

BUSI 226 Financial Statement Analysis



Project Report

For the fiscal year ended January 2024



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1. INTRODUCTION

Amidst a dynamic business landscape marked by technological advancements, evolving customer demands, and economic fluctuations, Salesforce Inc (*hereinafter referred to as 'Salesforce' or 'the company'*) continues to navigate these challenges while pursuing strategic growth initiatives. As such, analyzing its financial performance for FY 2023-24 offers the stakeholders an opportunity to assess the company's ability to capitalize on market opportunities, manage risks effectively, and deliver sustainable value over the long term.

This analysis will delve into Salesforce's income statement, balance sheet, and cash flow statement, scrutinizing key financial metrics, trends, and ratios to evaluate its performance relative to industry benchmarks and previous periods. Additionally, it will explore qualitative factors such as market dynamics, competitive positioning, and strategic initiatives to provide a holistic view of Salesforce's financial standing and prospects.

By conducting a thorough financial statement analysis, the stakeholders can make informed decisions regarding their investment strategies, while management can gain valuable insights to drive strategic planning and performance optimization. As we delve into the financials of Salesforce Inc. for FY 2023-24, let us uncover the factors shaping its financial performance and its implications for stakeholders and the broader market landscape.

2. COMPANY BUSINESS

2.1 Overview¹

Salesforce is a global leader in customer relationship management technology that brings companies and customers together. With the Customer 360 platform, the Company delivers a single source of truth, connecting customer data with integrated artificial intelligence across systems, apps, and devices to help companies sell, service, market and conduct commerce from anywhere. Since its founding in 1999, Salesforce has pioneered innovations in cloud, mobile, social, analytics and artificial intelligence, enabling companies of every size and industry to transform their businesses in the all-digital, work-from-anywhere era.

The AI-powered Customer 360 platform unites sales, service, marketing, commerce, and IT teams by connecting customer data across systems, apps and devices to create a complete view of customers. With this single source of customer truth, teams can be more responsive, productive, and efficient and deliver intelligent, personalized, and automated experiences across every channel.

The Customer 360 service offers are designed to be flexible, scalable, and easy to use. They can generally be configured easily, deployed rapidly, and integrated with other platforms and enterprise applications. We sell to businesses worldwide, primarily on a subscription basis, through our direct sales efforts and also indirectly through partners. We also enable third parties to use our platform and developer tools to create additional functionality and new applications that run on our platform, which are sold separately from, or in conjunction with, our service offerings.

2.2 Business Model

Salesforce operates on a subscription-based model, offering cloud-based customer relationship management (CRM) software and a platform for developing custom applications. The breakdown of their business model for FY 2024 is as given below:

¹ Form 10K for year ended January 31, 2024 – Pg 5 and 68



- **Subscription & Support Revenue:** This is the core revenue stream. The company offers various cloud-based CRM solutions like Sales Cloud, Service Cloud, Marketing Cloud, etc., through subscriptions. Customers pay recurring fees for access and ongoing support.
- **Salesforce Customer 360:** This platform integrates various Salesforce cloud products, providing a unified view of customer data. Customers likely pay a premium for this comprehensive solution.
- **Einstein AI:** Salesforce offers Einstein, a set of artificial intelligence (AI) tools that enhance their CRM products with features like lead scoring and predictive analytics. Customers may pay extra to leverage these functionalities.
- **Professional Services & Training:** They provide professional services for implementation, customization, and training on their products, generating additional revenue.

2.3 Revenue Recognition²

The Company derives its revenues from two sources: (1) subscription and support revenues and (2) professional services and other revenues. Subscription and support revenues include subscription fees from customers accessing the Company's enterprise cloud computing services (collectively, "Cloud Services"), software license revenues from the sales of term software licenses and support revenues from the sales of support and updates beyond the basic subscription or software license sales. Professional services and other revenues include professional and advisory services for process mapping, project management and implementation services and training services.

Revenue is recognized upon transfer of control of promised products and services to customers in an amount that reflects the consideration the Company expects to receive in exchange for those products or services. If the consideration promised in a contract includes a variable amount, for example, overage fees, contingent fees or service level penalties, the Company includes an estimate of the amount it expects to receive for the total transaction price if it is probable that a significant reversal of cumulative revenue recognized will not occur.

3. CUSTOMER RELATIONSHIP MANAGEMENT (CRM) INDUSTRY ANALYSIS³

3.1 Overview

The customer relationship management market is highly fragmented due to the presence of both global players and small and medium-sized enterprises. Companies have been investing in incorporating AI in CRM Software. Rapid digitization provides vendors with growth opportunities. Players in the market are adopting strategies such as partnerships, innovation, expansion, and acquisitions to enhance their offerings and gain sustainable competitive advantage.

In April 2022 - Salesforce Inc. announced the expansion of offerings of Customer 360 for education institutions to provide digital-first, flexible learning options; real-time and asynchronous collaboration; and personalized experiences for students, faculty, and staff. Customer 360 for education enables colleges and universities of all sizes to build Student 360 and rapidly build new programs, such as executive education and flexible learning programs.

3.2 Market Analysis

The CRM software market's growth is primarily fueled by the increasing emphasis on enhancing customer service and the adoption of cloud-based solutions. Large enterprises hold a dominant share, employing CRM software to integrate customer data across various departments, thereby boosting efficiency and reducing manual work

² Form 10K for year ended January 31, 2024 – Pg 68

³ <https://www.mordorintelligence.com/industry-reports/customer-relationship-management-market>



through automation. However, the market faces challenges such as the high total cost of ownership for CRM software, which can deter potential adopters, especially within smaller organizations with limited budgets.

The Customer Relationship Management Market size is estimated at USD 72.95 billion in 2024, and is expected to reach USD 105.91 billion by 2029, growing at a CAGR of 7.74% during the forecast period (2024-2029). This is primarily due to the number of businesses adopting CRM to boost their customer retention and drive sales which is seeing a continuous surge. CRM connects multiple support channels to resolve issues ASAP. With its multiple deployment modes, easy mobile access, and scalability as top features, CRM tools see increasing applications globally.



3.3 Market share of the company vis-a-viz its competitors

Salesforce owns a 23% share of the global CRM market as of the beginning of 2024. Further, over 150,000 companies, including Amazon and Spotify, use Salesforce’s services.

The following table displays the market share of the CRM market:⁴

CRM Software	Market Share
Salesforce	23%
Microsoft	5.7%
Oracle	4.8%
SAP	4.6%
Adobe	3.6%

4. SWOT ANALYSIS

Strengths:

- Market Leader:* Salesforce is the undisputed leader in the CRM (Customer Relationship Management) market with a strong brand reputation and large customer base.

⁴ <https://www.demandsage.com/salesforce-statistics/>



- *Innovation:* Salesforce continuously invests in research and development, offering a robust and innovative suite of cloud-based CRM solutions with AI capabilities.
- *Financial Performance:* FY24 saw strong financial performance with consistent revenue growth, healthy operating margins, and a growing customer base.
- *Ecosystem & Acquisitions:* Salesforce has a strong ecosystem of partners and a history of successful acquisitions, expanding its product offerings and reach.

Weaknesses:

- *Pricing:* Salesforce solutions can be expensive for smaller businesses, potentially limiting market penetration.
- *Complexity:* The Salesforce platform can be complex for some users, requiring training and ongoing support.
- *Integration Challenges:* Integrating Salesforce with other systems can be complex and require additional resources.
- *Competition:* The CRM market is becoming increasingly competitive with strong players like Microsoft Dynamics and Oracle NetSuite emerging.

Opportunities:

- *Growth in New Markets:* Expanding into new markets like vertical industries or geographically can drive further growth.
- *Focus on SMB Market:* Developing more affordable and user-friendly solutions to attract small and medium-sized businesses.
- *Emerging Technologies:* Leveraging AI, machine learning, and automation to further enhance its product offerings.
- *Subscription & Recurring Revenue:* The subscription model provides recurring revenue and fosters long-term customer relationships.

Threats:

- *Economic Downturn:* An economic slowdown could impact IT spending and limit customer acquisition.
- *Security Concerns:* Data security breaches can damage customer trust and reputation.
- *Open-Source Alternatives:* Open-source CRM solutions could pose a threat to Salesforce's market share.
- *Regulation & Compliance:* Evolving data privacy regulations can increase compliance costs and operational complexity.

Overall, Salesforce is in a strong position with a strong market share, financial performance, and a commitment to innovation. However, it needs to address pricing complexity and competition to maintain its position. Focusing on new markets, the small and medium business segment, and emerging technologies presents exciting opportunities for future growth. Remaining vigilant against security threats, economic downturns, and regulatory changes are key to long-term success.

5. CREDIT RATING⁵

Salesforce's creditworthiness is strong in 2024. In March, Moody's Investors Service upgraded their long-term local currency rating to A1, indicating a very low credit risk. S&P Global Ratings also maintains a positive outlook

⁵ <https://cbonds.com/news/2795125/>



on their A+ rating for Salesforce. This positive outlook reflects Salesforce's consistent financial performance, with strong revenue growth and improving profitability.

Moody's Investors Service upgrades LT- local currency credit rating of Salesforce to "A1" from "A2"; outlook stable

March 28, 2024 [Cbonds](#)

Moody's Investors Service upgraded to "A1" from "A2" the LT- local currency credit rating of Salesforce on March 27, 2024. The outlook is stable.

Issuer – [Salesforce](#)



Full name	Salesforce Inc (formerly Salesforce.com Inc)
Registration country	USA
Industry	IT Services and Computer Programming

6. ACCOUNTING ISSUES

The company operates in a single segment i.e. customer relationship management (“CRM”) technology. It derives its revenues from two sources: (1) subscription and support revenues and (2) professional services and other revenues. Subscription and support revenues accounted for approximately 93 percent of our total revenues for 2024.

- **Revenue Recognition:** A major challenge is determining when to recognize revenue from subscriptions. Should it be recognized upfront when the contract is signed, or spread out over the subscription term? Accounting standards (ASC 606) dictate how this should be handled but applying them to various CRM subscription plans with different features and durations can be complex.
- **Subscription Management:** Accurately tracking and managing a high volume of subscriptions with different start and end dates, along with potential upgrades, downgrades, and cancellations, is crucial. Manual processes can lead to errors and make it difficult to accurately forecast revenue.
- **Deferred Revenue:** Unearned subscription fees need to be classified as deferred revenue on the balance sheet. This can be a significant amount for CRM companies with long-term subscriptions, and managing it accurately is essential for presenting a clear financial picture.
- **Customer Acquisition Costs (CAC):** CRM companies often invest heavily in marketing and sales to acquire new customers. These costs need to be allocated properly across the subscription period, impacting profitability calculations.
- **Integration with CRM Platforms:** Many CRM solutions offer integrated billing and subscription management features. However, ensuring smooth integration with existing accounting systems to avoid data silos and manual workarounds is important.



7. FINANCIAL RATIO ANALYSIS

7.1 Summary of financial ratios

A thorough financial statement analysis for Salesforce in 2024 would involve diving deep into their income statement, balance sheet, and cash flow statement. For analysis, we have divided the ratios into 4 major categories: **Profitability, Efficiency, Liquidity and Coverage ratios**. This analysis will provide a picture of the company's financial strengths and weaknesses, its ability to generate profits and manage debt, how efficiently it utilizes resources and provide insights into the company's future performance. Further, for the purpose of comparability analysis, we have considered Adobe Inc since it is one of the top players in the CRM market. The detailed working of these ratios is provided in the excel file submitted.

Particulars		Salesforce		Adobe
Category	Financial Ratio	2024	2023	2023
Profitability Ratios	Profit Margin	11.87%	0.66%	27.97%
	Net Operating Profit Margin (NOPM)	12.01%	1.04%	27.05%
	Gross Profit Margin	75.50%	73.34%	87.87%
	Return on Equity	7.01%	0.36%	35.51%
	Return on Assets	4.16%	0.21%	19.06%
	Return on Net Operating Assets (RNOA)	7.10%	0.54%	41.42%
Efficiency Ratios	Asset Turnover	0.35	0.32	0.68
	Net Asset Turnover	0.59	0.52	1.53
	Accounts Receivable Turnover	3.14	3.06	9.05
	Accounts Payable Turnover	1.33	1.37	6.79
	Cash Conversion Cycle	(158.59)	(147.40)	(13.40)
	PPE Turnover	9.43	9.62	9.86
Liquidity Ratios	Current Ratio	1.09	1.02	1.34
	Quick Ratio	0.96	0.90	1.22
	Total Debt to Equity	0.21	0.24	0.60
	Liabilities to Equity	0.67	0.69	0.80
Coverage Ratios	Cash flow from operations to total debt	0.81	0.50	0.74
	Free Operating Cash flow from operations to total debt	0.75	0.45	0.70
	Times Interest Earned	20.49	3.40	61.17
	EBITDA coverage	36.07	17.17	68.88
	Financial Leverage	1.68	1.67	1.86

7.2 Profitability Ratios

Profitability ratios are a type of financial metric used to assess a business's ability to generate earnings relative to its revenue, operating costs, balance sheet assets, or shareholders' equity over time. Profitability ratios are important for a variety of reasons, including helping in assessing a company's financial health and performance and keeping a track on company's performance over time.

i. Profit Margin

This ratio measures how much profit a company generates from each dollar of sales. It is expressed as a percentage. The higher the ratio, the more efficient a company is at converting sales into profits. In 2024, Salesforce's profit margin was 11.87%, which is significantly higher than the 0.66% profit margin in 2023. This indicates that Salesforce was much more efficient at converting revenue into profit in 2024.

Adobe has a significantly higher profit margin of 27.97% compared to Salesforce's 11.87% which means that Adobe earns a higher percentage of profit for every dollar of revenue.



ii. **Net Operating Profit Margin (NOPM)**

This ratio measures the percentage of revenue that remains as profit after subtracting all operating expenses, including COGS, selling, general, and administrative (SG&A) expenses. SG&A expenses are the indirect costs of running a business, such as rent, salaries, and marketing. In 2024, Salesforce's NOPM is 12.01%, compared to 1.04% in 2023. This also indicates that Salesforce's core business is more profitable in the current year.

Adobe has a higher NOPM of 27.05% vis-à-vis Salesforce's 12.01% which means it is more profitable than Salesforce during comparable financial year 2024.

iii. **Gross Profit Margin**

This ratio measures the percentage of revenue that remains as profit after subtracting the cost of goods sold (COGS). COGS includes the direct costs of producing the goods or services that a company sells. In 2024, Salesforce's gross profit margin is 75.50%, compared to 73.34% in 2023. A slight increase in gross profit margin suggests that the company is slightly better at managing its cost of sales.

Adobe has a higher gross profit margin of 87.87% vis-à-vis Salesforce. This indicates that Adobe is more efficient in managing its cost of goods sold.

iv. **Return on Equity (ROE)**

This ratio measures a company's profitability relative to shareholders' equity. In other words, it shows how much profit a company is generating for each dollar of shareholders' equity. It is calculated by dividing net income by shareholders' equity. A higher ROE is generally considered better, as it indicates that a company is more efficient at using its shareholders' money to generate profits. In 2024, Salesforce's ROE is 7.01%, compared to 0.36% in 2023. A significant increase in ROE indicates that the company is generating a higher return on shareholder investment.

Adobe significantly outperforms Salesforce in ROE (35.51%) versus (7.01%). ROE indicates how much profit a company generates from its shareholders' equity. A higher ROE signifies that the company is using shareholders' equity more effectively.

v. **Return on Assets**

The return on assets (ROA) ratio is a profitability ratio that measures how efficiently a company uses its assets to generate profit. It is calculated by dividing the company's net income by its total assets. A higher ROA indicates that a company is more efficient at generating profits from its assets. In 2024, Salesforce's ROA is 4.16%, compared to 0.21% in 2023. Like ROE, this ratio also shows that the company is better at generating profits from its assets in the current year.

Similar to ROE, Adobe has a much higher ROA (19.06%) than Salesforce (4.16%). ROA shows how much profit a company generates from its total assets.

vi. **Return on Net operating assets**

RNOA is a profitability ratio that measures how effectively a company is using its net operating assets to generate profit. Net operating assets are calculated by subtracting current liabilities from current assets. In other words, it looks at how much profit a company is generating from each dollar invested in assets that



are used to generate revenue. A higher RNOA ratio indicates that a company is more efficient at using its assets to generate profits. The RNOA is higher in 2024 at 7.10% compared to 0.54% in 2023.

While Salesforce has a lower RNOA (7.10%) compared to Adobe (41.42%), it's important to note that RNOA can be volatile depending on a company's operating assets.

7.3 Efficiency Ratios

Efficiency ratios are a type of financial metric used to assess a company's ability to use its assets and resources to generate revenue. In other words, they measure how well a company is converting its resources into sales.

i. **Asset Turnover**

This ratio measures how much revenue a company generates per dollar of assets. A higher asset turnover ratio indicates that a company is using its assets more efficiently. Asset turnover ratio is higher in 2024 at 0.35 compared to 2023 at 0.32. This means that Salesforce is generating more sales per dollar of assets in 2024.

Adobe has a higher asset turnover ratio at 0.68 compared to Salesforce's 0.35. This means Adobe is more efficient at generating sales from its assets.

ii. **Net Operating Asset Turnover**

This ratio measures how many times a company sells and replaces its inventory over a period. A higher inventory turnover ratio indicates that a company is selling its inventory efficiently and not holding onto too much excess inventory. Net asset turnover ratio is also higher in 2024 at 0.59 compared to 2023 at 0.52. This means that Salesforce is generating slightly more sales per dollar of net assets in 2024.

Adobe outperforms Salesforce, 1.53 vis-à-vis 0.59, which indicates Adobe is doing good.

iii. **Accounts Receivable Turnover**

This ratio measures how quickly a company collects payment from its customers. A higher accounts receivable turnover ratio indicates that a company is collecting its debts efficiently. Accounts receivable turnover ratio is slightly higher in 2024 at 3.14 compared to 2023 at 3.06. This means that Salesforce is collecting accounts receivable faster in 2024.

Adobe has a significantly higher accounts receivable turnover of 9.05 vis-à-vis Salesforce which has ratio of 3.14. This suggests that Adobe collects its receivables much faster than Salesforce.

iv. **Accounts Payable Turnover**

This ratio measures how quickly a company pays off its suppliers. A higher ratio indicates that a company pays its bills faster, which can improve its relationships with suppliers. Accounts payable turnover ratio is lower in 2024 at 1.33 compared to 2023 at 1.37. This means that Salesforce is paying accounts payable slower in 2024. This could potentially be a sign of supplier relationship strength or a potential cash flow issue.

Conversely, Salesforce has a higher accounts payable turnover of 1.33 vis-à-vis Adobe which has ratio of 0.69, indicating that Salesforce pays its suppliers faster.



v. Cash Conversion Cycle

This ratio measures the amount of time it takes a company to convert its inventory and accounts receivable into cash. A shorter cash conversion cycle is generally better, as it means that a company is tying up less cash in its working capital. Cash conversion cycle is lower in 2024 at -158.59 days compared to -147.40 days in 2023. A negative cash conversion cycle means that Salesforce is collecting receivables and paying off liabilities faster which is a good sign.

Adobe has a much shorter cash conversion cycle of -13.40 days vis-à-vis Salesforce. This means that it takes less time for Adobe to convert its sales into cash flow.

vi. PPE Turnover

This ratio measures how efficiently a company uses its property, plant, and equipment (PPE) to generate sales. A higher PPE turnover ratio indicates that a company is generating more sales from each dollar invested in PPE. The PPE turnover ratio for 2024 is 9.43, whereas it was 9.62 for 2023. This means that the company was able to generate slightly less revenue per dollar invested in property, plant, and equipment in the current year compared to the previous year.

Salesforce has a higher PPE turnover ratio than Adobe which has ratio of 9.86. However, a higher PPE turnover ratio might not necessarily indicate better performance in this case.

7.4 Liquidity Ratios

i. Current Ratio

This ratio measures a company's ability to use its current assets, such as cash, accounts receivable, and inventory, to pay off its current liabilities, such as accounts payable and short-term debt. A current ratio of greater than 1 indicates that a company has sufficient current assets to cover its current liabilities. Salesforce's current ratio increased from 1.02 in 2023 to 1.09 in 2024. An improvement in the current ratio indicates better short-term liquidity.

Both companies have a current ratio above 1, indicating that they have sufficient current assets to cover their current liabilities. However, Adobe has a higher current ratio of 1.34 compared to Salesforce.

ii. Quick Ratio

This ratio is a more conservative measure of liquidity than the current ratio as it excludes inventory from a company's current assets because inventory may be difficult to sell quickly without incurring a loss. The quick ratio helps to assess a company's ability to meet its short-term obligations with its most liquid assets. Salesforce's quick ratio increased from 0.90 in 2023 to 0.96 in 2024. The

Adobe also has a higher quick ratio of 1.22 compared to Salesforce. The quick ratio measures a company's ability to meet its short-term obligations using its most liquid assets.

iii. Total Debt to Equity

This ratio is used to assess a company's financial leverage. It indicates how much a company is financing its operations with debt compared to shareholders' equity. A lower ratio indicates a more conservative financing structure, where the company is relying less on debt. Salesforce's total debt to equity ratio was 0.21 in 2024, which is lower than 0.24 in 2023. This means that Salesforce's financial leverage has improved slightly over the past year.



Adobe has a higher total debt to equity ratio of 0.60 as compared to Salesforce.

iv. Total Liabilities to Equity

This ratio compares a company's total liabilities with its shareholder equity and can be used to assess the extent of its reliance on debt. A higher ratio indicates a higher proportion of debt financing relative to equity financing, which can be riskier for a company. The total liability to equity ratio of Salesforce for 2024 is 0.67 whereas it was 0.69 for 2023. This means that Salesforce's liabilities make up a smaller portion of its total equity in 2024 compared to 2023, indicating a stronger financial position as the company has more equity relative to its liabilities.

Adobe has a higher total liabilities to equity ratio of 0.80 as compared to Salesforce.

7.5 Coverage Ratios

A coverage ratio, broadly, is a metric intended to measure a company's ability to service its debt and meet its financial obligations, such as interest payments or dividends. The higher the coverage ratio, the easier it should be to make interest payments on its debt or pay dividends.

i. Cash flow from operations to total debt

This ratio is a type of coverage ratio and can be used to determine how long it would take a company to repay its debt if it devoted all of its cash flow to debt repayment. This ratio increased from 0.50 in 2023 to 0.81 in 2024. A higher ratio indicates a greater ability to cover debt obligations with cash flow from operations.

Salesforce has a higher ratio as compared to Adobe which has the ratio of 0.74 which indicates that Salesforce generates more cash flow from operations to cover its total debt.

ii. Free Operating Cash flow from operations to total debt

This ratio assesses a company's probability of defaulting on its interest payments. Generating a lot of cash relative to how much debt a company has indicates the company is well-positioned to repay its debts. A high ratio indicates a company likely has a lower probability of defaulting on its loans, making it a safer investment opportunity for debt providers. This ratio also increased from 0.45 in 2023 to 0.75 in 2024. Similar to the prior ratio, a higher value suggests a stronger ability to service debt using free cash flow.

Like the previous ratio, Salesforce has a higher ratio as compared to Adobe which has a ratio of 0.70.

iii. Times Interest Earned

This ratio is a solvency ratio that determines how well a company can pay the interest on its business debts. It is a measure of a company's ability to meet its debt obligations based on its current income. A higher TIE ratio indicates a greater ability to meet interest obligations. This ratio increased significantly from 3.40 in 2023 to 20.49 in 2024. A higher times interest earned ratio indicates a greater capacity to meet interest payments on outstanding debt.

Both companies have a very high times interest earned ratio, indicating that they have more than enough earnings to cover their interest expenses. However, Adobe has a significantly higher ratio of 61.17 as compared to Salesforce.



iv. **EBITDA coverage**

This ratio measures the ability of an organization to pay off its loan and lease obligations. This measurement is used to review the solvency of entities that are highly leveraged. This ratio also increased substantially from 17.17 in 2023 to 36.07 in 2024. Similar to times interest earned, a higher EBITDA coverage ratio suggests a greater ability to cover interest expenses.

Similar to times interest earned, Adobe has a much higher EBITDA coverage ratio of 68.88 compared to Salesforce.

v. **Financial Leverage**

This ratio measures the amount of debt a company uses to finance its assets. A high financial leverage ratio indicates that a company is using a lot of debt to finance its operations, which can be risky. Salesforce's financial leverage in 2024 is 1.68, whereas in 2023 it was 1.67. There is a slight increase in financial leverage which suggests that Salesforce increased its debt burden slightly compared to its equity

Salesforce has a financial leverage ratio of 1.68, whereas Adobe has a ratio of 1.86.

7.6 Altman Z score

The Altman Z-score is a financial tool used to assess a company's risk of bankruptcy within two years. It considers five key financial ratios to generate a single score. A score above 3.0 indicates a low bankruptcy risk, while scores below 1.8 suggest a high risk. Based on the calculation as given below, Salesforce has a strong Altman Z-score of 4.88 which indicates low risk of bankruptcy for 2024.

Independent Variables	Salesforce						Adobe		
	2024			2023			2023		
	\$	Ratio	Factor	\$	Ratio	Factor	\$	Ratio	Factor
Working Capital	2,443			504			2,833		
Total Assets	99,823	0.02	1.20	98,849	0.01	1.20	29,779	0.10	1.20
Retained earnings	11,721			7,585			33,346		
Total Assets	99,823	0.12	1.40	98,849	0.08	1.40	29,779	1.12	1.40
EBIT	5,204			935			6,912		
Total Assets	99,823	0.05	3.30	98,849	0.01	3.30	29,779	0.23	3.30
Market Value of Equity	279,017			161,414			271,453		
Total Liabilities	40,177	6.94	0.60	40,490	3.99	0.60	13,261	20.47	0.60
Sales	34,857			31,352			19,409		
Total Assets	99,823	0.35	0.99	98,849	0.32	0.99	29,779	0.65	0.99
Altman Z-score			4.88			2.85			15.38

Z-score	Interpretation
Z-score > 3.00	Company is healthy and there is low bankruptcy potential in the short term
2.99 > Z-score > 1.80	Gray area—company is exposed to some risk of bankruptcy; caution is advised
1.80 > Z-score	Company is in financial distress and there is high bankruptcy potential in short term



8. FORECAST ANALYSIS

8.1 Historical trend

Particulars	2024	% change	2023	% change	2022	% change	2021	% change	2020	
Net Sales	34,857	11.18%	31,352	18.35%	26,492	24.66%	21,252	24.30%	17,098	
		% of sales		% of sales		% of sales		% of sales		% of sales
COGS	8,541	24.50%	8,360	26.66%	7,026	26.52%	5,438	25.59%	4,235	24.77%
Gross Margin	26,316	75.50%	22,992	73.34%	19,466	73.48%	15,814	74.41%	12,863	75.23%
Operating Exp	21,305	61.12%	21,962	70.05%	18,918	71.41%	15,359	72.27%	12,566	73.49%
Operating profit	5,011	14.38%	1,030	3.29%	548	2.07%	455	2.14%	297	1.74%
Non-operating Items	(61)	-0.18%	(370)	-1.18%	984	3.71%	2,106	9.91%	409	2.39%
Income tax expense / (benefit)	814	3.07%	452	1.71%	88	0.33%	(1,511)	-7.11%	580	3.39%
Net Income	4,136	11.87%	208	0.66%	1,444	5.45%	4,072	19.16%	126	0.74%
Statutory Tax Rate	16.0%		68.0%		6.0%		-59.0%		82.0%	
NOPAT	4,187	12.01%	326	1.04%	519	1.96%	723	3.40%	52	0.31%

There has been a steady increase in net sales year-over-year, with a jump of 11.18% in 2024. However, the rate of growth has slowed down compared to previous years. Overall, the table suggests that the company's financial performance has been improving, particularly in terms of profitability which has seen a significant improvement in 2024 as the NOPAT increased from 1.04% in 2023 to 12.01% in 2024.

8.2 Forecast

Particulars	Forecast	Forecast	Forecast	Forecast	Forecast
	2025	2026	2027	2028	2029
Net Sales	33,114	32,121	35,333	40,633	46,728
COGS	8,279	8,030	8,833	10,158	11,682
Gross Margin	24,836	24,091	26,500	30,475	35,046
Operating Exp	21,524	20,878	22,966	26,411	30,373
Operating profit	3,311	3,212	3,533	4,063	4,673
Non-operating Items	(861)	(835)	(919)	(1,056)	(1,215)
Statutory Tax rate	22.6%	22.6%	22.6%	22.6%	22.6%
NOPAT	\$ 2,091	\$ 2,028	\$ 2,231	\$ 2,566	\$ 2,951

Considering the decline in the revenue growth in the previous years, we have assumed that the decline will continue to the extent of 5% and 3% in FY2025 and FY2026 respectively. However, the company is spending more on R&D and coming up with upgraded products in the CRM market. Further, basis market demand for the CRM product especially in small and medium sized business, the company is expected to start experiencing slow increase in the sales growth rate which we have considered as 10% in FY2027 and 15% thereafter.



8.3 Sensitivity Analysis

Particulars	Pessimistic		Optimistic	
	Forecast	Growth	Forecast	Growth
	2025		2025	
Sales	31,371	-10.0%	43,571	25.00%
COGS	9,411	30.0%	8,170	18.8%
Gross Margin	21,960		35,402	
Operating Exp	24,470	78.0%	21,241	48.8%
Operating profit	(2,510)		14,161	
Non-operating Items	(979)	-3.1%	(850)	-2.0%
Statutory Tax rate	22.60%		22.60%	
NOPAT	(2,479)		10,495	

For sensitivity analysis, we have considered the following assumptions:

Pessimistic result:

Based on the historic trend, if the company's sales growth keeps slowing down, and dips another 10%, it would have a major impact. Further, if the expenses rise by 20%, it would create a huge financial strain. With declining sales and surging expenses, the company's NOPAT could end up negative. This means they would lose money on their core operations after accounting for taxes.

Optimistic result:

The CRM market is growing rapidly, which could benefit the company. Their past R&D investments could also lead to new products or services that drive sales growth. The company's investments in R&D could pay off. If they can achieve a 25% jump in sales, it would be a game-changer. Further, if the company cuts its cost of goods sold (COGS) and operating expenses by 25% each, it will significantly boost profitability. These optimistic assumptions could lead to a dramatic increase in NOPAT, making the company profitable.

The financial picture for the company has room for improvement, but the declining sales growth is a risk to watch. By considering both the potential pitfalls and the optimistic possibilities, the company can be prepared for different situations and make strategic decisions to achieve better financial performance.

9. COMPANY VALUATION

Particulars	Salesforce		Particulars	FCFF	ROPI
	2024	2023			
Total Equity	59,646	58,359	Total Firm Value	5,722	31,865
Adjusted equity	71,338	62,359	Less: NNO	(13)	(13)
Shares outstanding	971	981	Less: Noncontrolling Int.	-	-
Book value per share	61	59			
Adjusted book value	73	64			
Market Value per share @ year end	287	165	Equity Value	5,735	31,878
Market cap	279,017	161,414	Shares outstanding	971	971
Market to book ratio	4.68	2.77	Valuation per share	\$ 5.91	\$ 32.83
Adj. market to book ratio	3.91	2.59			



10. BUY / SELL DECISION

For short-term investments or projects with unpredictable cash inflows, gauging financial success relies on certain key indicators. Free Cash Flows to the Firm (FCFF) and Residual Operating Income (ROPI) serve as these indicators, comparing the potential profits from an investment directly with the expected expenses involved. They are preferred in scenarios where cash flow stability is not guaranteed, as they offer a straightforward assessment of profitability that does not consider the time value of money. This simplicity is particularly useful for projects where cash flows may swing widely from one period to the next.

Salesforce stands out as an enticing "Buy" recommendation, as evidenced by the robust Fiscal Year 2023-24 Project Report. While the FCFF and ROPI evaluations present more conservative valuations, they can be deliberately overlooked because, Salesforce's net income witnessed an astronomical rise from \$208 million to an impressive \$4,136 million, with earnings per share concurrently soaring from \$0.21 to \$4.25. This remarkable financial performance is further reinforced by a stalwart market capitalization of \$279 billion and a commendable Altman Z-score of 4.8, dwarfing the standard distress threshold of 3.0 and indicating a negligible risk of financial duress. This decision is driven by Salesforce's demonstrated prowess in capitalizing on the CRM market's anticipated growth at a 7.74% CAGR through 2029, and the company's strategic expansion into new sectors such as education, which showcases their innovative edge and adaptability. Salesforce's considerable market-to-book ratio of 4.68, despite being a premium, is seen as a reflection of the market's confidence in Salesforce's trajectory of continuous growth and sector leadership. Given these compelling financial indicators and strategic prospects, Salesforce is positioned as a promising investment with the potential for substantive returns, which reinforces our confident '**Buy**' recommendation.



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