau is helps customers better understand data and make data-driven decisions.

The company also expects to see a wave of interest for its Einstein Copilot, a conversational AI chatbot made available to the public Tuesday.

Cash flow continues to grow faster than expected. In the three months ended Jan. 31, operating cash flow jumped 22% annually to \$3.4 billion while free cash flow climbed to \$3.25 billion, up from \$2.57 billion a year ago. This strong cash



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related to stock-based compensation. In its fiscal 2024, Salesforce repurchased \$7.7 billion worth of stock, lowering its diluted share count by about 1 million to 983 million. Of course, we would like to see the share count fall further to increase our ownership in the company and boost per-share earnings, but we are still pleased to see management maintain its serious approach to dilution. The steady buyback should continue in its current fiscal year due to a \$10 billion increase to the authorization.

Salesforce's cash returns to shareholders also are no longer limited to a buyback. The company initiated its first-ever quarterly dividend of 40 cents per share. On an annualized basis, that puts the stock's yield at about 0.50%. That's not enough to attract the attention of yield-hungry investors, but it will make the stock look more attractive to investors and funds that require dividends as part of their strategies. Salesforce joins fellow Club holding [Meta Platforms](#) as influential technology companies to [declare a dividend](#) this earnings season.

Guidance

For full-year fiscal 2025, Salesforce said it expects total revenues between \$37.7 and \$38.0 billion, up 9% year over year and a slight miss versus expectations of \$38.65 billion, according to FactSet. However, there could be room for upside if the deal environment continues to improve and more customers seek adoption of the Data Cloud and Einstein Copilot.



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from 17.1% in fiscal year 2024 and better than the 16.0% expected by analysts, according to FactSet. Meanwhile, adjusted operating margins are expected to expand to about 32.5% in fiscal 2025, from 30.5% in the year-ago period and topping estimates of about 32%, per FactSet.

Despite the slightly softer revenue outlook, Salesforce's expected strong margin performance allowed its full-year earnings guidance to exceed Wall Street predictions. The company said adjusted EPS is expected to be between \$9.68 and \$9.76, compared with estimates of \$9.61, according to FactSet.

For the first quarter, Salesforce guided for revenues between \$9.12 and \$9.17 billion, in line with estimates of \$9.15 billion. Meanwhile, its adjusted EPS guidance of \$2.37 to \$2.39 is well ahead of the \$2.20 estimates, according to FactSet.

Salesforce's current remaining performance obligation is expected to grow 11% year over year, ahead of estimates of about 9.6% growth. That metric represents future revenue under contract that is set to be booked over the next 12 months.

(Jim Cramer's Charitable Trust is long CRM and META. See [here](#) for a full list of the stocks.)

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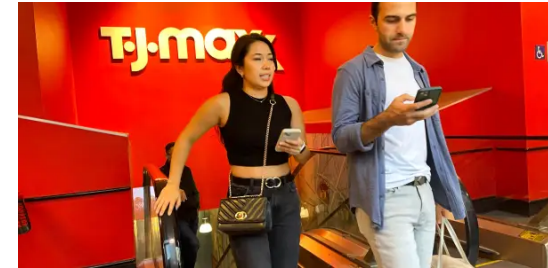
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