Oracle Corporation (ORCL)

vs.

salesforce.com, inc. (CRM)

A FINANCIAL STATEMENT ANALYSIS REPORT

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PREPARED FOR:

FINA 6273: CASES IN FINANCIAL MANAGEMENT & INVESTMENT BANKING

PROFESSOR MEDLEJ

DECEMBER 9, 2021

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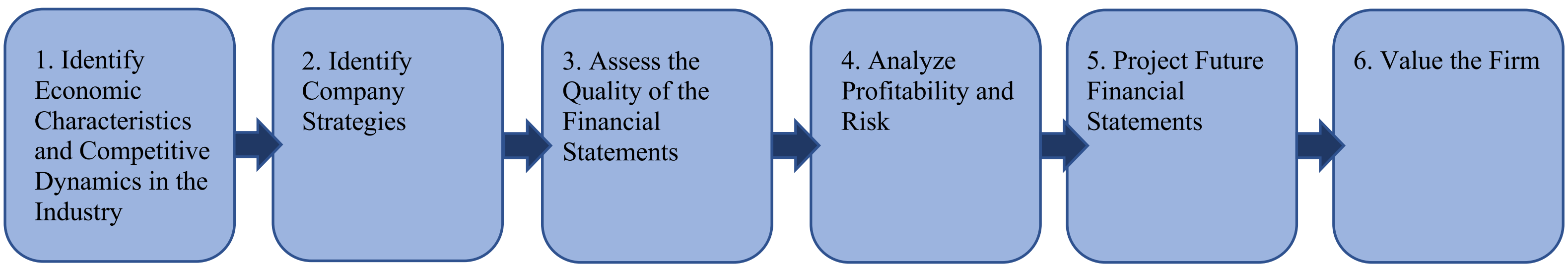
Introduction

Financial statement analysis is the process of analyzing the financial statements of a company and is used by managers, potential lenders, and stockholders for decision-making purposes. This process involves the evaluation of a firm's trends in its financial position over time and the comparison of firms' performances within the same industry. Throughout this paper, we will perform an individual analysis of the financial statements of Oracle Corporation (ORCL) and salesforce.com, inc. (CRM), followed by a comparative analysis of these two companies. Both companies are in the technology sector and, more specifically, in the cloud computing industry. Salesforce is a company that develops enterprise cloud computing solutions worldwide, focusing on customer relationship management (CRM). Oracle is a database management company offering products and services that cater to enterprise information technology environments globally. To guide our analysis, we will use "The Six Interrelated Sequential Steps in Financial Statement Analysis":



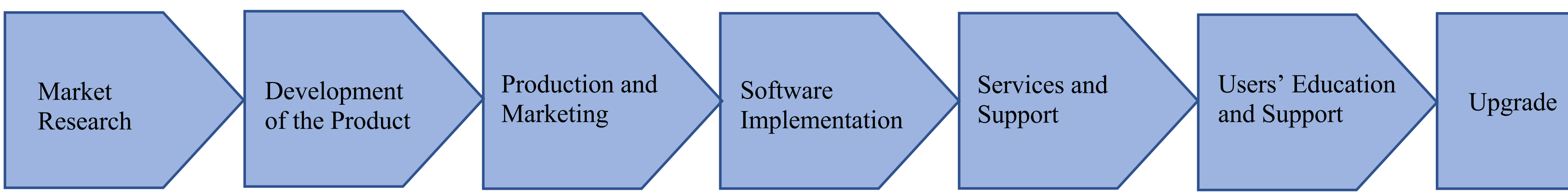
Step 1: Identify Economic Characteristics and Competitive Dynamics in the Industry

Cloud Computing Industry Overview

Cloud computing refers to the delivery of various services over a network, such as the Internet, including data storage, servers, databases, and software, allowing companies to save information to a remote database and retrieve files on-demand. Both public and private cloud computing services are available. Public services are provided for a fee through the Internet, while private services are only administered to explicit clientele through a system of networks. Hybrid clouds are a combination of public and private services, granting increased flexibility to customers. There are three classifications of cloud computing services comprising the industry, each possessing a distinctive range of services and cloud providers: Software-as-a-Service (SaaS), Infrastructure-as-a-Service (IaaS), and Platform-as-a-Service (PaaS). Providers of SaaS supply software on their servers and offer licenses to organizations on a subscription basis. IaaS includes the delivery of on-demand services through a pay-as-you-go model, permitting clients to bypass the purchase of software or servers. PaaS, the most complex type of service, is a platform to construct software and develop, manage, and host applications, providing organizations with the ability to focus on their developments while providers manage all other aspects related to the application lifecycle.

Competition in the cloud computing industry is driven by capitalizing on new opportunities established by cloud solutions, services, and workloads, as well as continuously strengthening and updating existing offerings to increase market presence. Additionally, many providers partake in mergers and acquisitions, joint ventures, and R&D activities to expand their market positions and improve their capabilities. To maintain a competitive edge, firms must adhere to current technological trends, and adapt to technological changes, as the rising adoption of technology in a wide variety of sectors is contributing to the growth of the cloud computing market. The global cloud computing market currently stands at $313.9 billion and is expected to reach $1,251.09 billion by 2028, producing a CAGR of 19.1% over this forecasting period. This exponential growth can primarily be attributed to the rising demand of enterprises for cloud-based solutions and the increasing shift of implementing technological advancements such as Artificial Intelligence (AI), Machine Learning (ML), and more widespread use of 5G. Some additional factors contributing to the industry's growth are "digital transformation across various industries, a surge in internet penetration, and big data consumption in various verticals". Furthermore, as COVID-19 spawned a deviation from traditional working styles and more business is being conducted to accommodate a work-from-home model, cloud technology adoption is expected to escalate to maintain enterprise business functions, specifically in sectors with many remote employees. The cloud computing industry has a moderate correlation with the business cycle, as demand somewhat moves with the economic cycle, and demand is not seasonal.

Value Chain Analysis



The first section of the value chain, Market Research, is critical to product life, as it directly affects the value of the development of a product. Market research provides evidence regarding the target market, size of the market, and the demands of the target customer. Conducting this research also allows for the initial formation of a design idea, as well as analyzes the best methods or algorithms that will accurately and efficiently satisfy the requirements. In the second phase, Development of the Product, coding is applied to debug and enhance the product to adapt to the market. Before final integration, a company should focus on designing and completing the subsystems, followed by testing them separately. Production and Marketing encompasses two sections. Production determines the features and bundles (if they exist) the product has, the user interface, and the packaging for customers. Marketing is essential for success and its power should not be ignored. Advertising and other marketing tools can be used to increase a company's exposure to the public. During the Software Implementation phase, the company works with software engineering to ensure that its product can perform errorless in different operating systems after the product is established within the market. Throughout the Users Education and Services stage, a company must educate and train its users, including its certified third-party partners, on its product. For example, Apple devotes a significant amount of time to helping its users learn about its products, familiarize themselves with the latest, iterative operating system, and comprehend the unique idea of Apple's product ecosystem. The last phase of the current generation of the product, Services and Support, is established to fix any bugs in the online system and review the code to enhance the product's performance. Providing post-sale services for customers is also included in this stage. Upgrade is considered the final lap for this run, and presents companies the opportunity to take on the responsibility of protecting users' cloud data, ensuring everything is intact after upgrading the system. It is also an ideal time to finalize and analyze the current-gen system operation data during its lifecycle and collect any valuable information for improvement. After making its way through the value chain, the system completes its duty and prepares for the next official gen update to the line.

Porter's Five Forces Classification Framework

The cloud computing industry has a high rivalry among existing firms, as it consists of many suppliers offering similar products. The market lacks significant opportunities for companies to portray creativity and uniqueness, making it challenging for a company to differentiate itself on many factors other than offering a competitive price. A more diffused industry encompasses greater competition between existing rivals, leading to reduced profitability. The threat of new entrants in this industry is low to moderate. Entry barriers are low due to modest expenses and level of expertise needed compared to traditional IT. The ability for other firms to enter embellishes competition for existing rivals, potentially generating lower profits for firms in the industry than if new firms were not able to easily enter the market. Many new companies are emerging with the arrival of the 5G era, but they must compete with the reputation of existing companies with large market shares. Furthermore, once a company has invested significant resources to implement and integrate an enterprise software system into its business, it may be reluctant to part with its current solution. Switching from one's current solution is also burdensome, as extensive training is needed to learn a new system. The threat of substitutes is moderate to high, as the industry offers many products that can be used as substitutes and shows potential for many new products as well. Customers can easily choose a substitute product that most closely aligns with their needs for an optimal price. Close substitutes increase competition and decrease profitability. Buyer power, the leverage buyers have with respect to price, is high and is increasing as new companies are rapidly entering the cloud computing market, shifting the power from suppliers to buyers. The large number of sellers in the market allows buyers to exert considerable downward pressure on prices, acting as price setters. Supplier power, the leverage in negotiating input prices from suppliers, is moderate as there are many suppliers in the industry, so they do not have great power in setting prices.

Economic Attributes Framework

Demand

As the digital world expands, using software to manage and save databases is becoming increasingly effective regardless of if one is an individual or enterprise user. Enterprise customers are the preferable target of the business management industry. To ensure unimpeded administration and operations of the enterprise, a company must choose one or more management solutions at a reasonable price. Software is priced at a premium due to its essential nature, and its users are relatively insensitive to its price.

Supply

Companies supplying in the cloud computing industry provide similar products and services, but the business management field (the industry to which they are supplying) contains different clients who have different demands. Suppliers need to deliver a solution that can fit multiple, varying requirements. The basis of the products and services provided by companies in this industry is the same: giving a database management solution to a company and providing a platform to run the software more efficiently and professionally. Because of this similarity, every supplier is should have a core competitive product or technology. For example, Salesforce is an expert in the field of CRM. CRM assists a company with tracking and analyzing its relationship with customers, hence analyzing a customer's willingness to buy. Oracle has a very complex product system, the same as IBM. Its Fusion Applications Suite is the most comprehensive enterprise management application suite, covering every management application including enterprise resource planning (ERP), supply chain management (SCM), and human capital management (HCM) to satisfy the demands of different departments. The most challenging aspect of entering this industry is the technology and budget for software development. A mature product from coding to official release can take years to develop and test. Due to the gradual transition of business software from ground to cloud within the last ten years, the costs for traditional software companies that want to shift their focus to a cloud system may be higher than those of new entrants.

Manufacturing

The manufacturing process in this industry focuses on the development and upgrade of products, necessitating capital and technology. The whole delivery process is done digitally, as users can access the system or install it locally after being verified by suppliers. From the supplier's perspective, software development, maintenance, and storage equipment costs are primary considerations.

Marketing

The specificity of customer demand in different countries or markets, prompts most software companies to adopt a strategy of cooperation with local distributors to achieve satisfy the varying demands of local businesses. Customers in need can directly contact local distributors to find suitable business solutions. With the advancement of cloud computing, Market demand will continue to increase in upcoming years with the advancement of cloud computing. Companies do not need to create demand because their services are a necessity for their potential customers. If the demand increases in a flexible way, the challenge of gaining the largest market share is important.

Investing and Financing

The greatest asset of a software company is its ability to retain talented employees and its valuable products. Intellectual property rights and patents, a relatively long-term asset, are a large asset component of the software industry as well. Compared to other assets, the intangible assets are relatively low-risk and more stable. High-tech companies often face the challenge of technological innovation and the threat of new companies replacing them. Therefore, this industry requires heavy funding for new project development and improvement in order to survive. The entire industry has entered a stage of rapid growth.

Step 2: Identify Company Strategies

Oracle Corporation (ORCL)

Oracle Corporation, established in 1977 by Lawrence Joseph Ellison, is the second-largest software company in the worldwide software industry, as well as the largest-scale enterprise-level database management company. Oracle’s prominent business is selling enterprise-level database management software, or systems to help companies and organizations manage and manipulate their enormous amounts of data. The firm created its first database product based on the theory of the relational model of data, written about by IBM’s Edgar Codd. After the prototype of this product was born, Oracle (called RSI at the time) had just adapted to the PDP-PC manufactured by Digital Equipment Corporation (DEC). It then launched to market and claimed to be the iterative product, or the 2.0 version, which was a wise marketing tactic although dishonorable. Oracle was able to attract customers with its launch, as consumers tend to choose the newest edition of a product over the original.

To spur its product development, Oracle continued to release updated models of its commodities based on the previous versions of its database management system. Oracle gained an advantage through adaptation techniques, as it was able to promptly comply with PCs that were using different computer programming languages on the market. In the 1980s, the database management market had just expanded, and an abundance of new companies were emerging. To remain a main contender in the market, Oracle employed a strategy of following the leader of the industry: IBM. When IBM's SQL went head-to-head for market share with Ingres (a database management software based on Query Language from Michael Stonebraker), Oracle chose to adapt SQL rather than Ingres. IBM decided to submit the SQL to the Data Governance and Standards Committee (DGSC), allowing SQL to become the standard of the database management programming. Ingres eventually proceeded to launch its database management product that had been adapted to SQL, but it was too late for them to compete in the market.

Since 1984, Oracle has successfully materialized into the world market. Its products are sold in Canada, the Netherlands, UK, Austria, Japan, and Hong Kong, among other nations. In 1986, Oracle went public and its company was valued at $270 million. Since its IPO, Oracle has grown into a giant in its field: its software version has come to 21c after multiple interactive updates. Oracle’s proportion in the database management software market has managed to surpass its main competitor of the time, Microsoft.

Oracle's products are predominantly services to enterprises, not consumables, so the general population may not recognize its brand, however, whether directly or indirectly, people engage with Oracle’s products throughout their daily lives. For example, a grocery store may use its database product. The company’s database and application products provide comprehensive, unique, stable, and effective services for all types of business departments of an enterprise. Its products can also be applied in many industries like car manufacturing, digital communication, public department, and health science. Oracle has profit margins relatively higher than its industry average due to its particularity of customer groups and product positioning. JAVA, one of the major computer languages, became affiliated with Oracle after it acquired SUN Corporation.

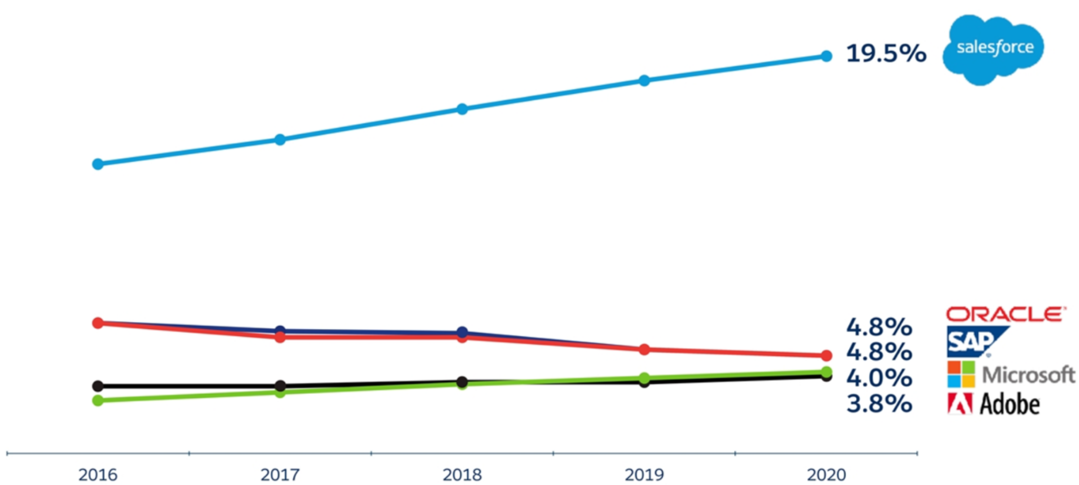
The company earns money from selling the license of products or providing maintenance services and its customers assume a yearly fee for permits guaranteeing the effectiveness of a product or service. In recent years, Oracle completed many acquisitions to strengthen its product development capabilities and enterprise competitiveness within the wave of industry transition. Most of its acquisitions were cloud computing development companies, including Datafox, NetSuite, and Sauce Video, among others. Oracle distributes its products through its certified tunnels; the firm adopted the "general agent mode". After products have been delivered to the distributor of a certain market, the distributor "repackages" the product in a bundle with other local applications to accommodate the area's business demands. Oracle actively seeks partners within the cloud computing industry and has gained two main competitors as partners: Google and Amazon. It has also partnered with one of its oldest and largest competitors, Microsoft. Oracle has maintained its large ambitions to expand through the course of its life thus far. Regardless of the forceful competition with domestic companies faced in some countries, its business managed to grow and expand into foreign countries and regions.

salesforce.com, inc. (CRM)

Salesforce was incorporated in 1999 by co-founders Marc Benioff, Parker Harris, Frank Dominguez, and Dave Moellenhoff as a cloud computing SaaS company and has evolved into a global leader in customer relationship management (CRM) technology, helping companies foster better connections with current and potential customers. Salesforce "enables companies of every size and industry to connect with their customers in new ways through existing and emerging technologies, including cloud, mobile, social, blockchain, voice, and artificial intelligence, to transform their businesses in the all-digital, work-from-anywhere era". Salesforce Customer 360 is a centralized platform for all of Salesforce's software solutions and promotes unified internal operations connecting businesses with customers. Customer 360 is divided into four service offerings: Sales, Service, Marketing and Commerce (Digital 360), and Platform and Other. Sales allows companies to manage and automate their entire sales processes. Service assists companies in delivering trusted and personalized customer service and support at scale. Marketing and Commerce (Digital 360) enables brands to optimize one-to-one customer marketing journeys, empowers companies to unify the customer experience across all points of commerce, and allows firms to develop websites and applications engaging for customers or employees. The platform service offering provides companies with the opportunity to use drag-and-drop tools to build business apps, bringing them closer to their customers. Tableau, Salesforce's analytics service offering providing customers advanced self-service business data analysis, and MuleSoft, Salesforce's integration service offering allowing customers to connect data from multiple systems are also part of the Platform and Other segment.

The market for enterprise applications and platform services is extremely competitive and fragmented, continuously progressing, and heavily influenced by evolving technology. It also has low barriers to entry, changing customer needs, and constant introductions of new products and services. These characteristics of the market require Salesforce to execute a business model that differentiates itself to garner success within the industry. The company is a cloud-based software provider and primarily functions on a pay-as-you-go subscription-based business model. Salesforce distinguishes itself within the industry by leveraging the advantages of its cohesive platform, Customer 360, and providing services at a cost that is scalable to fit all types of businesses. Unlike some competitors who do not operate comprehensive platforms, Customer 360 can solve unique business needs with advanced customization, leverage all of a company's data in one place with intricately embedded analytics, and grant businesses a 360-degree view of customers. A crucial piece of Salesforce's business model is its growth strategy, which is designed to advance the capabilities of its Customer 360 platform. Focusing on the following priorities allows Salesforce to invest for future growth: expanding relationships with existing customers, extending go-to-market capabilities globally, expanding into new categories and verticals, expanding and strengthening its partner ecosystem, and promoting strong customer adoption and reducing customer attrition. To complement its organic innovation, Salesforce realizes benefits from engaging in acquisitions and successfully integrating the acquired businesses into its own. In addition to mergers and acquisitions, the CRM company supports its business initiatives and strengthens its partner ecosystem by making strategic investments in companies of all stages.

The main competitive advantage of Salesforce is its brand loyalty and ecosystem, which are continuously expanding. Salesforce has become a trusted advisor for customers, accelerating strategic engagements. Operating the largest CRM platform, over 150,000 companies use Salesforce to grow their businesses and as of 2020, 90% of Fortune 500 companies were Salesforce customers. Salesforce is the market leader with a 19.5% market share of the $120 billion CRM sector, and its share is expanding much quicker than its competitors:



Part of its ecosystem is third-party developers who are ambitiously forming applications on top of the platform, cultivating powerful network effects, and increasing firm value. This competitive advantage has ingrained the platform further into the corporate world by providing managers of Salesforce greater opportunities to invest in artificial intelligence and other unfolding technology.

By embedding a core set of values into its business model that it upholds, including trust, customer success, innovation, and equality, Salesforce has gained a competitive advantage in its approach to managing its workforce. Its entire business is founded upon trust and aligned around its customers' needs to ensure their success, as well as constant innovation to provide customers with access to the latest technology advances. Equality is a critical part of the foundation of its management style. The company has also committed to transparency and associated itself with its public commitments to sustainability, equality, and ethical use. Salesforce's company culture has attracted and retained top talent, which is essential for continued success. As of January 2021, Salesforce had 56,606 employees (58% United States, 42% International).

The nature of Salesforce's services follows a low-cost leadership strategy, as it accepts a lower profit margin in return for higher sales volumes and market share. Although Salesforce has a profit margin of 6.96%, which is much lower than that of its competitors, it maintains a much larger market share, as shown above, and has a track record of consistently driving revenue growth that is expected to increase in volume:

Products offered by Salesforce are intended for a broader consumer market, as businesses in any industry and of any size can use this software. The firm has a high degree of diversification across several geographic markets and industries, selling to businesses of all sizes and in almost every industry worldwide, so it is not materially contingent on any specific product, service, or group. The firm conducts business in the U.S., Europe, Canada, Latin America, Asia Pacific, and Japan and sells annual and multi-year subscriptions in multiple currencies.

Step 3: Assess the Quality of Financial Statements

Oracle Corporation (ORCL)

Oracle is comprised of four segments that generate revenue: cloud services and license support, cloud license and on-premise license, hardware, and services. Its most profitable segment is cloud services and license support. The proportion of this segment's revenue to the company's total revenue has experienced a steadily increasing trend, as it grew from 62.9% in 2017 to 70.9% in 2021. Although the growth rate of cloud services ascended, the remaining segments have been exhibiting a continuously declining trend, as shown by their negative growth rates.

(in millions)	2017	2018	2019	2020	2021
Revenues:					
Cloud services and license support	$23,758	$26,222	$26,707	$27,392	$28,700
Cloud license and on-premise license	$6,523	$5,772	$5,855	$5,127	$5,399
Hardware	$4,152	$3,994	$3,704	$3,443	$3,359
Services	$3,359	$3,395	$3,240	$3,106	$3,021
Total revenues	$37,792	$39,383	$39,506	$39,068	$40,479

Oracle's two most costly operating expenses are sales and marketing, and research and development. The sales and marketing expenses in 2021 had decreased to $7,682 million from costs in 2019 due to the ongoing effects of COVID-19, specifically on marketing costs. However, Oracle upsurged its research and development expenses in 2021 to prepare for the fierce competition in the field of cloud services. In 2018, Oracle needed to deduct the provision for income taxes, producing a net income for 2018 that was one-third of the net income in 2017.

Sales and marketing	$8,085	$8,433	$8,509	$8,094	$7,682
Research and development	$6,153	$6,084	$6,026	$6,067	$6,527

Income before benefit from (provision for) income taxes	$11,680	$12,424	$12,268	$12,063	$12,999
Benefit from (provision for) income taxes	($2,228)	($8,837)	($1,185)	($1,928)	$747
Net income	$9,452	$3,587	$11,083	$10,135	$13,746

To increase its discretionary expenses, Oracle shrunk its position in marketable securities between 2018 and 2019, from $45,641 million to $17,313 million. This large decline raised the question of where the funds are located. Oracle began its stock payback plan ten years ago, but the shares of buybacks have been increasing in recent years to stabilize and stimulate its stock price.

	2017	2018	2019	2020	2021
ASSETS					
Current assets:					
Cash and cash equivalents	$21,784	$21,620	$20,514	$37,239	$30,098
Marketable securities	$44,294	$45,641	$17,313	$5,818	$16,456

As shown in the Statement of Shareholder's Equity, in 2017 Oracle repurchased $9,871 million common shares and $30,646 million in 2018:

Balances as of May 31, 2017	4,137	27,065	27,598
Common stock issued under stock-based compensation plans	105	2,277	—
Common stock issued under stock purchase plans	3	125	—
Assumption of stock-based compensation plan awards in connection with acquisitions	—	3	—
Stock-based compensation	—	1,607	—
Repurchase of common stock	(238)	(1,632)	(9,871)
Shares repurchased for tax withholdings upon vesting of restricted stock-based awards	(10)	(506)	—
Cash dividends declared ($0.76 per share)	—	—	(3,140)
Other, net	—	11	—
Distributions to noncontrolling interests	—	—	—
Other comprehensive loss, net	—	—	—
Net income	—	—	3,825
Balances as of May 31, 2018	3,997	28,950	19,111
Cumulative-effect of accounting change	—	—	(110)
Common stock issued under stock-based compensation plans	103	2,033	—
Common stock issued under stock purchase plans	2	122	—
Assumption of stock-based compensation plan awards in connection with acquisitions	—	8	—
Stock-based compensation	—	1,653	—
Repurchases of common stock	(734)	(5,354)	(30,646)
Shares repurchased for tax withholdings upon vesting of restricted stock-based awards	(9)	(503)	—
Cash dividends declared ($0.81 per share)	—	—	(2,932)
Other, net	—	—	(2)
Other comprehensive income (loss), net	—	—	—
Net income	—	—	11,083
Balances as of May 31, 2019	3,359	26,909	**(3,496)**
Common stock issued under stock-based compensation plans	78	1,470	—
Common stock issued under stock purchase plans	2	118	—
Stock-based compensation	—	1,590	—
Repurchases of common stock	(361)	(2,932)	(16,268)

Although this conduct injected strong momentum into the stock price of Oracle, it also induced apparent risk. In 2019, Oracle operated its company with net liabilities for the first time since 2008. The company's financial flexibility had been compromised by its aggressive share buyback activity.

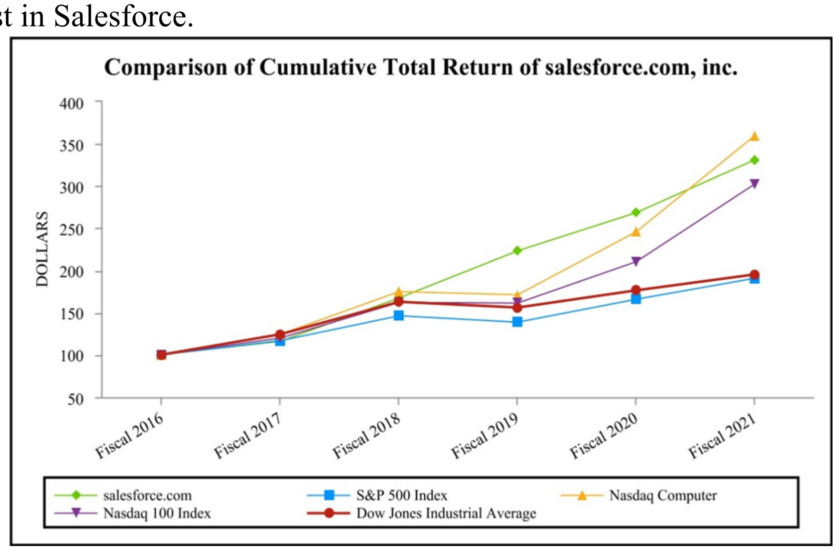
Commitments and contingencies					
Oracle Corporation stockholders' equity:					
Preferred stock	—	—	—	—	—
Common stock	$27,065	$28,950	$26,909	$26,486	$26,533
Accumulated deficit (Retained Earning)	$27,598	$19,111	($3,496)	($12,696)	($20,120)
Accumulated other comprehensive loss	($803)	($1,689)	($1,628)	($1,716)	($1,175)
Total Oracle Corporation stockholders' equity	$53,860	$46,372	$21,785	$12,074	$5,238
Noncontrolling interests	$386	$501	$578	$643	$714
Total equity	$54,246	$46,873	$22,363	$12,717	$5,952

Cash flows from investing activities:					
Purchases of marketable securities and other investments	$ (25,867)	$ (25,282)	$ (1,400)	$ (5,731)	$ (37,982)
Proceeds from maturities of marketable securities	$ 15,186	$ 20,372	$ 12,681	$ 4,687	$ 26,024
Proceeds from sales of marketable securities and other investments	$ 2,429	$ 2,745	$ 17,299	$ 12,575	$ 1,036
Acquisitions, net of cash acquired	$ (11,221)	$ (1,724)	$ (363)	$ (124)	$ (41)
Capital expenditures	$ (2,021)	$ (1,736)	$ (1,660)	$ (1,564)	$ (2,135)
Net cash (used for) provided by investing activities	$ (21,494)	$ (5,625)	$ 26,557	$ 9,843	$ (13,098)
Cash flows from financing activities:					
Payments for repurchases of common stock	$ (3,561)	$ (11,347)	$ (36,140)	$ (19,240)	$ (20,934)

Oracle has engaged in many successful acquisitions involving cloud technology companies in recent years in an attempt to emulate the constantly transforming and upgrading cloud computing industry. The 2016 Cash Flow Statement shows that Oracle invested $11,221 million in acquisitions, and some of these companies include Addthis, Logfire, Crosswise, and NetSuite. Regardless of the cloud support provided by the acquired companies, their synergies are not well reflected in net income.

salesforce.com, inc. (CRM)

Salesforce, a global leader in CRM and technology, has pioneered cloud, mobile, social, analytics, and AI with its Customer 360 platform. Today, global challenges require businesses to digitally transform while leveraging customer data to become more responsive, resilient, and efficient. As the world shifts towards digital technology, Salesforce has the strength to connect its customers through digital channels through enabling companies of every size and industry to transform their businesses in this all-digital, work-from-anywhere era. The main point of focus to assess the quality of Salesforce's financial statements is the constant growth in its cumulative total stockholder return on its common stock compared to the cumulative total return on the S&P 500 Index, Nasdaq Computer, the Nasdaq 100 Index, and the Dow Jones Industrial Average. Its constant growth provides consumers or stockholders with confidence in the company and an incentive to invest in Salesforce.



As a result of the pandemic, Salesforce experienced a slight decline in new business in the first quarter of 2021 compared to the previous year's exact date. Nevertheless, there has been a steady growth in new business rates for the remainder of fiscal year 2021, consistent with historical trends before the pandemic. Salesforce experienced relatively incremental expenses and lower than expected operating cash flows for the entire fiscal year of 2021 compared to its historical trends. Additionally, the firm made some changes in billing frequency for new businesses and investments, which resulted in a negative impact on its operating cash flows during the year. However, its income from operations benefited from the recent global work from home policy and limited business travel of its employees in fiscal year 2021. Salesforce's office space has accounted for $216 million of impairments to assets, including some real estate leases in several selected locations it has exited, of which it recorded $184 million in the last quarter of fiscal year 2021.

Salesforce's 2021 total revenue was $21.3 billion, increasing 24% from the previous year. Salesforce's earnings per share (EPS) allows shareholders to assess whether the company is affordable and profitable enough to pay enough money back to its shareholders. Its 2021 diluted EPS was $4.38, increasing from $0.15 in 2020. Furthermore, the company realized approximately $2 billion in benefits from the one-time discrete tax benefit resulting from the recognition of deferred tax assets. This was related to an intra-entity transfer of intangible property with an unrealized gain of $1.7 billion associated with the public offerings of two of its strategic investments.

The amount of Salesforce's on-hand cash is important to consider, as a company with significant cash on hand is deemed to be able to pay off its debt. Salesforce's cash provided by operations for fiscal year 2021 was $4.8 billion, with an 11% increase over the year. As a result, the total cash, cash equivalents, and marketable securities were $12 billion for fiscal year 2021.

The remaining performance obligation of Salesforce ended fiscal year 2021 at approximately $36.1 billion, with a 17% increase from the previous year. Furthermore, its remaining performance ended with $18 billion, increasing 20% from the last year. The final highlighted event for Salesforce during the fiscal year 2021 is about its acquisition of Vlocity, Inc. for $1.4 billion, of which $1.2 billion is purely cash. The firm also has a pending acquisition of Slack Technologies, which is expected to close in the second quarter of the fiscal year 2022. It includes approvals that are estimated to be $15.6 billion in cash and 45 million shares of Salesforce common stock.

	Jan. 31, 2021	Jan. 31, 2020	Jan. 31, 2021	Jan. 31, 2020	Jan. 31, 2021
Assets					
Current assets:					
Cash & cash equival.	6,195	4,145	9.34%	7.52%	24.27%
Marketable securities	5,771	3,802	8.70%	6.90%	26.20%
Accounts receivable, net	7,786	6,174	11.74%	11.20%	4.85%
Costs capitalized to obtain rev. contracts, net	1,146	926	1.73%	1.68%	2.90%
Prepaid exp. & other current assets	991	916	1.49%	1.66%	-10.05%
Total current assets	21,889	15,963	33.01%	28.96%	14.01%
Property & equipment, net	2,456	2,375	3.70%	4.31%	-14.02%
Operating lease right-of-use assets,net	3,204	3,040	4.83%	5.51%	-12.37%
Noncurrent costs capitalized to obtain rev. contracts, net	1,715	1,348	2.59%	2.45%	5.78%
Strategic investments	3,909	1,963	5.90%	3.56%	65.57%
Goodwill	26,318	25,134	39.69%	45.59%	-12.94%
Intangible assets acquired through busines combinations, net	4,114	4,724	6.21%	8.57%	-27.59%
Deferred tax assets & other assets, net	2,693	579	4.06%	1.05%	286.72%
Total assets	66,301	55,126	100.00%	100.00%	0.00%

Step 4: Analyze Profitability and Risk

Oracle Corporation (ORCL)

Profitability Ratios

Basic Earnings per Share (EPS)

Between 2018 and 2021, the basic EPS of Oracle rose from 0.9 to 4.88 as a result of the buyback of common stock. Because the number of shares outstanding decreased, the basic EPS increased.

Return on Common Equity (ROCE)

The ROCE of Oracle escalated dramatically from 7.09% in 2018 to 147.26% in 2021, also affected by the repurchase of common stock. The buyback led to a significant drop in common equity and net income remained stable, boosting the ROCE.

Risk Ratios

Debt-to-Equity Ratio

The debt-to-equity ratio is 21.03 for Oracle in 2021, while in 2020 the ratio was 8.08, insinuating that Oracle borrowed more money in 2021. The debt-to-equity ratio of Oracle in 2020 is much higher than the debt-to-equity ratio of other companies in the software industry. Because Oracle has a large leverage outlook for the long-term, shareholders need to consider the risk associated with its leverage.

Current and Quick Ratios

The current ratio of 2.30 indicates that Oracle has a substantial amount of cash and near-cash assets available relative to its obligations due. Its quick ratio at the end of May 2021 is 1.93, while the quick ratio of the software industry is 1.29 at the end of June 2021. As Oracle is exhibiting a larger quick ratio than the industry, it proves to have more liquid assets and is able to engage in purchases or investments. Based on the data of previous years and the patterns of the company, it is reasonable to believe that Oracle is willing to buy back outstanding common stock in the next period, which can make strengthen its EPS.

salesforce.com, inc. (CRM)

Profitability Ratios

Basic and Diluted Earnings per Share (EPS)

The basic and diluted EPS are two key ratios to determine a company's profitability. The difference between these two EPS's are the components each considers when calculating; the basic EPS only includes the number of common shares in its calculation, but the diluted EPS accounts for all other convertible securities as well as common shares in its computation.

As noted above when assessing the financial statements, Salesforce's 2021 diluted EPS was one of the most attractive features of the company. Its diluted EPS increased significantly to $4.38 in 2021 compared to its EPS of $0.15 in 2020. This high increase in the EPS was a result of the discrete tax benefit with an intra-entity transfer of intangible property and an unrealized gain associated with initial public offerings of strategic investments.

Return on Common Equity (ROCE) and Return on Assets (ROA)

The profitability ratios below show the large increases in ROCE and ROA. The constant growth in the ROCE over time has boosted the profitability of Salesforce, as it makes the company attractive for equity investors.

Profitability Ratios			
	Fiscal Year Ended Jan. 31,		
	2021	2020	2019
Numerator:			
Net Income	4,072	126	1,110
Denominator:			
Weighted-avg. shares outstanding for basic EPS	908	829	751
Effect of dilutive securities:			
Employee stock awards	22	21	21
Convertible senior notes which matured in Apr. 2018	0	0	1
Warrants which settled in June and July 2018	0	0	2
Adj. weighted-avg. shares outstanding & assumed conversions for diluted EPS	930	850	775
Basic EPS	**4.48**	**0.15**	**1.48**
Diluted EPS	**4.38**	**0.15**	**1.43**
ROCE	**4.43**	**0.14**	**1.44**
ROA	**6.71**	**0.21**	**1.83**

Risk Ratios

Debt-to-Equity Ratio

With a debt-to-equity ratio of 0.17, and 0.19 in 2021 and 2020, respectively, the company can afford to pay off its debt, as both ratios are below 1.0. A ratio of 0.5 signifies that one has $0.50 of debt for every $1.00 in equity, so Salesforce's debt-to-equity ratio of 0.17, signifies that it only has $0.17 of debt for every $1.00 in equity. The company is technically considered to be solvent, suggesting that the owners have contributed the remaining amount needed to purchase the company's assets.

Current and Quick Ratios

The current ratio considers all current assets in its calculation, while the quick ratio uses only "quick" or liquid assets. As seen in the table below, Salesforce's current and quick ratios maintained a level between 1.5 and 3, or sometimes lower than the range. This indicates that the firm is in a range of healthy businesses and proves its short-term financial strength.

Risk Ratios		
	Fiscal Year Ended Jan. 31,	
	2021	2020
Current Ratio	**1.23**	**1.08**
Debt to Equity	**0.17**	**0.19**
Quick ratio	**1.11**	**0.95**

Step 5: Project Future Financial Statements

Oracle Corporation (ORCL)

To project the future financial statements of Oracle Corporation, we collected the firm’s balance sheet, income statement, statement of cash flows, and statement of shareholders’ equity from the years 2017 to 2021. To perform a five-year forecast, we will use the five-year historical data in the aforementioned financial statements.

Our central focus from the income statement was the different trends displayed by each operating department of the company. The revenue of the “cloud services and license support” department increased every year and has an estimated annual growth rate of 4.89%. Revenues of both the “cloud license and on-premise license” and “hardware” segments decreased every year, with growth rates of -4.30% and -5.14% respectively. To derive the total growth rate of revenues for each year in the future, we added the growth rate from each segment, arriving at approximately 2.6%. Because expenditures are closely related to revenues, we calculated the average of the item-to-revenues ratio for each year, producing the operating expense. Because there is a clear increase in the item-to-revenue ratio, we calculated the growth rates of this ratio and averaged the results, gauging a more accurate forecast of expenditures.

	A	B	C	D	E	F	G	H	I	J	K
1	ORACLE (	IDATED STATEMENTS OF OPERATIONS							FORECAST		
2				Year Ended May 31					Year Ended May 31		
3	(in millions)	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
4	Revenues:										
5	Cloud services and license support	23,758	26,222	26,707	27,392	28,700	30,103	31,576	33,120	34,739	36,438
6	Cloud license and on-premise license	6,523	5,772	5,855	5,127	5,399	5,167	4,945	4,732	4,528	4,334
7	Hardware	4,152	3,994	3,704	3,443	3,359	3,186	3,023	2,867	2,720	2,580
8	Services	3,359	3,395	3,240	3,106	3,021	2,943	2,866	2,792	2,720	2,649
9	**Total revenues**	**37,792**	**39,383**	**39,506**	**39,068**	**40,479**	**41,399**	**42,409**	**43,511**	**44,708**	**46,001**
10	Operating expenses:					g=	2.27%	2.44%	2.60%	2.75%	2.89%
11	Cloud services and license support	3,011	3,606	3,782	4,006	4,353	4,731	5,142	5,588	6,074	6,601
12	Hardware	1,648	1,576	1,360	1,116	972	825	701	595	505	429
13	Services	2,793	2,878	2,853	2,816	2,530	2,489	2,262	2,055	1,868	1,697
14	Sales and marketing	8,085	8,433	8,509	8,094	7,682	8,614	8,825	9,054	9,303	9,572
15	Research and development	6,153	6,084	6,026	6,067	6,527	6,511	6,670	6,843	7,031	7,235
16	General and administrative	1,172	1,282	1,265	1,181	1,254	1,298	1,330	1,364	1,402	1,443
17	Amortization of intangible assets	1,451	1,620	1,689	1,586	1,379	1,545	1,545	1,545	1,545	1,545
18	Acquisition related and other	103	52	44	56	138	79	79	79	79	79
19	Restructuring	463	588	443	250	431	435	435	435	435	435
20	**Total operating expenses**	**24,879**	**26,119**	**25,971**	**25,172**	**25,266**	**26,527**	**26,987**	**27,559**	**28,241**	**29,035**
21	**Operating income**	**12,913**	**13,264**	**13,535**	**13,896**	**15,213**	**14,872**	**15,422**	**15,953**	**16,467**	**16,966**
22	Interest expense	(1,798)	(2,025)	(2,082)	(1,995)	(2,496)	(2,241)	(2,324)	(2,404)	(2,481)	(2,556)
23	Non-operating income, net	565	1,185	815	162	282	602	602	602	602	602
24	Income before benefit from (provision for) income taxes	11,680	12,424	12,268	12,063	12,999	13,233	13,700	14,151	14,587	15,012
25	Benefit from (provision for) income taxes	(2,228)	(8,837)	(1,185)	(1,928)	747	747	747	747	747	747
26	**Net income**	**9,452**	**3,587**	**11,083**	**10,135**	**13,746**	**13,980**	**14,447**	**14,898**	**15,334**	**15,759**
27	**Earnings per share:**										
28	Basic	2	1	3	3	5	5	6	7	8	9
29	Diluted	2	1	3	3	5	5	6	7	8	9
30	Weighted average common shares outstanding:										
31	Basic	4,115	4,121	3,634	3,211	2,945	2,686	2,443	2,221	2,020	1,836
32	Diluted	4,217	4,238	3,732	3,294	3,022					
33	Net income	9,452	3,587	11,083	10,135	13,746	13,980	14,447	14,898	15,334	15,759
34	Other comprehensive income (loss), net of tax:										
35	Net foreign currency translation gains (losses)	85	(291)	(149)	(78)	479	9	9	9	9	9
36	Net unrealized gains (losses) on defined benefit plans	(102)	34	(70)	(79)	71	(29)	(29)	(29)	(29)	(29)
37	Net unrealized (losses) gains on marketable	(9)	(609)	332	91	(1)	(39)	(39)	(39)	(39)	(39)
38	Net unrealized losses on cash flow hedges	25.00	37.00	(52.00)	(22.00)	(8.00)	(4)	(4)	(4)	(4)	(4)
39	Total other comprehensive income (loss), net	(1.00)	(829.00)	61.00	(88.00)	541.00	(63)	(63)	(63)	(63)	(63)
40	Comprehensive income	9,451.00	2,758.00	11,144.00	10,047.00	14,287.00	13,854	14,321	14,771	15,208	15,632
41											
42											
43											
44											
45	Common stock, $0.01 par value and additional paid in capital—authorized: 11,000 shares; outstanding: 2,814 shares and 3,067 shares as of May 31, 2021 and 2020, respectively										
46	Common stock, $0.01 par value and additional paid in capital—authorized: 11,000 shares; outstanding: 3,359 shares and 3,997 shares as of May 31, 2019 and May 31, 2018, respectively										
47	Common stock, $0.01 par value and additional paid in capital—authorized: 11,000 shares; outstanding: 3,997 shares and 4,137 shares as of May 31, 2018 and May 31, 2017, respectively										

	A	L	M	N	O	P	Q	R	S	T	U	V	W	X	Y	Z
1	ORACLE (			Final Assumption					Average of historical data percent change							
2							2018	2019	2020	2021	1st degreeAverage					2nd degree Averag
3	(in millions)	2022	2023	2024	2025	2026										
4	Revenues:															
5	Cloud services and license support	4.89%	4.89%	4.89%	4.89%	4.89%	10.37%	1.85%	2.56%	4.78%	4.89%					
6	Cloud license and on-premise license	-4.30%	-4.30%	-4.30%	-4.30%	-4.30%	-11.51%	1.44%	-12.43%	5.31%	-4.30%					
7	Hardware	-5.14%	-5.14%	-5.14%	-5.14%	-5.14%	-5.14%	-7.26%	-7.05%	-2.44%	-5.47%					
8	Services	-2.59%	-2.59%	-2.59%	-2.59%	-2.59%	1.07%	-4.57%	-4.14%	-2.74%	-2.59%					
9	**Total revenues**															
10	Operating expenses:	2.59%					2017	2018	2019	2020	2021					
11	Cloud services and license support	15.72%	16.28%	16.87%	17.48%	18.12%	12.67%	13.75%	14.16%	14.62%	15.17%	8.51%	2.98%	3.27%	3.71%	3.62%
12	Hardware	25.90%	23.18%	20.75%	18.57%	16.62%	39.69%	39.46%	36.72%	32.41%	28.94%	-0.59%	-6.95%	-11.72%	-10.73%	-10.50%
13	Services	84.58%	78.90%	73.61%	68.67%	64.06%	83.15%	84.77%	88.06%	90.66%	83.75%	1.95%	3.87%	2.96%	-7.63%	-6.71%
14	Sales and marketing	20.81%	20.81%	20.81%	20.81%	20.81%	21.39%	21.41%	21.54%	20.72%	18.98%	average =	20.81%			
15	Research and development	15.73%	15.73%	15.73%	15.73%	15.73%	16.28%	15.45%	15.25%	15.53%	16.12%	average =	15.73%			
16	General and administrative	3.14%	3.14%	3.14%	3.14%	3.14%	3.10%	3.26%	3.20%	3.02%	3.10%	average =	3.14%			
17	Amortization of intangible assets	1,545	1,545	1,545	1,545	1,545						average =	1,545			
18	Acquisition related and other	79	79	79	79	79						average =	79			
19	Restructuring	435	435	435	435	435						average =	435			
20	**Total operating expenses**															
21	**Operating income**															
22	Interest expense	15.07%	15.07%	15.07%	15.07%	15.07%	13.92%	15.27%	15.38%	14.36%	16.41%	average =	15.07%			
23	Non-operating income, net	602	602	602	602	602						average =	602			
24	Income before benefit from (provision for) income taxes															
25	Benefit from (provision for) income taxes															
26	**Net income**															
27	**Earnings per share:**															
28	Basic	2559	2327	2116	1924	1749	4137	3997	3359	3067	2814	-3.38%	-15.96%	-8.69%	-8.25%	-9.07%
29	Diluted															
30	Weighted average common shares outstanding:															
31	Basic															
32	Diluted															
33	Net income															
34	Other comprehensive income (loss), net of tax:															
35	Net foreign currency translation gains (losses)	9	9	9	9	9						average =	9			
36	Net unrealized gains (losses) on defined benefit plans	(29)	(29)	(29)	(29)	(29)						average =	(29)			
37	Net unrealized (losses) gains on marketable	(39)	(39)	(39)	(39)	(39)						average =	(39)			
38	Net unrealized losses on cash flow hedges	(4)	(4)	(4)	(4)	(4)						average =	(4.00)			
39	Total other comprehensive income (loss), net	(63)	(63)	(63)	(63)	(63)						average =	(63.20)			
40	Comprehensive income															

The balance sheet was used to forecast the current assets by using the growth rates of revenues obtained in the income statement. For the non-current assets, we used the average of the change in the historical data as the forecasted growth amount. We used the growth rate of revenues as the future growth rate of current notes payable as well as accounts payable. Data in 2021 was used for the other items under liabilities for the next five years to reflect our prediction that the company will face a high-leveraged, high-risk situation. In this case, Oracle will be unable to borrow money successfully. We aligned the methods of forecasting equity items with those used above.

ORACLE CORPORATION CONSOLIDATED BALANCE SHEETS						FORECAST					ASSUMPTION						
(In millions)	Year Ended May 31					Year Ended May 31											
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026							
ASSETS																	
Current assets:																	
Cash and cash equivalents	$21,784	$21,620	$20,514	$37,239	$30,098	30,782	31,533	32,353	33,242	34,204	2.27%	2.44%	2.60%	2.75%	2.89%		
Marketable securities	$44,294	$45,641	$17,313	$5,818	$16,456	16,830	17,241	17,689	18,175	18,701	2.27%	2.44%	2.60%	2.75%	2.89%		
Trade receivables	$5,300	$5,136	$5,134	$5,551	$5,409	5,532	5,667	5,814	5,974	6,147	2.27%	2.44%	2.60%	2.75%	2.89%		
Prepaid expenses and other current assets	$3,137	$3,762	$3,425	$3,532	$3,604	3,686	3,776	3,874	3,980	4,096	2.27%	2.44%	2.60%	2.75%	2.89%		
Total current assets	$74,515	$76,159	$46,386	$52,140	$55,567	**56,830**	**58,217**	**59,729**	**61,372**	**63,148**							
Non-current assets:																	
Property, plant and equipment, net	$5,315	$5,897	$6,252	$6,244	$7,049	7,683	8,316	8,950	9,583	10,217	$582	$355	($8)	$805	$634		
Intangible assets, net	$7,679	$6,670	$5,279	$3,738	$2,430	2,000	2,000	2,000	2,000	2,000	2000	2000	2000	2000	2000		
Goodwill, net	$43,045	$43,755	$43,779	$43,769	$43,935	43,700	43,700	43,700	43,700	43,700	43700	43700	43700	43700	43700		
Deferred tax assets	$1,143	$1,395	$2,696	$3,252	$13,636	4,000	4,000	4,000	4,000	4,000	4000	4000	4000	4000	4000		
Other non-current assets	$3,294	$3,975	$4,317	$6,295	$8,490	8,490	8,490	8,490	8,490	8,490	8490	8490	8490	8490	8490		
Total non-current assets	$60,476	$61,692	$62,323	$63,298	$75,540	65,873	66,506	67,140	67,773	68,407							
Total assets	**$134,991**	**$137,851**	**$108,709**	**$115,438**	**$131,107**	**122,703**	**124,723**	**126,869**	**129,145**	**131,554**							
LIABILITIES AND EQUITY																	
Current liabilities:																	
Notes payable, current	$9,797	$4,491	$4,494	$2,371	$8,250	8,438	8,643	8,868	9,112	9,376	2.27%	2.44%	2.60%	2.75%	2.89%		
Accounts payable	$599	$529	$580	$637	$745	762	781	801	823	847	2.27%	2.44%	2.60%	2.75%	2.89%		
Accrued compensation and related benefits	$1,966	$1,806	$1,628	$1,453	$2,017	1,774	1,774	1,774	1,774	1,774	$1,774	$1,774	$1,774	$1,774	$1,774	average =	$1,774
Deferred revenues	$8,233	$8,341	$8,374	$8,002	$8,775	8,345	8,345	8,345	8,345	8,345	$8,345	$8,345	$8,345	$8,345	$8,345	average =	$8,345
Other current liabilities	$3,583	$3,957	$3,554	$4,737	$4,377	4,042	4,042	4,042	4,042	4,042	$4,042	$4,042	$4,042	$4,042	$4,042	average =	$4,042
Total current liabilities	$24,178	$19,124	$18,630	$17,200	$24,164	**23,360**	**23,585**	**23,829**	**24,095**	**24,383**							
Non-current liabilities:																	
Notes payable and other borrowings, non-current	$48,112	$56,128	$51,673	$69,226	$75,995	75,995	75,995	75,995	75,995	75,995	75,995	75,995	75,995	75,995	75,995		
Income taxes payable	$5,681	$13,429	$13,295	$12,463	$12,345	12,345	12,345	12,345	12,345	12,345	$12,345	$12,345	$12,345	$12,345	$12,345		
Deferred tax liabilities				$41	$7,864	7,864	7,864	7,864	7,864	7,864	$7,864	$7,864	$7,864	$7,864	$7,864		
Other non-current liabilities	$2,774	$2,297	$2,748	$3,791	$4,787	5,000	5,000	5,000	5,000	5,000	5000	5000	5000	5000	5000		
Total non-current liabilities	$56,567	$71,854	$67,716	$85,521	$100,991	**101,204**	**101,204**	**101,204**	**101,204**	**101,204**							
Commitments and contingencies																	
Oracle Corporation stockholders' equity:																	
Preferred stock	—	—	—	—	—												
Common stock	$27,065	$28,950	$26,909	$26,486	$26,533	26,435	26,337	26,240	26,143	26,046	6.96%	-7.05%	-1.57%	0.18%	-0.37%		
Accumulated deficit (Retained Earning)	$27,598	$19,111	($3,496)	($12,696)	($20,120)	(4,319)	(2,280)	(123)	2,155	4,557							
Accumulated other comprehensive loss	($803)	($1,689)	($1,628)	($1,716)	($1,175)	(1,402)	(1,402)	(1,402)	(1,402)	(1,402)						average =	($1,402)
Total Oracle Corporation stockholders' equity	$53,860	$46,372	$21,785	$12,074	$5,238	**20,714**	**22,655**	**24,714**	**26,895**	**29,201**							
Noncontrolling interests	$386	$501	$578	$643	$714	785	864	950	1,045	1,150	29.79%	15.37%	11.25%	11.04%	10%		
Total equity	**$54,246**	**$46,873**	**$22,363**	**$12,717**	**$5,952**	**21,499**	**23,519**	**25,665**	**27,941**	**30,350**							
Total liabilities and equity	$134,991	$137,851	$108,709	$115,438	$131,107	**122,703**	**124,723**	**126,869**	**129,145**	**131,554**							

Overall, we were able to forecast based on percent change derived from patterns observed in the historical data. Averages were used to assume forecast values due to fluctuating and unstable historical data.

salesforce.com, inc. (CRM)

For forecasting the Salesforce Inc. financial statements, we used the firm's balance sheet, income statement, statement of cash flows, statement of comprehensive income, and statement of shareholders' equity from the years 2017 to 2021. To perform a five-year forecast, we used the five-year historical data in the aforementioned financial statements.

Our main focus from the income statement was the different trends displayed by each operating subsegment of the company. The cost of sales and occupancy segment increased every year and has an estimated annual growth rate of 24.9%. The revenues of both the R&D and Marketing & Sales segments increased every year, with growth rates of 31.7% and 25.4%. respectively. Because the expenditures are closely related to revenues, we calculated the average of the item-to-revenues ratio for each year, producing the operating expense. Because there is a clear increase in the item-to-revenue ratio, we calculated the growth rates of this ratio and averaged the results, presenting a more accurate forecast of expenditures.

The interest income segment of the operations statement below shows that Salesforce Inc. is mainly operating using equity. The interest income segment in Salesforce Inc. refers to the gains that the firm realized from the investment.

Revenues:							
Total revenues	8,392	$ 10,480	$ 13,282	$ 17,098	$ 21,252		
%rate		24.9%	26.7%	28.7%	24.3%	26.2%	
Cost of revenues:							
Total cost of revenues	2,234	2,774	3,451	4,235	5,438		
%rate		24.2%	24.4%	22.7%	28.4%	24.93%	
Gross profit	6,158	7,706	9,831	12,863	15,814		
Operating expenses:							
Research and development	1,208	1,553	1,886	2,766	3,598		
%rate		28.6%	21.4%	46.7%	30.1%	31.7%	
Marketing and sales	3,918	4,829	6,064	7,930	9,674		
%rate		23.3%	25.6%	30.8%	22.0%	25.4%	
General and administrative	968	1,088	1,346	1,704	2,087		
%rate		12.4%	23.7%	26.6%	22.5%	21.3%	
Loss on settlement of Salesforce.org reseller agreement	0	0	0	166	0		
%rate							
Total operating expenses	6,094	7,470	9,296	12,566	15,359		
Interest Income	91	272	542	427	2170	700	use this assumption
%rate		198.9%	99.3%	-21.2%	408.2%	171.29%	
Other expense	(80)	(70)	(94)	(18)	(64)	(65)	use this assumption
%rate		-12.5%	34.3%	-80.9%	255.6%	49.1%	
Gain on Sales of land and building improvement	0	0	0	0	0		
%rate							
Gain from acqusitions of strategic invesment	14	0	0	0	0		
%rate							
Income before benefit from (provision for) income taxes	25	202	983	706	2,561		
%rate		708.0%	386.6%	-28.2%	262.7%	332.3%	
Benefit from (provision for) income taxes	154	(75)	127	(580)	1,511	227	
%rate		-148.7%	-269.3%	-556.7%	-360.5%	-333.8%	
Net income	$ 179	$ 127	$ 1,110	$ 126	$ 4,072		
Other Comprehensive Income Items							
%rate							
Comprehensive Income							
	Jan. 31, 2017	**Jan. 31, 2018**	**Jan. 31, 2019**	**Jan. 31, 2020**	**Jan. 31, 2021**		
Statement of Comprehensive Income [Abstract]							
Net income (loss)	$ 179	$ 127	$ 1,110	$ 126	$ 4,072		
Other comprehensive income (loss), before tax and net of reclassification adjustments:							
Foreign currency translation and other losses	(43)	52	(26)	(59)	40	(7)	
Unrealized gains (losses) on investments	15	(4)	(12)	26	15	8	
Other comprehensive loss, before tax	(29)	48	(38)	(33)	55	1	
Tax effect	3	1	(1)	(2)	(4)	(1)	
Other comprehensive loss, net of tax	(26)	49	(39)	(35)	51	0	
Comprehensive income (loss)	$ 154	$ 176	$ 1,071	$ 91	$ 4,123		

The balance sheet was used to forecast the current assets and the non-current assets by using the average of the change in the five-year historical data for the forecasted growth rate. The data in 2021 was used for the other items under liabilities for the next five years to reflect our prediction that the company will face a lower leveraged, low-risk situation since the debt-to-equity ratio is low. In this case, Salesforce Inc. will face a positive projection overall for the next five years.

Consolidated Balance Sheets - USD ($) $ in Millions	Jan. 31, 2017	Jan. 31, 2018	Jan. 31, 2019	Jan. 31, 2020	Jan. 31, 2021	**Average**
Current assets:						
Cash and cash equivalents	$ 1,607	$ 2,543	$ 2,669	$ 4,145	$ 6,195	
%rate		58.2%	5.0%	55.3%	49.5%	42.0%
Marketable securities	602	1,978	1,673	3,802	5,771	
%rate		228.6%	-15.4%	127.3%	51.8%	98.0%
Accounts receivable, net	3,197	3,921	4,924	6,174	7,786	
%rate		22.6%	25.6%	25.4%	26.1%	24.9%
Costs capitalized to obtain revenue contracts, net	311	671	788	926	1,146	
%rate		115.8%	17.4%	17.5%	23.8%	43.6%
Prepaid expenses and other current assets	280	471	629	916	991	
%rate		68.2%	33.5%	45.6%	8.2%	38.9%
Total current assets	5,997	9,584	10,683	15,963	21,889	49.5%
Property and equipment, net	1,787	1,947	2,051	2,375	2,459	
%rate		9.0%				9.0%
Deferred commision, noncurrent	228	0	0	0	0	
%rate		-100.0%				
Operating lease right-of-use assets, net	0	0	0	3,040	3,204	
%rate					5.4%	5.4%
Noncurrent costs capitalized to obtain revenue contracts, net	0	1,105	1,232	1,348	1,715	
%rate			11.5%	9.4%	27.2%	16.0%
Capitalized software, net	142	146	152	0	0	
%rate		2.8%	4.1%			3.5%
Strategic investments	567	677	1,302	1,963	3,909	
%rate		19.4%	92.3%	50.8%	99.1%	65.4%
Goodwill	7,264	7,314	12,851	25,134	26,318	
%rate		0.7%	75.7%	95.6%	4.7%	44.2%
Intangible assets acquired through business combinations, net	1,113	827	1,923	4,724	4,114	
%rate		-25.7%	132.5%	145.7%	-12.9%	59.9%
Deferred tax assets and other assets, net	487	384	543	579	2,693	
%rate		-21.1%	41.4%	6.6%	365.1%	98.0%
Total assets	17,585	21,984	30,737	55,126	66,301	

Current liabilities:						
Accounts payable, accrued expenses and other liabilities	1,753	3,072	2,691	3,433	4,355	
%rate		75.2%	-12.4%	27.6%	26.9%	29.3%
Operating lease liabilities, current	0	0	0	750	766	
%rate					2.1%	2.1%
Unearned revenue	5,506	6,995	8,564	10,662	12,607	
%rate		27.0%	22.4%	24.5%	18.2%	23.1%
Total current liabilities	7,259	10,067	11,255	14,845	17,728	
Noncurrent debt	2,045	1,310	3,877	2,673	2,673	
%rate		-35.9%	196.0%	-31.1%	0.0%	32.2%
Noncurrent operating lease liabilities	2,008	0	0	2,445	2,842	
%rate					16.2%	16.2%
Other noncurrent liabilities	781	846	704	1,278	1,565	
%rate		8.3%	-16.8%	81.5%	22.5%	23.9%
Total liabilities	10,085	11,608	15,132	21,241	24,808	
Commitments and contingencies (See Notes 6 and 14)						
Stockholders' equity:						
Preferred stock, $0.001 par value; 5 shares authorized and none issued an	0	0	0	0	0	
Common stock, $0.001 par value; 1,600 shares authorized, 919 and 893 issu	1	1	1	1	1	
Additional paid-in capital	8,040	9,752	13,927	32,116	35,601	
%rate		21.3%	42.8%	130.6%	10.9%	51.4%
Accumulated other comprehensive loss	(76)	(12)	(58)	(93)	(42)	
%rate		-84.2%	383.3%	60.3%	-54.8%	76.2%
Retained earnings	(465)	635	1,735	1,861	5,933	
%rate		-236.6%	173.2%	7.3%	218.8%	40.7%
Total stockholders' equity	7,500	10,376	15,605	33,885	41,493	
Total liabilities and stockholders' equity	$ 17,585	$ 21,984	$ 30,737	$ 55,126	$ 66,301	

We were able to forecast based on percent change derived from patterns observed in the historical data. Averages were used to assume forecast values due to fluctuating and unstable historical data.

Step 6: Value the Firm

Oracle Corporation (ORCL)

We valued the firm employing an earnings-based approach. The average growth rate over the next five years is 2.5%. We assumed a risk-free rate of 1.94%, the interest rate of a ten-year Treasury Note. We found a market risk premium rate of 5.50% and the beta for Oracle Corporation to be 0.82. The cost of equity, 6.45%, was acquired through CAPM. The value of "BV" is the value of total equity from the balance sheet, and "NI" is the net income from the income statement. Required income was calculated by multiplying last year's book value by this year's cost of equity. The residual income is the difference between the net income and required income. We calculated the present value of the residual income assuming the cost of equity as the discount rate. After summing the present value of residual income from each year with the present value of the continuing value, and adjusting for mid-year discounting, we arrived at a firm value of $337,016 million. The share value of Oracle Corporation is $119.76.

	A	B	C	D	E	F	G	H	I
1			1	2	3	4	5		
2		2021	2022	2023	2024	2025	2026		
3	BV	$5,952	21,499	23,519	25,665	27,941	30,350	Tax Rate	21%
4	NI		13,980	14,447	14,898	15,334	15,759	outstanding shares	2814
5	Required Income		384	1387	1517	1655	1802	Growth Rate	2.50%
6	Residual Income		13,596	13,061	13,381	13,679	13,957	Beta	0.82
7	PV of Res. Income		12,772	12,269	12,570	12,850	13,111	Rf	1.94%
8	Sum of Pv of Res. Income		63,572					MRP	5.50%
9	RI t+6		14,195					RE	6.45%
10	Continuing Value		359,371						
11	PV continuing Value		262,914						
12	Firm Value before mid year Adjust		326,487						
13	Adjusting for mid year		337,016						
14	Share Value		119.76						
15									

salesforce.com, inc. (CRM)

We valued the firm employing an earnings-based approach. The average growth rate over the next five years is 2.5%. We assumed a risk-free rate of 1.94%, the interest rate of a ten-year Treasury Note. We used a market risk premium rate of 5.50% and the beta for Salesforce Inc. is 1.09. The cost of equity is 7.49%, which was acquired using CAPM method. The value of "BV" is the value of total equity from the balance sheet, and "NI" is the net income from the income statement. Required income was calculated by multiplying last year's book value by this year's cost of equity. The residual income is the difference between the net income and required income. We calculated the present value of the residual income assuming the cost of equity as the discount rate. After summing the present value of residual income from each year with the present value of the continuing value, and adjusting for mid-year discounting, we arrived at a firm value of $552,040 million. The share value of Salesforce Inc. is $593.59.

		1	2	3	4	5		
	2021	2022	2023	2024	2025	2026		
BV	41,493	66,636	108,726	180,339	304,298	522,654	Tax Rate	22%
NI		1,480	1,680	1,919	2,200	2,518	outstanding shares	930
Required Income		3,292	5,288	8,627	14,310	24,146	Growth Rate	2.50%
Residual Income		(1,812)	(3,608)	(6,708)	(12,110)	(21,628)	Beta	1.09 [2]
PV of Res. Income		1,679	3,342	6,215	11,220	20,038	Rf	1.94%
Sum of Pv of Res. Income		42,494					MRP	5.50%
RI t+6		38,892					**RE**	7.94%
Continuing Value		715,580						
PV continuing Value		488,480						
Firm Value before mid year Adjust		530,974						
Adjusting for mid year		552,040						
Share Value		**593.59**						

(in millions)	2017	2018	2019	2020	2021
Outstanding shares	708	730	770	893	919
Profitability Ratio:					
Basic EPS	0.25	0.17	1.44	0.14	4.43
Diluted EPS					
Return on Assets (ROA)		0.01	0.01	0.03	0.00
Return on Common Equity (ROCE)		0.01	0.04	0.00	0.07
Risk ratio					
Operating ROA					
Current Ratio	2.30				
Quick Ratio	0.79				
D/E ratio	0.60				

[2] Data from Yahoo Finance

Comparative Analysis

Salesforce and Oracle are both enterprise management software companies, but the way in which the companies are modeled are very different. The development of cloud technology and its ability to influence the industry is evident throughout the analysis of these companies. Salesforce adheres to the development of ideas in productization. It has created a pay-as-you-go SaaS model, charging through a subscription rather than a license, a subversion of the traditional software profit model. Oracle, one of the largest software companies, has formed a core business model, mainly selling software licenses.

From a cost perspective, a user's one-time investment becomes relatively more significant under a license model, and the annual service fee has also become a burden for enterprises. As a subscription-based model, SaaS requires annual payments, avoiding the immense one-time investment, while allowing users to use it on demand.

Enterprises can receive licenses after Oracle updates it, which afterward prompts a long update cycle. In the future, the software company will update the software on an annual basis. In contrast, the SaaS model allows for quick updates of the software backstage. The software can update in hours, and customers can soon experience the updated functions. This may be one reason that customers seem to be more willing to pay for Salesforce. In 2020, Salesforce had a 19.8% market share, while its four significant competitors, Oracle, SAP, Adobe, and Microsoft, had a combined market share of only 17.8%.

Oracle offers a wide range of products including traditional databases, middleware, and various enterprise solution tools, etc. However, its cloud service transformation is behind compared to other companies. Although it has acquired companies that focus on cloud computing, such as NetSuiteERP, it has not experienced benefits from the effects of synergy, and its market share growth is gradually weak.

Salesforce's performance in recent years has been constantly growing, around 20% per year. Although Oracle is growing as well, the company borrowed heavily in recent years and used cash to buy a lot of cloud technology research companies, leading to a severe amount of liabilities.

In addition to cloud services, Oracle's other businesses, such as hardware and other authorized services, are experiencing a decline. Oracle's debt-to-equity ratio is 21.8, more than twice Salesforce's. Overall, Salesforce presents to be a stronger business than Oracle.

	Actuals		Forecasts				
$$ In Millions	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
ASSETS:							
Cash and Cash Equivalents	4,145	6,195	8,796.26	12,489.78	17,734.20	25,180.74	35,754.05
Marketable Securities	3,802	5,771	11,429.42	22,635.87	44,830.16	88,785.77	175,839.51
Accounts Receivable—Net	6,174	7,786	9,727.08	12,152.09	15,181.66	18,966.52	23,694.96
Costs capitalized to obtain revenue contracts, net	926	1,146	1,645.84	2,363.68	3,394.62	4,875.21	7,001.57
Prepaid Expenses and Other Current Assets	916	991	1,376.44	1,911.79	2,655.36	3,688.13	5,122.59
Current Assets	**15,963**	**21,889**	**32,975.04**	**51,553.22**	**83,796.01**	**141,496.37**	**247,412.68**
Property, Plant & Equipment, net	2,375	2,459	2,679.17	2,919.05	3,180.41	3,465.17	3,775.42
Operating lease right-of-use assets, net	3,040	3,204	3,376.85	3,559.02	3,751.02	3,953.38	4,166.65
Noncurrent costs capitalized to obtain revenue contracts, ne	1,348	1,715	1,990.17	2,309.49	2,680.04	3,110.04	3,609.04
Amortizable Intangible Assets—Net	4,724	4,114	6,578.04	10,517.89	16,817.47	26,890.12	42,995.69
Goodwill and Nonamortizable Intangibles	25,134	26,318	37,942.88	54,702.56	78,865.14	113,700.52	163,922.99
Equity and Other Investments	1,963	3,909	6,465.70	10,694.61	17,689.45	29,259.30	48,396.45
Deferred Tax Assets and other assets, net	579	2,693	5,332.13	10,557.60	20,904.00	41,389.84	81,951.72
Total Assets	**55,126**	**66,301**	**97,339.97**	**146,813.42**	**227,683.53**	**363,264.74**	**596,230.64**
LIABILITIES:							
Accounts Payable, Accrued Expenses and other Liabilities	3,433	4,355	5,524.62	7,008.37	8,890.60	11,278.35	14,307.37
Operating lease liabilities, current	750	766	782.34	799.03	816.08	833.49	851.27
Unearned Revenue	10,662	12,607	15,513.35	19,089.71	23,490.55	28,905.93	35,569.74
Current Liabilities	**14,845**	**17,728**	**21,820.31**	**26,897.11**	**33,197.23**	**41,017.76**	**50,728.38**
Non-Current Debt	2,673	2,673	2,673.00	2,673.00	2,673.00	2,673.00	2,673.00
Non-Current Operating Lease Liabilities	2,445	2,842	3,303.46	3,839.85	4,463.34	5,188.06	6,030.46
Other Non-Current Liabilities	1,278	1,565	1,938.76	2,401.77	2,975.37	3,685.96	4,566.24
Total Liabilities	**21,241**	**24,808**	**29,735.53**	**35,811.73**	**43,308.93**	**52,564.78**	**63,998.08**
SHAREHOLDERS' EQUITY							
Common Stock + Paid-In Capital	32,117	35,602	53,897.78	81,595.71	123,527.53	187,008.02	283,110.96
Retained Earnings	1,861	5,933	13,765.75	29,489.11	60,964.01	123,856.48	249,353.06
Accum. Other Comprehensive Income <Loss>	(93)	(42)	(59.09)	(83.13)	(116.95)	(164.53)	(231.46)
Common Shareholders' Equity	**33,885**	**41,493**	**67,604.44**	**111,001.69**	**184,374.59**	**310,699.97**	**532,232.56**
Total Liabilities and Equities	**55,126**	**66,301**	**97,339.97**	**146,813.42**	**227,683.53**	**363,264.74**	**596,230.64**

	Actuals			Forecasts				
Year	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Revenues	13,282	17,098	21,252	26,811.70	33,825.86	42,674.99	53,839.13	67,923.89
<Cost of Sales and Occupancy>	(3,451)	(4,235)	(5,438)	(6,793.44)	(8,486.73)	(10,602.07)	(13,244.67)	(16,545.94)
Gross Profit	**9,831**	**12,863**	**15,814**	**20,018.26**	**25,339.14**	**32,072.92**	**40,594.46**	**51,377.95**
<Research and development>	(1,886)	(2,766)	(3,598)	(4,738.04)	(6,239.30)	(8,216.23)	(10,819.57)	(14,247.78)
<Marketing and sales>	(6,064)	(7,930)	(9,674)	(12,130.97)	(15,211.94)	(19,075.42)	(23,920.12)	(29,995.26)
<General and Administrative Expenses>	(1,346)	(1,704)	(2,087)	(2,531.45)	(3,070.54)	(3,724.44)	(4,517.60)	(5,479.66)
<Loss on settlement of Salesforce.org reseller agreement>	0	(166)	0	0	0	0	0	0
Operating Profit	**535**	**297**	**455**	**617.81**	**817.36**	**1,056.83**	**1,337.17**	**1,655.24**
Interest Income	542	427	2,170	700.40	700.40	700.40	700.40	700.40
<Interest Expense and other expenses>	(94)	(18)	(64)	(65.20)	(65.20)	(65.20)	(65.20)	(65.20)
Income before benefit from (provision for) income taxes	**448**	**409**	**2,106**	**1,253.01**	**1,452.56**	**1,692.03**	**1,972.37**	**2,290.44**
Benefit from (provision for) income taxes	127	(580)	1,511	227.40	227.40	227.40	227.40	227.40
Net Income (Computed)	**575**	**(171)**	**3,617**	**1,480.41**	**1,679.96**	**1,919.43**	**2,199.77**	**2,517.84**
Other comprehensive income (loss), before tax and net of reclassification adjustments:								
Foreign currency translation and other losses	**(26)**	**(59)**	**40**	**(7.20)**	**(7.20)**	**(7.20)**	**(7.20)**	**(7.20)**
Unrealized gains (losses) on investments	**(12)**	**26**	**15**	**8.00**	**8.00**	**8.00**	**8.00**	**8.00**
Other comprehensive loss, before tax	**(38)**	**(33)**	**55**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**
Tax effect	**(1)**	**(2)**	**(4)**	**(0.60)**	**(0.60)**	**(0.60)**	**(0.60)**	**(0.60)**
Other comprehensive loss, net of tax	**(39)**	**(35)**	**51**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Comprehensive income (loss)	**1,071**	**91**	**4,123**	**1,481.21**	**1,680.76**	**1,920.23**	**2,200.57**	**2,518.64**

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