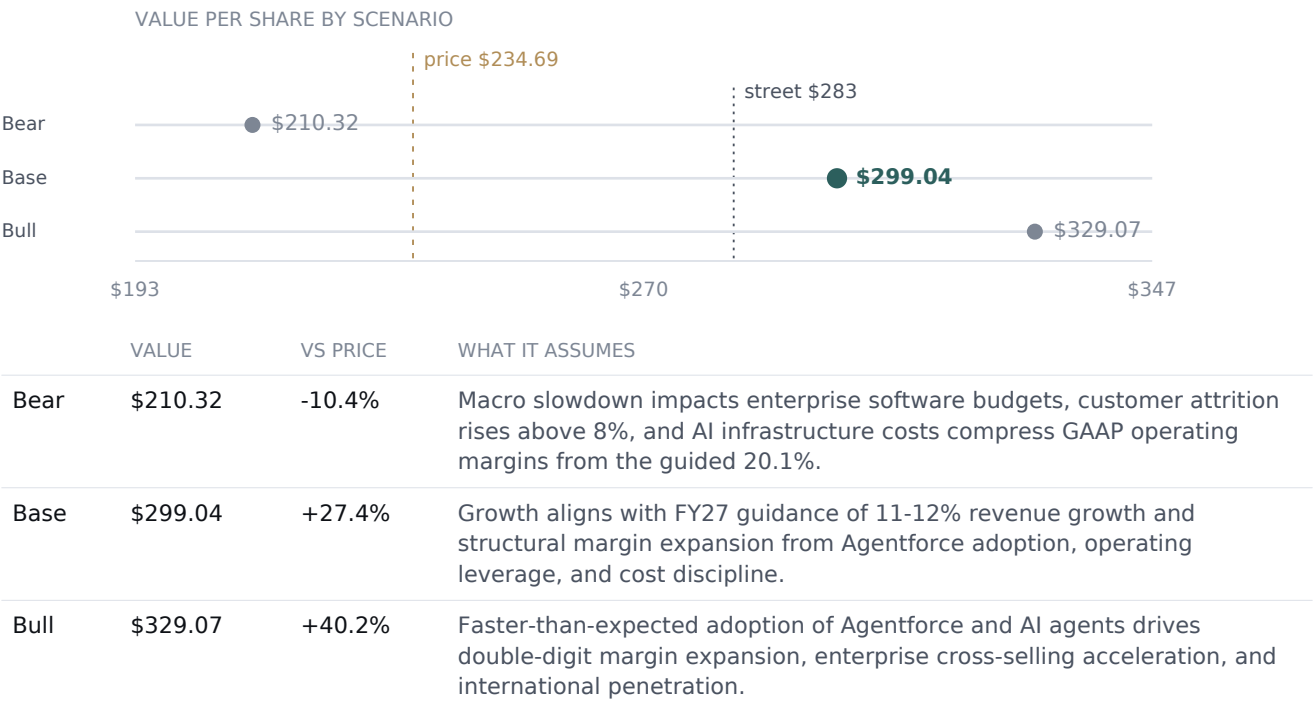


EQUITY RESEARCH / CRM

Salesforce.com Inc

LONG CANDIDATE · historical study through 2026-10-02 · horizon 540 days · DCF + P/E

PRICE	BASE CASE	UPSIDE	PROB-WEIGHTED	MARKET CAP	TRAILING P/E
\$234.69	\$299.04	+27.4%	\$290.31	\$193.15B	21.5x



STREET CHECK

Street target **\$283** (+20.7% vs price) · 38 buy / 15 hold / 2 sell · forward P/E 14.0x · EPS estimates \$11.77 this year, \$13.12 next

Our base case is **1.06x** the Street target: within the Street's range.

Consensus is shown for calibration only. The model never receives it.

Thesis

Salesforce trades at a significant discount to intrinsic value, driven by market pessimism around AI infrastructure costs and enterprise software demand. The company's FY27 guidance of 11-12% revenue growth, coupled with a structurally improved cost base from recent restructuring and AI-driven productivity, supports robust operating leverage. Trailing twelve-month free cash flow of \$15.47 billion and a 35.2% FCF margin demonstrate exceptional cash generation, which, combined with aggressive capital return (\$35.1 billion in TTM buybacks), positions the stock for substantial per-share value accretion.

What the market may be missing

The market prices CRM at a trailing P/E of 21.49x, assuming AI capex will structurally compress margins and enterprise software demand will stagnate. This view fails to account for the successful execution of cost restructuring, the accelerating adoption of Agentforce driving 12.0% YTD revenue growth, and the normalization of working capital cycles. The market is underpricing the durability of subscription revenue (\$66.3 billion RPO) and the company's ability to maintain high FCF conversion while funding significant share repurchases.

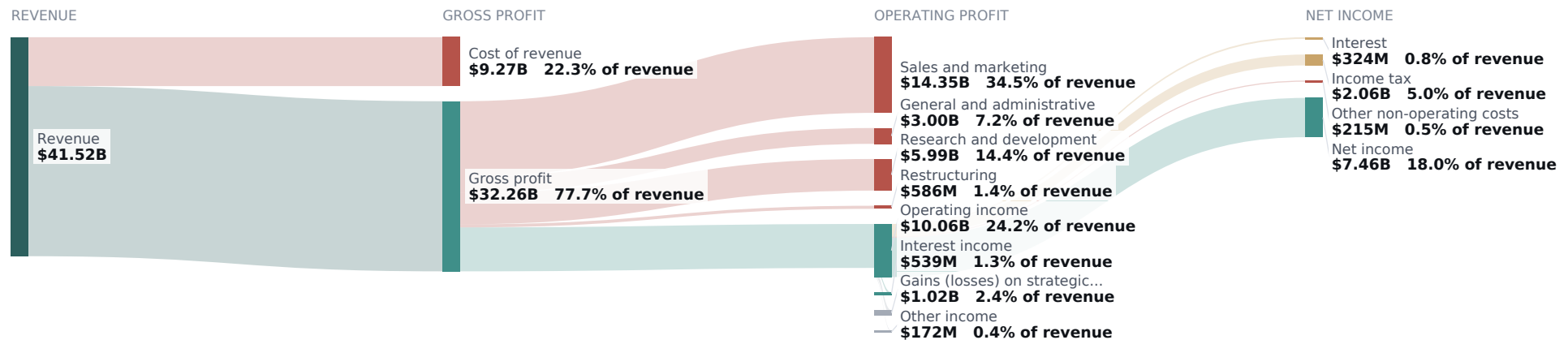
Why the opportunity exists

A narrative overshoot. The market is pricing in a sustained margin collapse from AI infrastructure costs and enterprise software stagnation, ignoring the company's demonstrated ability to restructure its cost base, raise AI-driven subscription pricing, and maintain high FCF conversion. This pessimism has compressed the P/E to 21.49x, well below historical norms, despite robust guidance and accelerating adoption metrics. Evidence: Trailing P/E of 21.49x and TTM FCFF margin of 35.2% vs historical median of 20.9%; FY27 guidance of 11-12% revenue growth and 20.1% GAAP margin

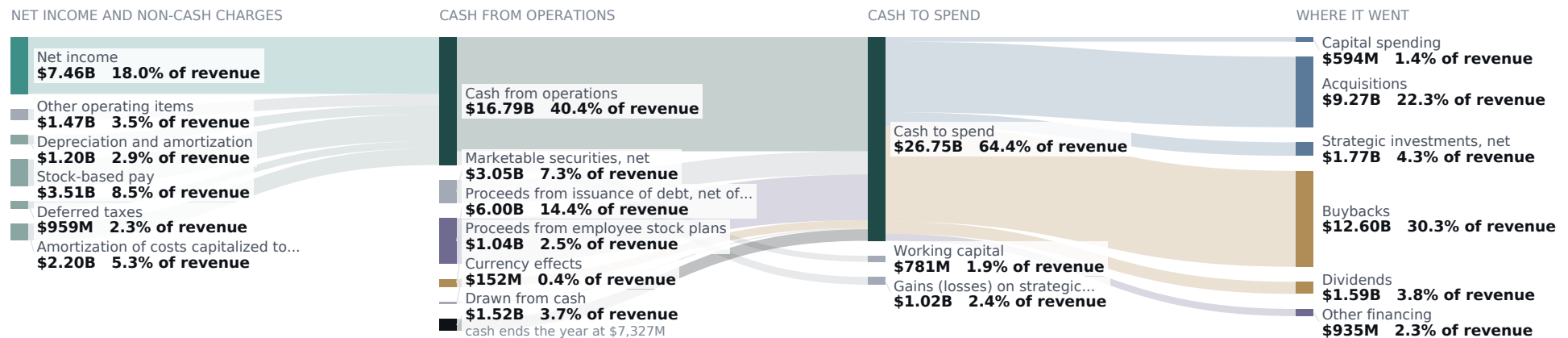
Follow the money: fiscal 2026

Of every \$100 of revenue, \$22 went to cost of revenue, \$58 to operating costs and \$5.7 to interest and tax, and \$18 became net income. Operations turned that into \$36 of cash; \$1.4 went to capital spending and \$34 back to shareholders.

1 WHERE EVERY DOLLAR OF REVENUE WENT



2 HOW PROFIT BECAME CASH, AND WHERE THE CASH WENT SHOWN 1.5 TIMES LARGER THAN PANEL 1



From the 10-K for the fiscal year ended 2026-01-31, XBRL accession 0001108524-26-000060. Every band ties to a reported figure; where the tagged lines do not add up, the difference appears as an explicit other or working-capital band. Lines outside the standard set are placed by the filing's own calculation links, under the company's labels; borrowing and investment flows are netted by instrument.

The business

Salesforce is a global leader in CRM technology and an AI-powered unified platform that helps organizations of any size become agentic enterprises by integrating humans, agents, applications, and data.

What it sells

Subscription-based cloud computing application and platform services delivered via a multi-tenant architecture. Core offerings include Agentforce Sales, Service, Marketing, Commerce, Integration (MuleSoft), Analytics (Tableau), Data 360, Informatica (acquired Q4 FY26), and Slack. The company also offers Industries AI, Starter Suite for SMBs, and an open platform enabling third-party ISVs and developers to build and sell applications on AppExchange. Customer relationship management (CRM) technology and unified cloud platform connecting sales, service, marketing, commerce, and IT teams. Includes Agentforce (customizable AI agents), Data 360, Slack, and industry-specific vertical software. Revenue is primarily subscription and support fees (95%) with professional services (5%). Global CRM technology platform unifying sales, service, marketing, commerce, and IT teams. Integrates human workflows with autonomous AI agents, customer data, and apps. Core offerings include Agentforce Apps (Sales, Service, Marketing, Commerce, Slack), Data 360, Headless Platform, and recently acquired Informatica.

Customers and channels

Sells to businesses of all sizes and industries worldwide on a subscription basis. Distribution is primarily direct through regional and field sales personnel and self-service, with secondary indirect sales through a partner network of global consulting firms and system integrators. Customer concentration is low, with no single customer representing more than 10% of revenue in FY2024-2026. Organizations of any size globally. Growth levers include enterprise/international penetration and industry-specific solutions. Uses self-serve, partner-led, and direct sales channels. Customers typically pay annual installments within 30 days of advance invoicing. Serves organizations of any size globally across Americas, Europe, and Asia Pacific. Driven by enterprise and international customer penetration, self-serve and partner-led channels, and premium subscriptions. Attrition rate ~8% excluding acquisitions and Slack self-service.

Unit economics and costs

Multi-tenant architecture spreads delivery costs across the user base. The company relies on third-party IaaS providers and company-designed infrastructure housed in third-party data centers. Sales costs include partner referral fees calculated as a percentage of first-year subscription revenue. Implementation and adoption are supported by professional services and Forward Deployed Engineers. Customer support is included in base subscriptions or sold as a premium add-on. Attrition rate approximately 8% as of January 31, 2026 (excluding Slack self-service and current acquisitions); Over 90% of billings are annual subscription/installments collected in advance; Cost of subscription/support revenue: 16% of total revenue; R&D expenses: 15% of total revenue; Sales and marketing expenses: 35% of total revenue; G&A expenses: 7% of total revenue; Operating margin: approximately 20% Subscription and support represents ~95% of total revenue. Cost of revenues increased to 23% of total revenue due to hosting services, generative AI spend, and intangible amortization. R&D, S&M, and G&A remain stable at 15%, 34%, and 6% respectively. Restructuring charges totaled \$94M (Q2) and \$174M (YTD). Future restructuring commitments estimated at \$170M-\$190M.

Segments

- **Agentforce Sales** - not disclosed
- **Agentforce Service** - not disclosed
- **Agentforce Marketing** - not disclosed
- **Agentforce Commerce** - not disclosed
- **Agentforce Integration & Analytics** - not disclosed
- **Data 360 & Informatica** - not disclosed
- **Slack** - not disclosed
- **Industries AI** - not disclosed

Revenue drivers

- Subscription renewals and upgrades
- Cross-selling and upselling across the platform suite
- New customer acquisition
- International geographic expansion
- AI and Agentforce adoption
- Strategic acquisitions such as Informatica
- Partner and channel referral fees
- Volume-driven increases from new business, upgrades, and additional subscriptions from existing customers

Competitive position

The company claims leadership in CRM and positions itself to lead the transition to agentic enterprises. It competes in a highly competitive, fragmented market with low barriers to entry against packaged software vendors, cloud app providers, AI-native startups, vertical specialists, productivity toolmakers, and traditional platform developers. Global leader in CRM technology with a diversified AI-enabled product portfolio. Focuses on profitable growth, reducing operating expenses via restructuring, and expanding industry-specific reach. Strong enterprise adoption and resilient demand across geographies and industries. World's #1 AI CRM, leveraging a unified platform and autonomous AI agents to unlock growth. Continues to invest heavily in generative and agentic AI, Data Cloud, and acquisitions to accelerate innovation and maintain leadership.

Industry direction

The industry is shifting toward AI-first, work-anywhere environments where autonomous agents collaborate with humans. Cloud computing and multi-tenant scaling remain dominant. Growing focus is placed on unified data platforms, governance, compliance, sustainability, and integrating disparate enterprise systems. AI and agentic technology changing how customers help customers. Shift from term software licenses to subscription-based services in integration/analytics. Expanding global business scope increasing exposure to foreign currency volatility. Rapidly changing cloud computing environment with intense competition. Shift towards agentic enterprises where humans and AI agents work together. Growing demand for AI, data products, and composable content platforms.

Recent developments

- Q2 FY27 revenue reached \$11.3 billion (11% YoY) with subscription and support revenue of \$10.8 billion (12% YoY).
- Net income for Q2 was \$3.526 billion, diluted EPS was \$4.29 (up 119% YoY).
- Total remaining performance obligation stood at \$66.3 billion (11% YoY), with current RPO at \$33.5 billion (14% YoY).
- Executed \$25 billion accelerated share repurchase in March 2026, delivering ~103 million shares at ~\$198.34/share.
- Debt obligations increased to \$39.5 billion principal outstanding as of July 31, 2026, including \$6 billion term loan and \$25 billion senior notes issued in March 2026.
- Paid \$729 million in dividends for the first six months of FY27.
- Announced agreements to acquire Contentful (~\$1.5B) and Fin (~\$3.6B), expected to close in Q3 FY27.
- Completed Informatica acquisition in November 2025 for approximately \$9.6 billion

Management outlook

Raises full-year FY27 revenue guidance to \$46.1 billion to \$46.4 billion (11%-12% YoY growth, 11% in CC).; Initiates Q3 FY27 revenue guidance of \$11.42 billion to \$11.5 billion.; Maintains FY27 non-GAAP operating margin guidance at 34.3% and raises GAAP margin to 20.1%.; Expects FY27 operating cash flow growth of approximately 4%-5% YoY.; Final settlement of the \$25 billion ASR expected in October 2026.; Anticipates reduced currency tailwind relative to prior guidance due to strengthening U.S. dollar. Expects operating expenses as a percentage of revenue to improve via restructuring and measured hiring. Expects R&D, S&M, and G&A expenses to decrease as a percentage of revenue over time through self-serve/partner channels, AI/agent productivity, and process efficiency. Expects continued growth in operating cash flow assuming expenses grow in line or less than revenue. Strategy focuses on deepening existing customer relationships via cross-selling, expanding geographic reach, increasing industry-specific vertical solutions, leveraging the partner ecosystem, and reducing customer attrition. Management plans to continue strategic investments and prioritize balance sheet use (cash/debt) for future acquisitions.

Accounting flags

- Revenue recognition for multi-performance obligation contracts and term software licenses.
- Valuation of privately held strategic investments and mark-to-market adjustments.
- Fair value of assets acquired and liabilities assumed for business combinations.
- Useful lives of acquired intangible assets and related amortization.
- Stock-based compensation expense allocation across cost centers.
- Restructuring charges for employee transitions, severance, and office/data center exits.

Key figures

KEY FIGURES	TTM TO 2026-07-31	FY2026	
Revenue	\$43.94B	\$41.52B	+9.6% y/y
Gross margin	77.3%		
Operating income	\$8.73B	\$8.33B	19.9% margin
Net income	\$9.66B	\$7.46B	
Diluted EPS	\$10.92	\$7.80	21.5x trailing P/E
Operating cash flow	\$15.75B	\$15.00B	+14.5% y/y
Capital spending	\$596.0M	\$594.0M	1.4% of revenue
Unlevered FCFF	\$15.47B		8.0% yield
Cash and short-term investments	\$11.40B		
Net debt	\$27.89B		2.2x EBITDA
Share repurchases	\$35.07B	\$12.60B	18.2% yield
Market capitalisation	\$193.15B		25.3x EV/EBIT

Figures from the filings' XBRL; definitions in the method section. Flows are trailing twelve months to 2026-07-31 (fiscal year 2026 plus year to date less the same period a year earlier, from the 10-Q filed 2026-08-27). Balance-sheet items are as of 2026-07-31 from the quarterly report. Interest tax shield uses the 21.0% statutory rate from the filing's rate reconciliation. WACC anchor 9.9%: cost of equity 10.9% (risk-free 5.24%, beta 1.14, ERP 5.0%), after-tax cost of debt 4.6% (synthetic AAA rating from interest coverage), debt 17% of capital.

The counter-case

While the high debt-to-EBITDA ratio (2.2x) and aggressive capital return raise balance sheet questions, Salesforce's highly predictable recurring revenue model (\$66.3 billion RPO, >90% annual subscriptions) and robust interest coverage (21.78x) easily service the debt. The buybacks are funded by exceptional operating cash flow (\$15.75 billion TTM), not by taking on unsustainable leverage relative to earnings, and the accelerated share repurchase program is already delivering tangible EPS dilution protection. The \$39.5 billion debt load, largely funded by recent leveraged buybacks and acquisitions, exposes the company to refinancing risk if credit conditions tighten. High customer attrition (~8%) and intense competition in the AI CRM space could force margin-defensive pricing or increased discounting. Furthermore, the \$35.1 billion TTM buyback program may be over-leveraging the balance sheet and masking underlying growth deceleration in core subscription renewals.

Valuation

The business generates strong, predictable unlevered free cash flow with high margins and low capital intensity, making a DCF on FCFF appropriate. Earnings are also highly sustainable and heavily supported by share buybacks, justifying an earnings multiple approach to capture the impact of capital return on per-share value.

SCENARIO	ASSUMPTIONS	VALUE	VS PRICE
Bear	FCFF growth -2%, +1%, +2%, +2%, +2%; WACC 9.9%; terminal growth 2.5%	\$210.32	-10.4%
Base	FCFF growth +12%, +10%, +8%, +6%, +4%; WACC 9.9%; terminal growth 2.5%	\$299.04	+27.4%
Bull	FCFF growth +15%, +12%, +10%, +8%, +6%; WACC 9.9%; terminal growth 2.5%	\$329.07	+40.2%
Bear (P/E)	16.0x forward EPS \$11.47 (reported diluted, growth +5.0%)	\$183.46	-21.8%
Base (P/E)	22.0x forward EPS \$11.47 (reported diluted, growth +5.0%)	\$252.25	+7.5%
Bull (P/E)	26.0x forward EPS \$11.47 (reported diluted, growth +5.0%)	\$298.12	+27.0%

- Discount rate: the model used 9.9% against an anchor of 9.9% (risk-free 5.24%, beta 1.14, equity risk premium 5.0%, cost of equity 10.9%, after-tax cost of debt 4.6% on a synthetic AAA rating from interest coverage, debt 17% of capital).
- The price implies constant five-year FCFF growth of +3.2% at the base-case WACC and terminal growth.
- Anchors from the company's own history: base-case growth band +3.2% to +25.6% a year; own trailing P/E 27.22-799.86x (median 66.93x) over the last five fiscal year ends.
- Sensitivity to discount rate: 7.9% gives \$425, 8.9% gives \$352, 9.9% gives \$299, 10.9% gives \$259, 11.9% gives \$227.
- Sensitivity to terminal growth: 1.5% gives \$268, 2.0% gives \$283, 2.5% gives \$299, 3.0% gives \$318, 3.5% gives \$339.
- Per-share values use 823,000,000 shares as of 2026-08-20; the fiscal-year diluted average differs by +16.2%.

- Probability-weighted value \$290.31 (+23.7% vs price) at 20%/50%/30% weights.

Base case assumes FY27-31 FCFF growth of 12.0%, 10.0%, 8.0%, 6.0%, and 4.5%, driven by 11-12% guided revenue growth and structural operating leverage from Agentforce adoption and cost discipline, culminating in a 2.5% terminal growth rate. Bear case assumes a macro slowdown impacting enterprise budgets, rising customer attrition, and AI infrastructure costs compressing GAAP margins below the 20.1% guidance, leading to flat/negative cash flow growth initially. Bull case assumes faster-than-expected Agentforce and data platform adoption, international penetration acceleration, and continued margin expansion, sustaining high double-digit cash flow growth.

What breaks the case

SHOCK TO THE BASE CASE	VALUE	VS PRICE
Base case as planned	\$299.04	+27.4%
WACC 100bp higher	\$258.56	+10.2%
Pre-tax cost of debt 200bp higher	\$287.19	+22.4%
Every year's FCFF growth 5 points lower	\$236.59	+0.8%
Every year's FCFF growth 5 points higher	\$373.30	+59.1%
Starting FCFF 10% lower	\$265.75	+13.2%
Starting FCFF 10% higher	\$332.33	+41.6%

The base case equals the price at a 11.6% WACC or if every annual FCFF growth rate were -5.2% points different. These are thresholds, not forecasts.

No listed peer was judged comparable. The software's peer tree returned unavailable for this quarter; no peer comparability assessment can be performed against algorithmically selected peers.

What would change the view

Key debates

- AI adoption speed vs infrastructure costs: Determines long-term margin trajectory and revenue growth premium versus legacy CRM pricing. (Q2 FY27 revenue growth of 11%, margin guidance of 20.1% GAAP, and \$35B buybacks freeing up cash.)
- Customer attrition and enterprise renewal cycles: Directly impacts subscription revenue stability and FCF predictability given the recurring revenue model. (Attrition rate ~8%, TTM operating cash flow growth of 14.5%, and RPO growth of 11%.)
- Share repurchase pace and capital allocation: Massive buybacks (\$35B TTM) distort EPS-based valuation metrics; slowing them would lower EPS but free cash for M&A or reduce leverage. (Buybacks TTM \$35,070M, shares outstanding declined 3.43% year-over-year.)

Exposures (verified against the filing)

- Currencies, negative for the equity: Stronger USD reduces reported international revenue and margins, directly impacting the 11-12% guidance.
- Interest rates, negative for the equity: Higher interest rates increase the cost of debt on the \$39.5B balance sheet and could dampen enterprise software demand.

Sensitivities the company discloses

- Interest rates on investment portfolio: 100 basis points gives \$31 million market value reduction or increase
- Enterprise value of top 5 privately held equity investments: Decrease of 10 percent gives \$292 million decline in carrying value of investment portfolio
- Foreign currency exchange rates: Year-over-year fluctuations vs FY2025 gives Positive impact of approximately 1% on total revenues
- Foreign currency exchange rates: Year-over-year vs FY2025 constant currency gives Positive impact of approximately 3% on current RPO growth
- Interest rates on fixed-income portfolio: Immediate +/- 100 basis points gives \$36 million market value reduction or increase

Catalysts

- Q3 FY27 earnings release confirming 11-12% revenue growth and 20.1% GAAP margin
- Final settlement of the \$25 billion ASR in October 2026, reducing share count by ~103 million
- Accelerating Agentforce adoption metrics and increased attachment rates across Data 360 and Slack
- Q4 FY27 guidance raising forward revenue or FCF margin expectations
- Completion of Contentful and Fin acquisitions, expanding platform capabilities

Invalidation

- TTM operating cash flow growth slows below 5% year-over-year
- GAAP operating margin guidance falls below 18% for FY27
- Customer attrition rate rises persistently above 10%
- Debt-to-EBITDA exceeds 3.5x while credit spreads widen significantly
- FCF margin compresses below 25% on a sustained basis

Risks

- AI infrastructure and compute costs rising faster than subscription pricing power
- Macroeconomic downturn delaying enterprise software spending and extending sales cycles
- Failure to realize synergies from recent Informatica, Contentful, and Fin acquisitions
- Foreign currency headwinds from strengthening USD impacting international revenue
- Regulatory changes around data privacy and autonomous AI agents

Short side

Shorting is not indicated given the high probability-weighted value (\$290.31) vs price (\$234.69) and limited downside in the base case. Borrow availability and squeeze risk are secondary to the fundamental upside. The unbounded loss risk is mitigated by the wide margin of safety, but a short would be a contrarian play on macro enterprise spending and AI capex overhang, which would require tracking a persistent breakdown in FCF conversion or RPO growth.

Open questions

What is the precise net impact of AI compute costs on gross margin versus the offsetting premium pricing from Agentforce? (forecast uncertainty)

Monitored via quarterly gross margin and AI infrastructure spend disclosures Watch: Gross margin compression exceeding 200bps quarter-over-quarter

How sustainable is the 35.2% TTM FCFF margin given the planned \$1.5 billion Contentful and \$3.6 billion Fin acquisitions? (forecast uncertainty)

Assumed to normalize toward the 2025 historical median of 33.4% post-accretion Watch: Acquisition integration plans revealing higher capitalized software or amortization charges

Limitations

The starting FCFF margin of 35.2% is elevated versus the 5-year historical median (20.9%) and max (33.4%), reflecting post-restructuring efficiencies and working capital normalization. This assumes the structural cost base remains stable and AI infrastructure costs remain contained. The P/E multiple of 22.0x is below the 5-year historical range (27.2x-799.9x), heavily influenced by aggressive TTM buybacks inflating EPS. If AI infrastructure costs compress margins, buyback pace slows, or the debt load (\$39.5 billion) triggers higher borrowing costs, the forward earnings multiple and terminal value could adjust downward. The DCF uses a constant WACC of 9.88% and does not model the debt maturity profile. Per-share values use point-in-time shares outstanding; the fiscal-year diluted weighted average differs by +16.2%. This historical count difference also reflects timing and share repurchases; it is not an estimate of future dilution. Outstanding options, RSUs or convertibles require a separate analysis. Software checks raised during valuation: the starting FCFF margin 35.2% sits outside the company's own 19.7% to 33.4% over the 5 prior fiscal years; the stated reason: The elevated TTM FCFF margin (35.2%) versus the 5-year historical median (20.9%) and max (33.4%) reflects the full run-rate benefit of recent restructuring initiatives, higher AI-driven subscription pricing, and normalized working capital cycles following the Informatica acquisition. It is represent; the base P/E 22.0x sits outside the company's own five-year range 27.22-799.86x; the stated reason: The base multiple of 22x falls below the company's own five-year historical range (27.2x-799.9x). This compression is driven by aggressive share repurchases (\$35.1B TTM) inflating trailing EPS, alongside concerns over AI infrastructure costs and macro headwinds in enterprise software, making the mul. This memo is an initial research product from a frozen historical filing and price; it is not investment qualification.

Software flags: exposure quote unverified:refinancing; guidance quote unverified:2; multiple outside anchors; starting fcff outside history.

Sources

10-K for the fiscal year ended 2026-01-31, filed 2026-03-02 (accession 0001108524-26-000060).

10-Q for the quarter ended 2026-07-31, filed 2026-08-27 (accession 0001108524-26-000190).

8-K for the earnings release dated 2026-08-26, filed 2026-08-26 (accession 0001108524-26-000187).

- Price: historical close of \$234.69 on 2026-10-02.
- 8 cited claims and 16 recorded calculations; every figure in the key-figures table is bound to a tagged XBRL fact, and every calculation reproduces independently.
- Street consensus from the market-data vendor on the same date, shown for calibration only.

Model: Qwen3.6-35B-A3B-NVFP4 · run discovery-20260911 · job 472 · memo SHA-256 6f994ef16de3eff0... · full memo and audit attached as JSON.

This note was written by a model from a single annual filing and a closing price. It is a starting point for human research, not a recommendation; nothing here has been investment-qualified.