

Salesforce Inc

No signs of demand slowing

UNITED STATES | SOFTWARE | 1Q23 RESULTS

2 June 2022

- 1Q23 results were in line with expectations. 1Q23 revenue/adjusted PATMI was at 23% of our FY23e forecasts. Total revenue grew 24% YoY to US\$7.4bn, due to 18%/17% YoY increases in core Sales Cloud and Service Cloud services, that was driven by organic innovations, including revenue intelligence feature.
- Future contracted revenue or remaining performance obligations (RPO) grew by 20% YoY to US\$42bn. Multi-cloud adoption continued to increase as the number of deals involving five or more of Salesforce's clouds grew 21% YoY. The digital transformation related spending by enterprises is driving growth across all Clouds.
- We maintained a BUY recommendation with a DCF target price of US\$253.00 (WACC 6.1%, g 4%). We nudge lower our FY23e revenue by 1% due to projected US\$300mn incremental foreign exchange headwinds. Salesforce is not experiencing a material impact on its business from macroeconomic challenges as indicated by significant future contracted revenues, healthy Free Cash Flow, and strong guidance for FY23.

Results at a glance

USD (bn)	1Q23	1Q22	YoY	Comments
Revenue	7.4	6.0	24.3%	Ahead of company guidance of \$7.38bn
- Subscription and support	6.9	5.5	23.8%	Driven by Sales Cloud (18%), Service Cloud (17%), and Platform (55%)
- Professional services	0.6	0.4	30.0%	
Gross profit	5.4	4.4	21.7%	
Operating Income	0.0	0.4	-94.4%	Declined due to higher research (38%) and marketing (32%) expenses
PATMI	0.0	0.5	-94.0%	Lower gains on strategic investments (-98%) and higher opex (32%)
EPS (\$)	0.03	0.50	-94.0%	Ahead of company guidance range of -\$0.05 to -\$0.04
PATMI, Adjusted	1.0	1.1	-13.9%	
Adjusted EPS (\$)	0.98	1.21	-19.0%	Ahead of company guidance range of \$0.93 to \$0.94

Source: Company, PSR

The Positives

+ Demand remains robust. Revenue grew 24% YoY to US\$7.4bn, beating consensus estimates for its top line by 1%, and was in line with our estimates. The growth was due to strength in both Sales Cloud (18%) and Service Cloud (17%) offerings that was driven by organic innovations. Platform, which includes messaging platform Slack, rose 55% YoY to US\$1.4bn – the fastest growth of any segment in 1Q23. This was the fourth consecutive quarter of 45%-plus growth in customers spending over US\$100K with Slack annually. Slack generated revenue of US\$348mn (25% of Platform) in the quarter compared with the company's guidance of US\$330mn.

+ Leading business indicators remained strong. RPO, which consists of future revenue that is under contract but hasn't been recognized, grew by 20% YoY to US\$42bn. The current portion of RPO (cRPO), which the company expects to be recognized in the next 12 months jumped to US\$21.5bn, a 21% YoY increase. This highlights a strong demand environment for its software from companies looking to build better customer relationships to boost retention and sales. Salesforce hasn't seen any meaningful impact on its business due to continued macroeconomic challenges, including rising interest rates and inflation.

+ Multi-cloud momentum was solid. Multi-cloud adoption continued to increase as the number of deals involving five or more of Salesforce's clouds grew 21% YoY. This indicates that the demand for the Customer 360 platform remained strong. The Customer 360 platform connects all client data across sales, service, marketing, commerce, and IT departments on one integrated CRM platform. Also, attrition remained at record low levels of 7.0-7.5%.

BUY (Maintained)

CLOSING PRICE	USD 176.07
FORECAST DIV	USD 0.00
TARGET PRICE	USD 253.00
TOTAL RETURN	43.7%

COMPANY DATA

Bloomberg CODE:	CRM US
O/S SHARES (MN):	995
MARKET CAP (SGD bn / USD bn):	241 / 175
52 - WK HI/LO (SGD):	311.75 / 154.55
3M Average Daily T/O (mn):	7.79

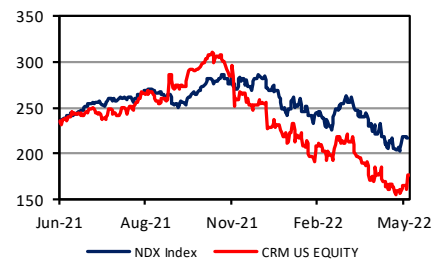
MAJOR SHAREHOLDERS

Vanguard Group Inc/The	7.8%
FMR LLC	6.7%
BlackRock Inc	6.7%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	0.1	(15.7)	(30.7)
NASDAQ RETURN	(2.3)	(10.2)	(22.8)

PRICE VS. NASDAQ



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Jan, USD (bn)	FY21	FY22	FY23e	FY24e
Revenue	21.3	26.5	31.8	37.3
EBITDA	3.3	3.8	4.4	5.5
PATMI	4.1	1.4	0.4	1.4
PATMI, Adjusted	4.6	4.7	4.8	6.2
EPS	4.4	1.5	0.4	1.3
P/E (X) - adjusted	35.8	36.8	37.2	30.0
ROE	9.8%	2.5%	0.7%	2.0%
ROA	6.1%	1.5%	0.4%	1.2%

Source: Company, PSR

VALUATION METHOD

Discounted Cash-Flow, WACC 6.1%, g 4.0%

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The Negatives

- **FX headwinds impacting revenue growth.** Given the stronger USD, Salesforce's reported growth rates were impacted by foreign exchange headwinds. The company had initially forecasted a negative foreign exchange impact of US\$300mn for FY23, but now expects a negative foreign exchange impact of US\$600mn, an increase of US\$300mn.

Outlook

Salesforce reduced its sales forecast for FY23 while boosting its earnings forecast. The company now expects total revenue to be in the range of US\$31.7bn to US\$31.8bn compared with the previous guidance range of US\$32bn to US\$32.1bn, implying 20% YoY growth. The revenue guidance reduction was mostly attributable to a projected US\$300mn incremental FX headwinds instead of weakening demand.

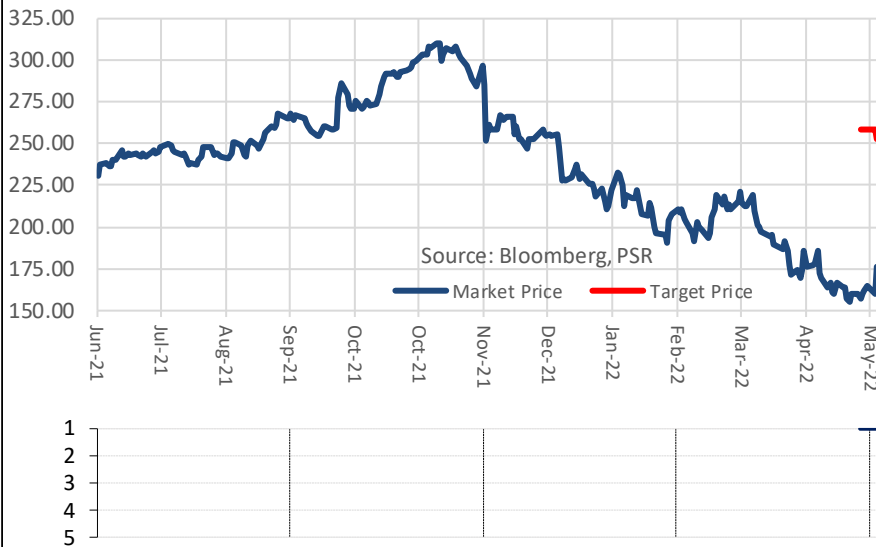
Salesforce now expects adjusted EPS to be in the range of US\$4.74 to US\$4.76, up from the previous guidance range of US\$4.62 to US\$4.64, mainly driven by a disciplined spending approach and an increased focus on profitability (slower pace of hiring). The company also expects GAAP and adjusted operating margins of about 3.8% and 20.4% respectively for FY23.

Cash flow generation continues to be strong, with the company generating about US\$3.5bn in Free Cash Flow, ending 1Q23 with US\$6.9bn in cash and cash equivalents.

Maintain BUY with lower TP of US\$253.00 (prev. US\$258.00)

We reduced our FY23e revenue by 1% due to projected US\$300mn incremental foreign exchange headwinds. We maintain BUY with a lower target price of US\$253.00. Valuations are based on DCF with a WACC of 6.1% and terminal growth of 4.0%. We believe Salesforce should continue to benefit from its broad product portfolio, customer stickiness, and digital transformation related spending by businesses.

Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

Financials

Income Statement

Y/E Jan, USD mn	FY20	FY21	FY22	FY23e	FY24e
Revenue	17,098	21,252	26,492	31,763	37,336
Gross Profit	12,863	15,814	19,466	23,426	27,840
EBITDA	2,432	3,301	3,846	4,352	5,526
Depreciation & Amortization	(2,135)	(2,846)	(3,298)	(3,296)	(3,334)
EBIT	297	455	548	1,056	2,192
Interest and Others	409	2,106	984	(273)	(103)
Profit before tax	706	2,561	1,532	783	2,089
Benefit from (provision for) income taxes	(580)	1,511	(88)	(368)	(731)
PATMI	126	4,072	1,444	415	1,358
PATMI, Adjusted	2,544	4,580	4,659	4,828	6,152

Per share data (USD)

Y/E Jan	FY20	FY21	FY22	FY23e	FY24e
Diluted EPS	0.15	4.38	1.48	0.41	1.29
Diluted EPS, Adjusted	2.99	4.92	4.78	4.74	5.86
DPS	-	-	-	-	-
BVPS	39.86	44.62	59.68	60.99	64.75

Cash Flow

Y/E Jan, USD mn	FY20	FY21	FY22	FY23e	FY24e
CFO					
Profit after tax (GAAP)	126	4,072	1,444	415	1,358
Adjustments	4,535	1,921	6,214	8,235	9,036
WC Changes	(330)	(1,192)	(1,658)	(929)	(1,640)
Cash Flow from Operations	4,331	4,801	6,000	7,721	8,754
CFI					
CAPEX, net	(643)	(710)	(717)	(699)	(830)
Others	(2,337)	(3,261)	(13,819)	(914)	(500)
Cash Flow from Investing	(2,980)	(3,971)	(14,536)	(1,613)	(1,330)
CFE					
Proceeds from employee stock plans	840	1,321	1,289	301	650
Debt, net of repayments	(503)	(24)	7,902	-	-
Others	(173)	(103)	(1,353)	(70)	(181)
Cash Flow from Financing	164	1,194	7,838	231	469
Net Change in Cash	1,476	2,050	(731)	6,338	7,893
CCE, end	4,145	6,195	5,464	11,802	19,695

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Jan, USD mn	FY20	FY21	FY22	FY23e	FY24e
ASSETS					
Cash & Cash Equivalents	4,145	6,195	5,464	11,802	19,695
Others	11,818	15,694	17,386	21,566	27,059
Total current assets	15,963	21,889	22,850	33,369	46,754
PPE & IA	35,273	36,095	62,610	60,427	57,923
Strategic investments	1,963	3,909	4,784	4,984	5,184
Others	1,927	4,408	4,965	3,356	1,445
Total non-current assets	39,163	44,412	72,359	68,767	64,552
Total Assets	55,126	66,301	95,209	1,02,136	1,11,306
LIABILITIES					
Accounts payable, accrued expenses	3,429	4,351	5,470	5,312	5,475
Unearned revenue	10,662	12,607	15,628	18,737	22,126
ST Debt	4	4	4	4	4
Others	750	766	686	686	686
Total current liabilities	14,845	17,728	21,788	24,740	28,292
LT Debt	2,673	2,673	10,592	10,522	10,341
Noncurrent operating lease liabilities	2,445	2,842	2,703	2,703	2,703
Others	1,278	1,565	1,995	1,995	1,995
Total non-current liabilities	6,396	7,080	15,290	15,220	15,039
Total liabilities	21,241	24,808	37,078	39,959	43,331
Equity					
Share Capital & APIC	32,117	35,602	50,920	54,551	58,992
Shareholder Equity	33,885	41,493	58,131	62,177	67,975

Valuation Ratios

Y/E Jan	FY20	FY21	FY22	FY23e	FY24e
P/E (X) - adjusted	58.8	35.8	36.8	37.2	30.0
P/B (X)	4.4	3.9	3.0	2.9	2.7
EV/EBITDA (X)	60.9	48.5	45.9	41.0	31.8
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Growth & Margins					
Growth					
Revenue	28.7%	24.3%	24.7%	19.9%	17.5%
EBITDA	60.3%	35.7%	16.5%	13.2%	27.0%
EBIT	-44.5%	53.2%	20.4%	92.6%	107.6%
Net profit	-88.6%	3131.7%	-64.5%	-71.3%	227.3%
Margins					
Gross margin	75.2%	74.4%	73.5%	73.8%	74.6%
EBITDA margin	14.2%	15.5%	14.5%	13.7%	14.8%
EBIT margin	1.7%	2.1%	2.1%	3.3%	5.9%
Net profit margin	0.7%	19.2%	5.5%	1.3%	3.6%
Key Ratios					
ROE	0.4%	9.8%	2.5%	0.7%	2.0%
ROA	0.2%	6.1%	1.5%	0.4%	1.2%
Net Gearing	nm	nm	8.8%	nm	nm
Net Debt/EBITDA (X)	nm	nm	1.3	nm	nm

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