Salesforce (CRM)

Mispriced Growth: Data + AI Redefine Salesforce's Next Curve

Firm Description: Founded in 1999 and headquartered in San Francisco, California, Salesforce, Inc. (NYSE: CRM) is the global leader in customer relationship management (CRM) software. The company provides a comprehensive cloud-based platform that enables organizations to manage sales, marketing, service, data, and analytics within a unified digital ecosystem. Salesforce operates through five primary segments — Sales Cloud, Service Cloud, Marketing & Commerce, Platform & Other (including Slack and MuleSoft), and Data Cloud — with subscription and support services accounting for over 95% of total revenue.

Investment Thesis: Salesforce (CRM) is positioned to enter its next growth phase driven by the integration of Data Cloud and Agentforce, which together create a scalable foundation for AI-enabled enterprise automation. These platforms are expected to form Salesforce's second growth curve, reaccelerating revenue growth to 10%+ as AI adoption broadens across its customer base. The acquisition of Informatica strengthens Salesforce's data management and governance capabilities, reinforcing the company's position as a leading data and AI platform. Combined with steady margin expansion and strong free cash flow generation, Salesforce is transitioning from a traditional SaaS leader into an AI-powered enterprise ecosystem. We recommend a BUY rating, reflecting confidence in Salesforce's ability to monetize AI adoption and sustain long-term profitable growth.

Potential Risks: Salesforce faces several near-term challenges, including potential execution delays in scaling Data Cloud and Agentforce, cautious enterprise IT spending amid macro uncertainty, and intensifying competition from platforms such as Microsoft Dynamics 365 and ServiceNow. In addition, integration risks from the planned Informatica acquisition could limit expected data synergy benefits and weigh on short-term operating efficiency.

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Salesforce (CRM)

Stock Rating: BUY

Current Price: $243.23
Target Price: $296.45
Implied Return: 21.88%

Trading Measures

Market Cap:	228.37B
Diluted Shares Outstanding:	962M
Dividend Yield:	0.69%
Industry:	Info Tech
Beta:	1.173

Firm Measures

Latest Revenue:	37.9B
Revenue Growth:	8.79%
P/E Ratio:	34.86
52-week high:	$369.00
52-week low:	$226.48

Expected EPS

2026E:	14.38
2027E:	16.66
2028E:	20.22

Company Overview

Business Segments:

Subscription and Support, which represented approximately 95% of total revenue in FY25, remains the company's core business and the main driver of profitability. Salesforce reports five major sub-segments under this category:

Sales Cloud — Salesforce's original and most established product, providing lead management, opportunity tracking, and forecasting tools that help businesses enhance sales efficiency.

Service Cloud — Supports customer service operations and omnichannel case management, enabling faster response times and higher customer satisfaction.

Platform & Other — Encompasses core platform services along with Slack and MuleSoft, allowing users to build custom applications and connect third-party systems to Salesforce's ecosystem.

Marketing & Commerce Cloud — Delivers personalized campaign management and digital commerce solutions, increasingly enhanced by AI-driven automation and targeting.

Integration & Analytics (Data Cloud) — Serves as the backbone of Salesforce's long-term AI strategy by unifying structured and unstructured customer data to enable real-time insights and generative AI applications through Einstein 1 and Agentforce.

Professional Services and Other, accounting for the remaining ~5% of revenue, includes consulting, implementation, and training services that support product deployment. While smaller in scale, this segment reinforces customer adoption and retention across Salesforce's cloud ecosystem.

Business

Name	Revenue	Ratio
Service	9.05B	23.89%
Sales	8.32B	21.96%
Platform and Other	7.25B	19.12%
Integration and Analytics	5.78B	15.24%
Marketing and Commerce	5.28B	13.94%
Professional services and other	2.22B	5.85%

Sustained Competitive Advantages:

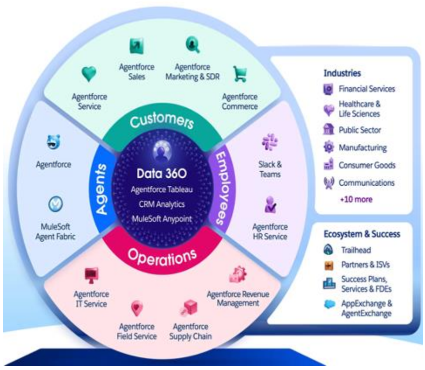
Integrated Data Architecture – The Structural Moat:

Salesforce's primary competitive advantage lies in its unified Customer 360 and Data Cloud architecture, which serves as the central nervous system of enterprise customer data. Unlike traditional CRM systems that operate as isolated modules, Salesforce enables seamless data flow across Sales, Service, Marketing, and Analytics functions, creating a single source of truth for customer information. This integration allows enterprises to operationalize insights across the organization and embed AI functionality directly into workflows through Einstein 1 and Agentforce. Competitors such as Microsoft Dynamics or Oracle CX offer CRM solutions within broader ERP ecosystems, but few can replicate Salesforce's end-to-end data unification and real-time AI activation capabilities.

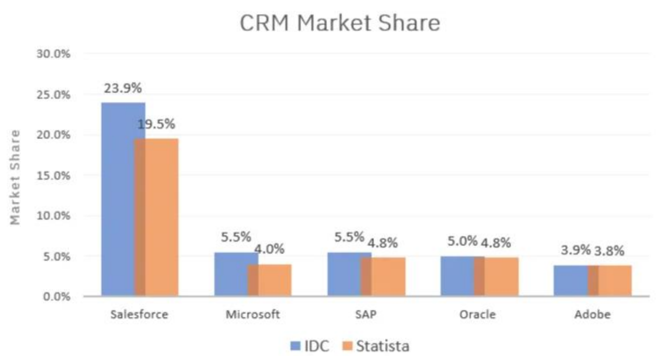
Company Overview Cont.

Deep Enterprise Stickiness – The Relationship Moat:
Salesforce enjoys exceptionally high customer retention, underpinned by deep process integration and high switching costs. Once organizations embed Salesforce into their core business operations—customizing workflows, automations, and data models—the technical and financial barriers to migration become substantial. Large enterprises often build thousands of custom applications and connectors within the Salesforce ecosystem, making replacement not only costly but also operationally disruptive. This entrenched integration ensures that Salesforce remains a mission-critical component of enterprise infrastructure, driving long-term recurring revenue stability.

Ecosystem Scale and Network Effects – The Platform Moat:
Beyond its core software, Salesforce has built a robust ecosystem economy through its AppExchange marketplace and extensive network of implementation partners such as Accenture, Deloitte, and PwC. These partners extend Salesforce's reach and create a virtuous cycle of adoption: as more developers and integrators build on the platform, customers gain access to a broader range of tailored solutions, which in turn strengthens Salesforce's platform value. This ecosystem model reinforces network effects that are difficult to replicate, positioning Salesforce not merely as a CRM provider but as a foundational enterprise platform for digital transformation.



<u>**Market Share:**</u>
Salesforce remains the global leader in the Customer Relationship Management (CRM) software market, maintaining an estimated 21–22% share in 2024. The company has held this top position for over a decade, outpacing peers such as Microsoft Dynamics, Oracle CX, and SAP through its deep enterprise integration and product diversification. Salesforce's unified Customer 360 platform, which connects sales, service, marketing, and analytics, has been a key differentiator in sustaining its market dominance and customer retention advantage.



Company Overview Cont.

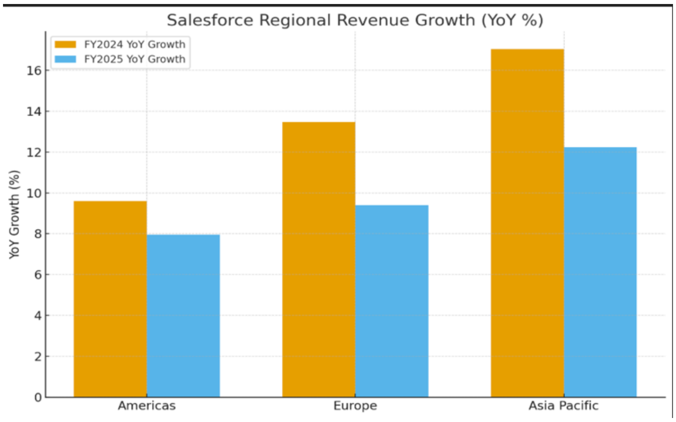
Addressable Market:

Salesforce's total addressable market (TAM) has expanded significantly beyond its traditional CRM roots. Management estimates the company's potential market opportunity to have grown from several hundred billion dollars to a multi-trillion-dollar scale, fueled by the integration of AI and digital labor platforms. During its FY25 Investor Day, the company projected that global spending on AI platforms and applications will exceed $600 billion over the next few years, while the broader digital labor economy could reach $13 trillion. These trends position Salesforce to capture substantial growth through its Data Cloud and Agentforce solutions.

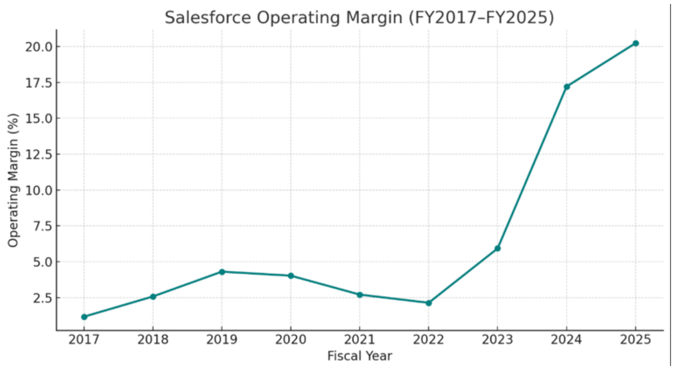
Growth Drivers:

AI Monetization: The company continues to embed generative AI capabilities across its platform, leveraging the Data Cloud as the foundation for building Agentforce and other automated engagement tools. This integration enhances customer productivity and creates new monetization opportunities through AI-powered workflows.

International Expansion: Adoption outside North America—particularly across Europe and the Asia-Pacific region—continues to accelerate, supported by Salesforce's expanding go-to-market infrastructure and partnerships with global system integrators. International markets now account for roughly one-third of total revenue, growing faster than the Americas.



Operational Efficiency: Sustained improvements in operating margin provide the financial capacity to reinvest in AI, ecosystem partnerships, and geographic expansion, reinforcing long-term scalability and shareholder returns.



Company Overview Cont.

Stock Price Influences:

Salesforce's valuation has undergone a correction over the past year as investors recalibrated expectations around the company's ability to monetize AI initiatives. Following the early-2024 AI-driven re-rating across software peers, Salesforce was perceived as a relative laggard, with slower near-term revenue realization from its Data Cloud and Agentforce platforms. This skepticism led to multiple compression despite sustained profitability and disciplined cost management.

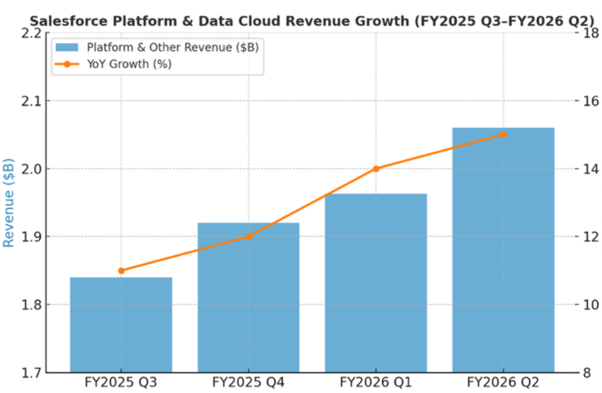
In recent months, however, signs of AI adoption and commercialization have become increasingly tangible. The company's latest Dreamforce conference and Investor Day presentations highlighted accelerating customer interest in Data Cloud integration and early use cases of Agentforce, positioning Salesforce to capture incremental growth as enterprises operationalize generative AI within their CRM systems. These developments, coupled with rising RPO and improving demand from international markets, have partially restored investor confidence and could serve as a re-rating catalyst as financial impacts become more visible in FY2026–FY2027.

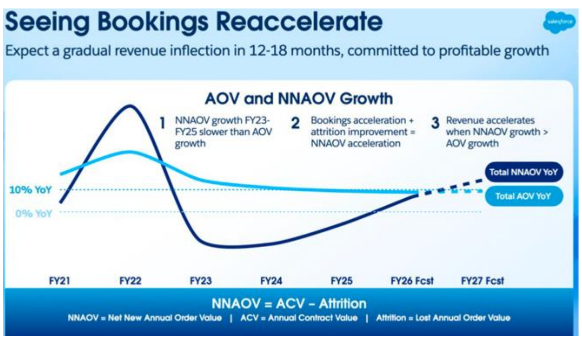
Investment Thesis

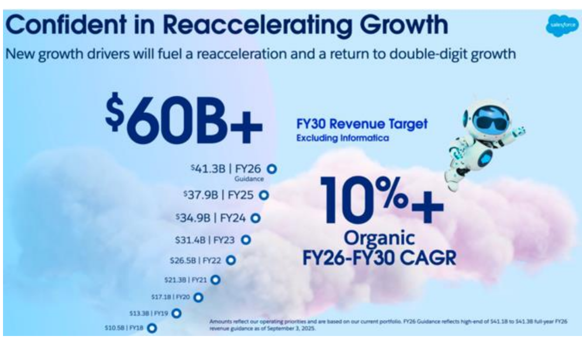
Fundamental Drivers

AI and Data Cloud Integration as the Core Growth Engine

Salesforce's long-term growth is increasingly driven by the integration of AI and data capabilities across its product suite. The company's Data Cloud has become the architectural foundation for all AI-enabled automation and personalization initiatives, providing unified, real-time customer data for its Einstein 1 Platform and Agentforce offerings. Management highlighted that Data Cloud's annualized revenue run-rate surpassed $2.5 billion in FY26 Q2, reflecting strong adoption momentum. This integration of data and intelligence is reshaping Salesforce from a traditional CRM provider into an AI-native customer platform, positioning the firm to benefit from the next phase of enterprise software digitization.







Investment Thesis Cont.

Ecosystem Expansion and Platform Stickiness

Salesforce continues to extend its global footprint through deeper partnerships with system integrators (e.g., Accenture, Deloitte, PwC) and an expanding AppExchange marketplace. These alliances have accelerated adoption across both enterprise and mid-market customers, particularly in EMEA and APAC, where double-digit growth outpaced North America. At the same time, the company's unified platform strategy—anchored by the Einstein 1 Platform—enhances customer stickiness and cross-sell potential by consolidating Sales, Service, Marketing, and Commerce functions within a single data model. The result is a durable ecosystem that reinforces renewal rates and underpins long-term subscription growth.

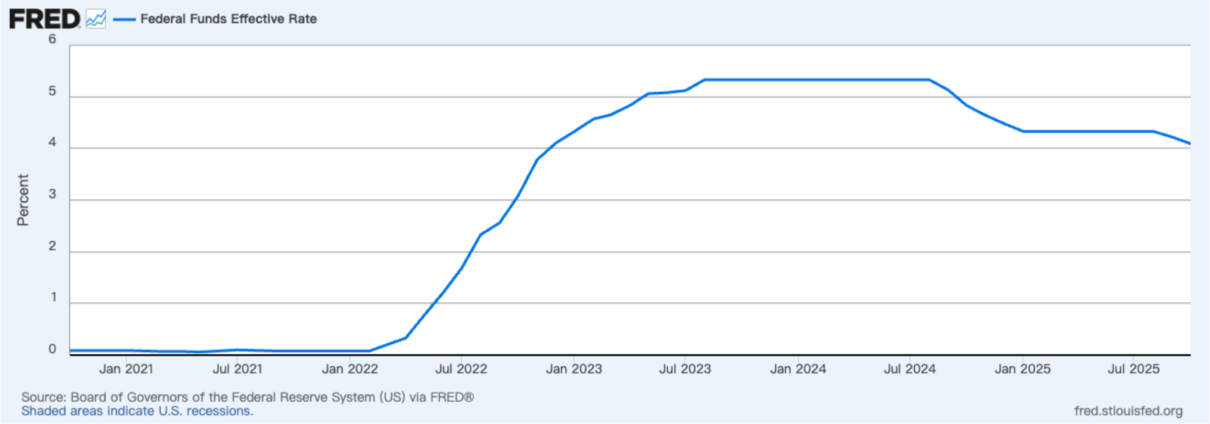
Margin Expansion and Operational Discipline

Following the company's "Profitable Growth" initiative, Salesforce has demonstrated consistent operating leverage and margin expansion. Non-GAAP operating margin exceeded 30% through FY26 Q2, driven by disciplined expense management, optimized go-to-market efficiency, and improved cloud infrastructure utilization. The firm continues to deliver robust free-cash-flow margins above 30%, reflecting healthy recurring revenue streams and strong cost control. This financial resilience provides flexibility for reinvestment in innovation and inorganic opportunities such as potential data-infrastructure acquisitions.

Macro - Economic Factors

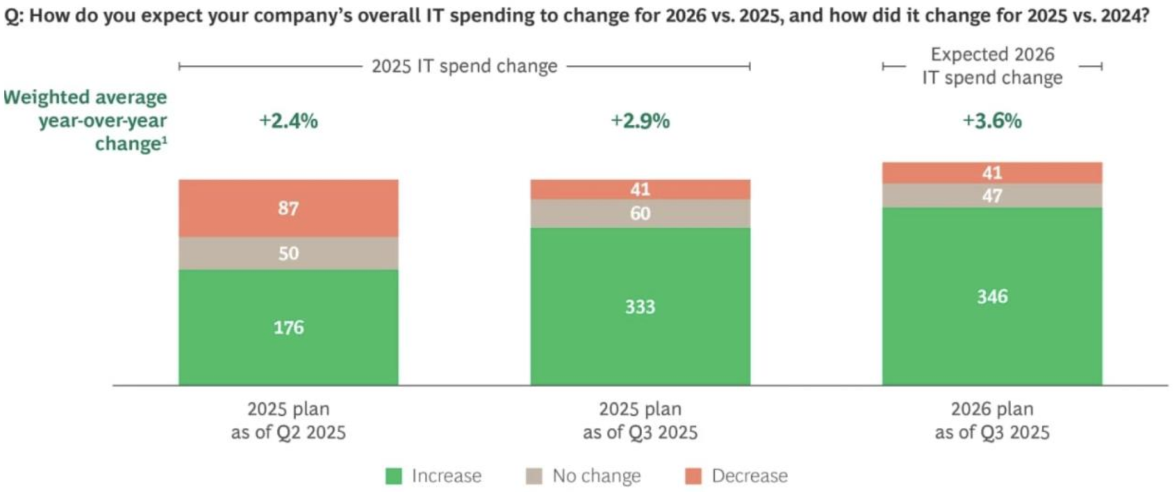
Interest Rate

The macroeconomic environment is entering a transition phase from a prolonged high-rate regime toward an early easing cycle, which holds significant implications for SaaS and other long-duration cash flow businesses. Over the past two years, elevated interest rates have weighed on valuation multiples across the software sector, as investors discounted long-term earnings more heavily. With policy rates now moving into a gradual downtrend, the outlook for multiple expansion is improving, particularly for companies like Salesforce whose intrinsic value is largely tied to terminal growth and recurring free cash flow generation. The easing rate environment also reduces capital costs and improves enterprise spending confidence, which collectively support sector re-rating potential.



Investment Thesis Cont.

Business IT Spending
On the demand side, global IT spending remains healthy but increasingly selective. Recent industry surveys indicate that CIOs are maintaining full-year technology budgets, yet many continue to defer new transformational projects amid macro uncertainty. This cautious posture reflects a shift from broad expansion to strategic prioritization, with investments concentrated in high-return areas such as AI integration, automation, and data-driven customer engagement. For Salesforce, this disciplined spending trend is favorable, as the company's platform directly aligns with enterprise priorities in efficiency, customer experience, and AI-enabled productivity gains.



Financials

Peer Selection Rationale
The peer group comprises large-cap enterprise software firms with subscription-driven revenue models, high gross margins, and strong recurring revenue visibility. Adobe, ServiceNow, and Workday operate in adjacent enterprise verticals with overlapping product functionalities—digital experience, workflow automation, and enterprise management—offering meaningful comparability in growth and profitability profiles. Microsoft is included as a benchmark reference, reflecting its scale, profitability, and leadership within the broader enterprise software ecosystem.

Peer Groups:

Adobe
workday
servicenow

Benchmark Reference:

Microsoft

Investment Thesis Cont.

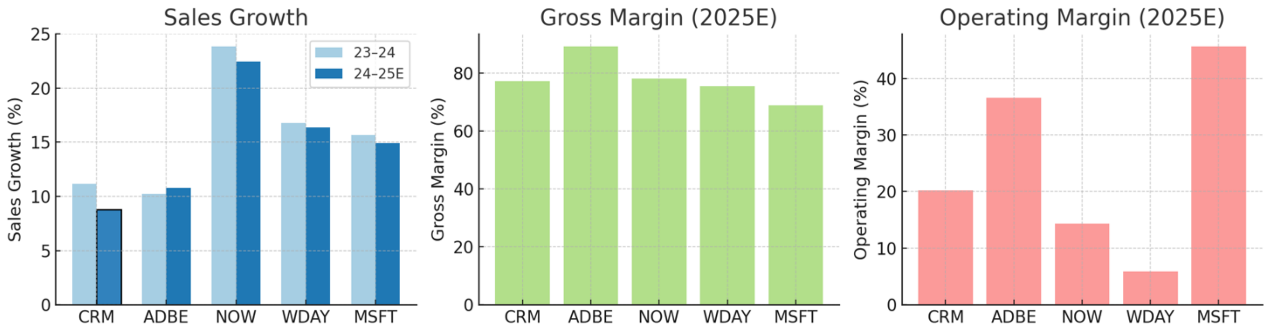
Financial Overview compared to Peers

In comparison with leading enterprise software peers, Salesforce demonstrates resilient profitability and improving operating leverage despite a temporary moderation in topline growth. While revenue expansion decelerated to roughly 9% in FY2024–FY2025—below the double-digit trajectory of ServiceNow and Workday—the company is entering a transition phase that balances growth and efficiency. Benefiting from disciplined cost management and scale efficiencies from its expanding Data Cloud and AI platform, Salesforce's FY2025 gross margin is projected at approximately 77%, in line with large-cap SaaS peers, while its operating margin is expected to reach 20%, outperforming most software platforms except Adobe and Microsoft. This margin improvement underscores enhanced scalability and cash flow conversion as Salesforce shifts toward a more mature, high-margin operating model. Looking ahead, the integration of generative AI and data-driven applications is expected to reignite double-digit revenue growth, reinforcing Salesforce's positioning as a high-profit, platform-centric SaaS leader within the enterprise software landscape.

Peer Financial Comparison (FY2024-FY2025E)

Firm	Market Cap	Sales Growth 23-24	Sales Growth 24-25	Gross Margin 2024	Gross Margin 2025	Operating Margin 2024	Operating Margin 2025
CRM	228B	11.18%	8.79%	75.50%	77.19%	17.21%	20.23%
ADBE	137B	10.24%	10.80%	89.04%	89.14%	36.36%	36.58%
NOW	179B	23.82%	22.44%	79.18%	78.05%	12.72%	14.35%
WDAY	60B	16.78%	16.35%	75.60%	75.50%	2.52%	5.91%
MSFT	3.69T	15.67%	14.93%	69.79%	68.82%	44.64%	45.62%

Salesforce vs Peers - Financial Comparison (FY2025E)



Debt and Financial Leverage

Salesforce maintains a conservative balance sheet with net cash of ~$3B and minimal leverage. As of FY2025, the company held $12.5B in cash and marketable securities against $9.4B of total debt, primarily senior unsecured notes maturing through 2033. Interest burden remains light at $0.4B, with ≈18× interest coverage, indicating excellent solvency even under higher-rate conditions. Backed by investment-grade ratings (A2 / A+) and >$10B in annual free cash flow, Salesforce's strong liquidity and recurring cash generation provide flexibility for share repurchases, M&A, and reinvestment in AI and Data Cloud without material refinancing risk.

Key Debt & Liquidity Metrics (FY2025)

Metric	FY2025	Commentary
Net Cash (Debt)	+$3.1 B	Effectively unlevered balance sheet
Interest Coverage (EBIT / Interest)	≈18×	Strong solvency and ample rate buffer
Credit Rating	A2 / A+	Investment grade; stable outlook

Investment Thesis Cont.

Income Statement Projection
I project Salesforce's revenue to grow from $37.9B in FY2025 to $49.3B by FY2028, reflecting a CAGR of roughly 9%. Growth will be driven by continued adoption of the Data Cloud platform and incremental AI monetization, with gross margins expanding as higher-margin subscription revenue outpaces services. I expect operating income to nearly double during this period, supported by disciplined cost management and increased automation efficiency.

My EPS forecasts are notably above Street consensus—$14.38 vs. $11.37 in FY2026—reflecting my more optimistic view on operating leverage and cost rationalization post-restructuring. While consensus implies a slower recovery trajectory, I anticipate stronger margin momentum as Salesforce transitions toward a unified data and AI architecture. This structural efficiency should translate into sustained double-digit EPS growth beyond FY2026.

Salesforce – Income Statement Projection (USD Millions)

Item	2024A	2025A	2026E	2027E	2028E
Revenue (My Forecast)	34,857	37,895	41,250	45,040	49,340
Revenue Consensus	**—**	**—**	**40,600**	**43,900**	**47,200**
Subscription & Support	32,537	35,679	38,890	42,779	47,057
Professional Services	2,320	2,216	2,238	2,261	2,283
Gross Profit	26,282	29,024	32,378	35,828	39,083
Operating Expenses	21,271	21,819	21,005	22,744	23,733
R&D	4,650	5,493	5,840	6,351	6,858
Sales & Marketing	12,220	13,257	12,938	13,062	13,322
G&A	2,534	2,634	2,227	2,331	2,553
Operating Income	5,011	7,205	11,373	13,084	15,350
Net Income	4,254	6,197	13,876	15,962	19,186
Diluted EPS ($)	4.20	6.36	14.38	16.64	20.22
EPS Consensus ($)	**—**	**—**	**11.37**	**12.67**	**14.43**

Valuation and Price Target

Valuation Multiples compared to peers
From a multiples perspective, Salesforce trades at a discount to peers such as Adobe, ServiceNow, and Workday on forward EV/EBIT and EV/FCF metrics, despite delivering comparable revenue growth and stronger margin expansion. I view this valuation gap as unjustified given the company's improving profitability trajectory and robust free cash flow generation.

Valuation Multiples Comparison (FY2025E)

Ticker	P/E	P/S	P/B	P/CF	EV/EBITDA
CRM	34.86	5.81	3.74	17.34	19.69
ADBE	20.38	6.10	11.67	13.98	15.18
NOW	104.23	14.04	15.83	36.95	68.70
WDAY	104.19	6.69	6.55	23.20	50.33
MSFT	35.34	12.57	10.17	25.11	22.30
Average	**38.96**	**9.04**	**9.59**	**23.32**	**35.24**

Investment Thesis Cont.

Valuation Multiples compared to history:

On an absolute basis, Salesforce also appears undervalued relative to its own long-term trading history. The current discount suggests that the market is assigning limited credit to Salesforce’s improved profitability and durable free cash flow profile. In my view, this compression in valuation multiples reflects temporary sentiment weakness rather than structural deterioration. As operating margins continue to expand and AI-driven revenue growth becomes more visible, I expect Salesforce’s trading multiples to re-rate toward historical averages, supporting a meaningful upside to the current share price.

Salesforce – Historical Valuation Multiples (Absolute Basis)

Absolute Basis	High	Low	Average	Current
P/E	40,435.45	31.73	1,326.55	34.66
P/B	11.48	2.17	6.03	3.94
P/S	12.95	4.20	7.76	6.14
P/EBITDA	40.66	12.57	25.43	19.22

DCF Analysis

Salesforces(CRM)											
Analyst: Jian Liu (Jerry)				Terminal Discount Rate =	10.0%						
2025/9/21				Terminal FCF Growth =	5.5%						
(000s)											
Year	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E	2036E
Revenue	41,128	45,040	49,340	54,274	59,702	65,075	70,281	75,200	79,712	83,698	87,046
% Growth		9.5%	9.5%	10.0%	10.0%	9.0%	8.0%	7.0%	6.0%	5.0%	4.0%
Operating Income	11,046	12,798	15,350	16,282	17,313	18,872	20,381	21,056	22,319	23,435	24,373
Operating Margin	26.9%	28.4%	31.1%	30.0%	29.0%	29.0%	29.0%	28.0%	28.0%	28.0%	28.0%
Income Before Taxes	11,046	12,798	15,350	16,282	17,313	18,872	20,381	21,056	22,319	23,435	24,373
Taxes	2,430	2,816	3,377	3,582	3,809	4,152	4,484	4,632	4,910	5,156	5,362
Tax Rate	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%
Net Income from Cont Ops	8,616	9,982	11,973	12,700	13,505	14,720	15,898	16,424	17,409	18,280	19,011
Net Income	8,616	9,982	11,973	12,700	13,505	14,720	15,898	16,424	17,409	18,280	19,011
% Growth		15.9%	19.9%	6.1%	6.3%	9.0%	8.0%	3.3%	6.0%	5.0%	4.0%
Add Depreciation/Amort	3,660	3,738	3,898	4,342	4,179	3,904	4,217	3,760	3,188	3,348	2,611
% of Sales	8.9%	8.3%	7.9%	8.0%	7.0%	6.0%	6.0%	5.0%	4.0%	4.0%	3.0%
Plus/(minus) Changes WC	(1,221)	(1,522)	(1,620)	(2,714)	(2,985)	(2,603)	(2,108)	(1,504)	(797)	(418)	0
% of Sales	-3.0%	-3.4%	-3.3%	-5.0%	-5.0%	-4.0%	-3.0%	-2.0%	-1.0%	-0.5%	0.0%
Subtract Cap Ex	679	707	735	1,085	1,194	1,301	1,406	1,504	2,391	2,511	2,611
Capex % of sales	1.7%	1.6%	1.5%	2.0%	2.0%	2.0%	2.0%	2.0%	3.0%	3.0%	3.0%
Free Cash Flow	12,819	14,536	16,755	18,670	19,475	19,926	20,817	20,184	19,003	19,535	19,011
% Growth		13.4%	15.3%	11.4%	4.3%	2.3%	4.5%	-3.0%	-5.8%	2.8%	-2.7%
NPV of Cash Flows	113,351	40%									
NPV of terminal value	171,836	60%								Terminal Value	445,699
Projected Equity Value	285,187	100%									
Free Cash Flow Yield	5.45%									Free Cash Yield	4.27%
Current P/E	27.3	23.6	19.6							Terminal P/E	23.4
Projected P/E	*33.1*	*28.6*	*23.8*								
Current EV/EBITDA	15.6	13.9	11.9							Terminal EV/EBITDA	16.3
Projected EV/EBITDA	*19.0*	*16.9*	*14.5*								
Shares Outstanding	962										
				Consensus Analyst Price Target (CRM)							
Current Price	¥ 244.50			¥ 337.03							
Implied equity value/share	¥ 296.45										
Upside/(Downside) to DCF	21.2%										
Debt	8,433										
Cash	14,032										
Cash/share	14.59										

Investment Thesis Cont.

DCF Analysis Explanation

In my discounted cash flow model, I project Salesforce's free cash flow to grow from $12.8B in FY2026 to $20.8B by FY2032, driven by steady mid-single-digit top-line growth and continued operating margin expansion. My base case assumes a revenue CAGR of ~9% from FY2025–FY2028 and operating margins improving from 27% to 31% as the company benefits from cost discipline, automation, and Data Cloud scalability.

For the discount rate, I apply a 10.0% WACC, derived from benchmarking Salesforce's implied P/E multiple against the S&P 500. Given Salesforce's structurally higher growth potential but also greater business volatility relative to the market, I believe this rate appropriately reflects its above-market risk profile while maintaining a reasonable equity risk premium. I pair this with a 5.5% terminal FCF growth rate, which aligns with Salesforce's long-term sustainable growth potential as a scaled AI-native software platform. If the discount rate were based solely on Salesforce's implied P/E rather than its relative risk premium to the index, the appropriate WACC would likely be somewhat lower, further increasing the model-implied upside.

Under these assumptions, my DCF yields an implied equity value of $296 per share, representing approximately 21.2% upside to the current price of $244.50. The terminal value contributes about 60% of the total equity valuation, indicating a healthy balance between near-term cash flow visibility and long-term growth expectations.

DCF Sensitivity Analysis

A two-variable sensitivity analysis was conducted to evaluate the valuation impact of changes in the discount rate (WACC) and terminal growth rate.

	9.0%	9.5%	10.0%	10.5%	11.0%
4.5%	$284.21	$254.60	$225.00	$195.39	$165.79
5.0%	$319.73	$290.13	$260.52	$230.92	$201.31
5.5%	$355.26	$325.66	$296.05	$266.45	$236.84
6.0%	$390.79	$361.18	$331.58	$301.97	$272.37
6.5%	$426.31	$396.71	$367.10	$337.50	$307.89

Under the base case assumption of 10.0% WACC and 5.5% terminal growth, Salesforce's intrinsic equity value per share is $296.05.The model suggests a valuation range of $165–$426 per share, reflecting the high sensitivity of Salesforce's long-duration cash flows to terminal assumptions.The base case ($296/share) implies roughly 19% upside from the current market price ($239.9).Even under conservative assumptions (11% WACC, 5% growth), Salesforce remains fairly valued near $200/share, underscoring its strong downside protection given robust free cash flow and net cash position.

Risks to Recommendation

Although I view Salesforce as fundamentally undervalued, several key risks could limit the realization of my upside case or lead to valuation volatility in the near term.

1. Slower-than-expected Data Cloud and AI monetization
Salesforce's growth thesis increasingly depends on the successful scaling of Data Cloud and AI-driven solutions such as Einstein Copilot. Should enterprise clients delay adoption due to integration complexity, data security concerns, or uncertain ROI, revenue growth and operating leverage could fall short of expectations. A slower monetization curve would particularly impact subscription revenue growth in FY2026–FY2028.

2. Competitive intensity in enterprise software
Salesforce faces aggressive competition from **Microsoft (Dynamics, Azure AI)**, **ServiceNow (workflow automation)**, and **Adobe (Experience Cloud)**, all of which are expanding into overlapping product areas. Heightened competition may pressure pricing, increase customer acquisition costs, or reduce renewal rates. Moreover, as AI-native challengers emerge, Salesforce may need to accelerate R&D and sales investments, offsetting planned margin expansion.

3. Management tone and investor expectations
While management's commentary has turned increasingly optimistic—emphasizing sustained double-digit growth and rapid AI monetization—overly positive guidance poses a credibility risk if results fail to meet elevated expectations. Any shortfall relative to this bullish narrative could trigger a negative sentiment reset, especially given Salesforce's premium positioning within the enterprise software sector.

4. Execution and integration risk
Ongoing cost restructuring, product consolidation, and acquisitions (e.g., Slack, Tableau, MuleSoft) require strong execution discipline. Integration missteps, cultural frictions, or delays in product synergies could weaken Salesforce's ability to achieve its targeted efficiency and growth targets. Additionally, continued leadership turnover or strategic realignment could disrupt the company's focus on its core growth engines.

5. Macroeconomic and IT spending environment
A prolonged high-interest-rate environment or slower enterprise IT budget recovery could constrain new bookings and renewal activity, particularly in cyclical verticals like financial services and manufacturing. Currency headwinds could further affect reported revenue, as approximately 30% of Salesforce's revenue is generated outside the Americas.

6. Regulatory, data privacy, and AI governance risk
As Salesforce expands its data and AI offerings, regulatory scrutiny over data residency, AI bias, and privacy compliance could intensify. Any change in global or regional data policies—especially within the EU or APAC—could raise compliance costs and slow new deployments.

7. Valuation sensitivity and multiple compression
Although I consider Salesforce undervalued, high-growth software valuations remain sensitive to changes in interest rates and equity risk premiums. A market-wide multiple contraction, particularly within the SaaS cohort, could limit share price upside even if fundamentals remain intact.

Conclusion

I assign a **BUY** rating on Salesforce (CRM) with a 12-month target price of $296, implying approximately 20% upside from the current level. Both my DCF and relative valuation analyses indicate that the stock remains materially undervalued, as the market underestimates Salesforce's improving fundamentals and cyclical recovery potential.

My investment view is anchored on three key points:

- Underappreciated AI-driven growth acceleration: The market continues to discount Salesforce's ability to translate its AI and Data Cloud initiatives into sustainable revenue growth. I expect these segments to become meaningful growth engines from FY2026 onward, supporting a re-acceleration of subscription revenue.
- Overly pessimistic sentiment following recent execution challenges: Investor confidence has remained subdued since the company's FY22–FY23 performance shortfalls. I believe current valuation multiples reflect excessive skepticism relative to Salesforce's normalized growth and profitability trajectory.
- Supportive macro tailwinds amid an easing rate cycle: As global monetary conditions gradually loosen and corporate IT budgets recover, demand for enterprise software is likely to strengthen. Salesforce, with its broad product portfolio and subscription-based model, is well positioned to capture this rebound.

While risks remain—particularly around execution, competitive dynamics, and management's optimistic tone—the company's solid balance sheet, strong free cash flow generation, and visible margin improvement provide a favorable risk-reward setup. Overall, I view CRM's current valuation as an attractive entry point ahead of a potential multiple re-rating cycle over the next 12–18 months.

Appendix（1/2）

SalesForces(CRM)	2028E	2027E	2026E	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Revenues:														
Subscription and support	$ 47.057	$ 42.779	$ 38.890	$ 35.679	$ 32.537	$ 29.021	$ 24.657	$ 19.976	$ 16.043	$ 12.413	$ 9.766	$ 7.799	$ 6.205	$ 5.014
Professional services and other	2.283	2.261	2.238	2.216	2.320	2.331	1.835	1.276	1.055	869	774	638	462	360
Total revenues	49.340	45.040	41.128	37.895	34.857	31.352	26.492	21.252	17.098	13.282	10.540	8.437	6.667	5.374
Eaming Concensus	48.97	45.00	41.25											
Cost of revenues:														
Subscription and support	7.906	7.358	6.611	6.198	6.177	5.821	5.059	4.154	3.198	2.604	2.033	1.617	1.241	965
Professional services and other	2.352	2.254	2.261	2.445	2.364	2.539	1.967	1.284	1.037	847	740	617	413	325
Total cost of revenues	10,257	9,612	8,872	8.643	8.541	8.360	7.026	5.438	4.235	3.451	2.773	2.234	1.654	1.290
Gross profit	39,083	35,428	32,256	29.252	26.316	22.992	19.466	15.814	12.863	9.831	7.767	6.203	5.013	4.084
Operating expenses:														
Research and development	6.858	6.351	5.840	5.493	4.906	5.055	4.465	3.598	2.766	1.886	1.553	1.208	946	793
Sales and marketing	13.322	13.062	12.338	13.257	12.877	13.526	11.855	9.674	7.930	6.064	4.671	3.811	3.240	2.757
General and administrative	3.552	3.198	2.961	2.836	2.534	2.553	2.598	2.087	1.704	1.346	1.089	966	748	680
Restructuring	0	20	70	461	988	828	0	0	0					
							0	0	166					
Total operating expenses	23,733	22,630	21,210	22.047	21.305	21.962	18.918	15.359	12.566	9.296	7.313	5.985	4.898	4.230
Income from operations	15,350	12,798	11,046	7.205	5.011	1.030	548	455	297	535	454	218	115	(146)
Gain(Losses) on strategic investments, net	0	0	0	(121)	(277)	(239)	1.211	2.170	427	542	19	31	(16)	(10)
Other income (expense)	376	286	327	354	216	(131)	(227)	(64)	(18)	3	(2)	(8)	1	(10)
Income before provision for income taxes	15,726	13,084	11,373	7.438	4.950	660	1.532	2.561	706	983	420	179	64	(213)
Provision for income taxes	(3.460)	(2.878)	(2.502)	(1.241)	(814)	(452)	(88)	1.511	(580)	127	(60)	144	(111)	(50)
Net income	$ 19.186	$ 15.962	$ 13.876	$ 6.197	$ 4.136	$ 208	$ 1.444	$ 4.072	$ 126	$ 1.110	$ 360	$ 323	$ (47)	$ (263)
Basic net income per share	20.41	16.81	14.50	$ 6.44	$ 4.25	$ 0.21	$ 1.51	$ 4.48	$ 0.15	$ 1.48	$ 0.50	$ 0.47	$ (0.07)	$ (0.42)
Diluted net income per share	20.22	16.66	14.38	$ 6.36	$ 4.20	$ 0.21	$ 1.48	$ 4.38	$ 0.15	$ 1.43	$ 0.49	$ 0.46	$ (0.07)	$ (0.42)
Shares used in computing basic net income per share	940	949	957	962	974	992	955	908	829	751	715	688	662	624
Shares used in computing diluted net income per share	949	958	965	974	984	997	974	930	850	775	735	700	662	624
EPS Concensus	14.434	12.673	11.37											
	2028E	2027E	2026E	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Item(% of Revenue)														
Cost of revenue[Sub&Support](%)	16.80%	17.20%	17.00%	17.37%	18.98%	20.06%	20.52%	20.79%	19.93%	20.98%	20.82%	20.73%	20.00%	19.25%
Cost of revenue[Pro Service&Other](%)	103.00%	99.70%	101.00%	110.33%	101.90%	108.92%	107.19%	100.63%	98.29%	97.47%	95.61%	96.71%	89.39%	90.28%
Cost of Revenue(%)	20.79%	21.34%	21.57%	22.81%	24.50%	26.66%	26.52%	25.59%	24.77%	25.98%	26.31%	26.48%	24.81%	24.00%
Gross Margin(%)	79.21%	78.66%	78.43%	77.19%	75.50%	73.34%	73.48%	74.41%	75.23%	74.02%	73.69%	73.52%	75.19%	76.00%
R&D(%)	13.90%	14.10%	14.20%	14.50%	14.07%	16.12%	16.85%	16.93%	16.18%	14.20%	14.73%	14.32%	14.19%	14.76%
Sales&Marketing(%)	27.00%	29.00%	30.00%	34.98%	36.94%	43.14%	44.75%	45.52%	46.38%	45.66%	44.32%	45.17%	48.60%	51.30%
G%A(%)	7.20%	7.10%	7.20%	7.48%	7.27%	8.14%	9.81%	9.82%	9.97%	10.13%	10.33%	11.45%	11.22%	12.65%
Operating Margin(%)	31.11%	28.41%	26.86%	19.01%	14.38%	3.29%	2.07%	2.14%	1.74%	4.03%	4.31%	2.58%	1.72%	-2.72%
Tax Rate(%)	22.00%	22.00%	22.00%	16.68%	16.44%	68.48%	5.74%	-59.00%	82.15%	-12.92%	14.29%	-80.45%	173.44%	-23.47%

	2028E	2027E	2026E	2025	2024	2023	2022	2021
Assets								
Current assets:								
Cash and cash equivalents				$ 8,848	$ 8,472	$ 7,016	$ 5,464	$ 6,195
Marketable securities				5,184	5,722	5,492	5,073	5,771
Accounts receivable, net	14,309	13,287	12,338	11,945	11,414	10,755	9,739	7,786
Costs capitalized to obtain revenue contracts, net				1,971	1,905	1,776	1,454	1,146
Prepaid expenses and other current assets				1,779	1,561	1,356	1,120	991
Total current assets				29,727	29,074	26,395	22,850	21,889
Property and equipment, net				3,236	3,689	3,702	2,815	2,459
Operating lease right-of-use assets, net				2,157	2,366	2,890	2,880	3,204
Noncurrent costs capitalized to obtain revenue contracts, net				2,475	2,515	2,697	2,342	1,715
Strategic investments				4,852	4,848	4,672	4,784	3,909
Goodwill				51,283	48,620	48,568	47,937	26,318
Intangible assets acquired through business combinations, net				4,428	5,278	7,125	8,978	4,114
Deferred tax assets and other assets, net				4,770	3,433	2,800	2,623	2,693
Total assets				$ 102,928	$ 99,823	$ 98,849	$ 95,209	$ 66,301
Liabilities and stockholders' equity								
Current liabilities:								
Accounts payable, accrued expenses and other liabilities	$ 8,470	$ 7,615	$ 6,806	$ 6,658	$ 6,111	$ 6,743	$ 5,470	$ 4,355
Operating lease liabilities, current				579	518	590	686	766
Unearned revenue	25,657	23,871	22,209	20,743	19,003	17,376	15,628	12,607
Debt, current	0	0	0	0	999	1,182	4	
Total current liabilities				27,980	26,631	25,891	21,788	17,728
Noncurrent debt				8,433	8,427	9,419	10,592	2,673
Noncurrent operating lease liabilities				2,380	2,644	2,897	2,703	2,842
Other noncurrent liabilities				2,962	2,475	2,283	1,995	1,565
Total liabilities				41,755	40,177	40,490	37,078	24,808
Commitments and contingencies (See Notes 6 and 14)								
Stockholders' equity:								
Preferred stock, $0.001 par value; 5 shares authorized and none issued and outstanding				0	0	0	0	
Common stock, $0.001 par value; 1,600 shares authorized, 1,056 and 1,035 shares issued as of January 31, 2025 and 2024, respectively, and 962 and 971 shares outstanding as of January 31, 2025 and 2024, respectively				1	1	1	1	
Treasury stock, at cost				(19,507)	(11,692)	(4,000)	0	
Additional paid-in capital				64,576	59,841	55,047	50,919	35,601
Accumulated other comprehensive loss				(266)	(225)	(274)	(166)	(42)
Retained earnings				16,369	11,721	7,585	7,377	5,933
Total stockholders' equity				61,173	59,646	58,359	58,131	41,493
Total liabilities and stockholders' equity				$ 102,928	$ 99,823	$ 98,849	$ 95,209	$ 66,301

Appendix (2/2)

	2028E	2027E	2026E	2025	2024	2023	2022	2021	2020
Operating activities:									
Net income	$ 19,186	$ 15,962	$ 13,876	$ 6,197	$ 4,136	$ 208	$ 1,444	$ 4,072	$ 126
Adjustments to reconcile net income to net cash provided by operating activities:									
Depreciation and amortization	3,898	3,738	3,660	3,477	3,959	3,786	3,298	2,846	2,135
Amortization of costs capitalized to obtain revenue contracts, net				2,095	1,925	1,668	1,348	1,058	876
Stock-based compensation expense				3,183	2,787	3,279	2,779	2,190	1,785
							0	0	166
Losses on strategic investments, net				121	277	239	(1,211)	(2,170)	(427)
							0	(2,003)	0
Changes in assets and liabilities, net of business combinations:									
Accounts receivable, net				(490)	(659)	(995)	(1,824)	(1,556)	(1,000)
Costs capitalized to obtain revenue contracts, net				(2,121)	(1,872)	(2,345)	(2,283)	(1,645)	(1,130)
Prepaid expenses and other current assets and other assets				(1,495)	(843)	(302)	114	(133)	(119)
Accounts payable and accrued expenses and other liabilities				1,089	(478)	528	507	1,100	982
Operating lease liabilities				(548)	(621)	(699)	(801)	(830)	(728)
Unearned revenue				1,584	1,623	1,744	2,629	1,872	1,665
Net cash provided by operating activities				13,092	10,234	7,111	6,000	4,801	4,331
Investing activities:									
Business combinations, net of cash acquired				(2,734)	(82)	(439)	(14,876)	(1,281)	(369)
Purchases of strategic investments				(539)	(496)	(550)	(1,718)	(1,069)	(768)
Sales of strategic investments				126	108	355	2,201	1,051	434
Purchases of marketable securities				(6,879)	(3,761)	(4,777)	(5,674)	(4,833)	(3,857)
Sales of marketable securities				4,143	1,511	1,771	4,179	1,836	1,444
Maturities of marketable securities				3,378	2,129	2,449	2,069	1,035	779
Capital expenditures	(735)	(707)	(679)	(658)	(736)	(798)	(717)	(710)	(643)
Capex as a % of Sales				1.74%	2.11%	2.55%	2.71%	3.34%	3.76%
Net cash used in investing activities				(3,163)	(1,327)	(1,989)	(14,536)	(3,971)	(2,980)
Financing activities:									
							7,906	(20)	0
Repurchases of common stock				(7,829)	(7,620)	(4,000)			
Proceeds from employee stock plans				1,540	1,954	861	(1,197)	0	0
Principal payments on financing obligations				(603)	(629)	(419)	1,289	1,321	840
Repayments of debt				(1,000)	(1,182)	(4)	(156)	(103)	(173)
Payments of dividends				(1,537)	0	0	(4)	(4)	(503)
Net cash used in financing activities				(9,429)	(7,477)	(3,562)	7,838	1,194	164
Effect of exchange rate changes				(124)	26	(8)	(33)	26	(39)
Net increase in cash and cash equivalents				376	1,456	1,552	(731)	2,050	1,476
Cash and cash equivalents, beginning of period				8,472	7,016	5,464	6,195	4,145	2,669
Cash and cash equivalents, end of period				$ 8,848	$ 8,472	$ 7,016	$ 5,464	$ 6,195	$ 4,145

Salesforces(CRM)											
Analyst: Jian Liu (Jerry)					Terminal Discount Rate =	10.0%					
2025/9/21					Terminal FCF Growth =	5.5%					
(000s)											
Year	**2026E**	**2027E**	**2028E**	**2029E**	**2030E**	**2031E**	**2032E**	**2033E**	**2034E**	**2035E**	**2036E**
Revenue	41,128	45,040	49,340	54,274	59,702	65,075	70,281	75,200	79,712	83,698	87,046
% Growth		9.5%	9.5%	10.0%	10.0%	9.0%	8.0%	7.0%	6.0%	5.0%	4.0%
Operating Income	11,046	12,798	15,350	16,282	17,313	18,872	20,381	21,056	22,319	23,435	24,373
Operating Margin	26.9%	28.4%	31.1%	30.0%	29.0%	29.0%	29.0%	28.0%	28.0%	28.0%	28.0%
Income Before Taxes	11,046	12,798	15,350	16,282	17,313	18,872	20,381	21,056	22,319	23,435	24,373
Taxes	2,430	2,816	3,377	3,582	3,809	4,152	4,484	4,632	4,910	5,156	5,362
Tax Rate	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%
Net Income from Cont Ops	8,616	9,982	11,973	12,700	13,505	14,720	15,898	16,424	17,409	18,280	19,011
Net Income	**8,616**	**9,982**	**11,973**	**12,700**	**13,505**	**14,720**	**15,898**	**16,424**	**17,409**	**18,280**	**19,011**
% Growth		15.9%	19.9%	6.1%	6.3%	9.0%	8.0%	3.3%	6.0%	5.0%	4.0%
Add Depreciation/Amort	3,660	3,738	3,898	4,342	4,179	3,904	4,217	3,760	3,188	3,348	2,611
% of Sales	8.9%	8.3%	7.9%	8.0%	7.0%	6.0%	6.0%	5.0%	4.0%	4.0%	3.0%
Plus/(minus) Changes WC	(1,221)	(1,522)	(1,620)	(2,714)	(2,985)	(2,603)	(2,108)	(1,504)	(797)	(418)	0
% of Sales	-3.0%	-3.4%	-3.3%	-5.0%	-5.0%	-4.0%	-3.0%	-2.0%	-1.0%	-0.5%	0.0%
Subtract Cap Ex	679	707	735	1,085	1,194	1,301	1,406	1,504	2,391	2,511	2,611
Capex % of sales	1.7%	1.6%	1.5%	2.0%	2.0%	2.0%	2.0%	2.0%	3.0%	3.0%	3.0%
Free Cash Flow	**12,819**	**14,536**	**16,755**	**18,670**	**19,475**	**19,926**	**20,817**	**20,184**	**19,003**	**19,535**	**19,011**
% Growth		13.4%	15.3%	11.4%	4.3%	2.3%	4.5%	-3.0%	-5.8%	2.8%	-2.7%
NPV of Cash Flows	**113,351**	40%									
NPV of terminal value	**171,836**	60%								**Terminal Value**	**445,699**
Projected Equity Value	**285,187**	100%									
Free Cash Flow Yield	**5.45%**									**Free Cash Yield**	**4.27%**
Current P/E	**27.3**	**23.6**	**19.6**							**Terminal P/E**	**23.4**
Projected P/E	*33.1*	*28.6*	*23.8*								
Current EV/EBITDA	**15.6**	**13.9**	**11.9**							**Terminal EV/EBITDA**	**16.3**
Projected EV/EBITDA	*19.0*	*16.9*	*14.5*								
Shares Outstanding	**962**										
				Consensus Analyst Price Target (CRM)							
Current Price	**¥ 244.50**			¥ 337.03							
Implied equity value/share	**¥ 296.45**										
Upside/(Downside) to DCF	**21.2%**										
Debt	**8,433**										
Cash	**14,032**										
Cash/share	**14.59**										

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