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Research Report (July 17, 2026)

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Salesforce (CRM)

Stock Performance ：

SaaSpocalypse and the AI Trade

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How is this valid?

1. Strong FCF, margins, and topline growth
   - 77.7% GPM
   - 20.1% OPM

	Jan-23 F2023	Jan-24 F2024	Apr-24 F1Q25	Jul-24 F2Q25	Oct-24 F3Q25	Jan-25 F4Q25	Jan-25 F2025	Apr-25 F1Q26	Jul-25 F2Q26	Oct-25 F3Q26	Jan-26 F4Q26	Jan-26 F2026
CASH FLOW STATEMENT												
OPERATING ACTIVITIES												
Net Income	208	4,136	1,533	1,429	1,527	1,708	6,197	1,541	1,887	2,086	1,943	7,457
Depreciation & amortization	3,786	3,959	879	907	814	877	3,477	843	817	851	1,120	3,631
Amortization of costs capitalized to obtain revenue	1,668	1,925	517	526	525	527	2,095	545	544	548	560	2,197
Stock comp & excess tax benefits	3,279	2,787	750	810	820	803	3,183	814	793	819	1,083	3,509
Other	239	277	(37)	37	217	(96)	121	63	(6)	(263)	(811)	(1,017)
Changes in operating assets & liabilities												
Accounts receivable	(995)	(659)	7,162	(1,136)	655	(7,171)	(490)	7,591	(1,242)	123	(8,632)	(2,160)
Cost capitalized to obtain revenue contracts	(2,345)	(1,872)	(248)	(427)	(430)	(1,016)	(2,121)	(365)	(406)	(548)	(1,492)	(2,811)
Prepaid expenses and other current assets	(302)	(843)	(514)	(477)	(272)	(232)	(1,495)	(481)	(32)	396	936	819
Other	(699)	(621)	(85)	(158)	(144)	(161)	(548)	(124)	(154)	(137)	(152)	(567)
Accounts payable, accrued expenses & other current liabilities	528	(478)	(755)	220	32	1,592	1,089	(1,007)	(217)	0	2,238	1,014
Deferred revenue	1,744	1,623	(2,955)	(839)	(1,761)	7,139	1,584	(2,944)	(1,244)	(1,559)	8,671	2,924
Net cash provided by operating activities	**7,111**	**10,234**	**6,247**	**892**	**1,983**	**3,970**	**13,092**	**6,476**	**740**	**2,316**	**5,464**	**14,996**
y/y growth	*18.5%*	*43.9%*	*39.1%*	*10.4%*	*29.4%*	*16.7%*	*27.9%*	*3.7%*	*-17.0%*	*16.8%*	*37.6%*	*14.5%*
Operating cash flow margin	*22.7%*	*29.4%*	*68.4%*	*9.6%*	*21.0%*	*39.7%*	*34.5%*	*65.9%*	*7.2%*	*22.6%*	*48.8%*	*36.1%*
INVESTING ACTIVITIES												
Business combinations or acquisition	(439)	(82)	(338)	0	(179)	(2,217)	(2,734)	0	(54)	(978)	(8,236)	(9,268)
Purchases of securities, net	(557)	(121)	(2,000)	2,830	220	(408)	642	(1,245)	1,490	2,691	110	3,046
Strategic investments, net	(195)	(388)	(150)	(52)	(54)	(157)	(413)	(143)	(136)	(1,055)	(440)	(1,774)
Capital expenditures	(798)	(736)	(163)	(137)	(204)	(154)	(658)	(179)	(135)	(139)	(141)	(594)
Net cash used in investing activities	**(1,989)**	**(1,327)**	**(2,651)**	**2,641**	**(217)**	**(2,936)**	**(3,163)**	**(1,567)**	**1,165**	**519**	**(8,707)**	**(8,590)**
FINANCING ACTIVITIES												
Proceeds from issuance of debt, net of issuance costs	0										6,000	
Proceeds from employee stock plans	861	1,954	533	202	321	484	1,540	294	232	239	274	1,039
Repurchase of Common Stock	(4,000)	(7,620)	(2,133)	(4,335)	(1,285)	(76)	(7,829)	(2,633)	(2,225)	(3,801)	(3,937)	(12,596)
Payments for taxes related to net share settlement of equity awards									(12)	(127)	(212)	(351)
Principal payments on financing obligations	(419)	(629)	(120)	(285)	(100)	(98)	(603)	(179)	(99)	(160)	(146)	(584)
Repayments of debt	(4)	(1,182)	0	(1,000)		0	(1,000)	0	0	0	0	0
Payment of dividends			(388)	(384)	(382)	(383)	(1,537)	(402)	(399)	(395)	(391)	(1,587)
Net cash provided by financing activities	**(3,562)**	**(7,477)**	**(2,108)**	**(5,802)**	**(1,446)**	**(73)**	**(9,429)**	**(2,920)**	**(2,503)**	**(4,244)**	**1,588**	**(14,079)**
Effect of exchange rates	(8)		(2)	(7)	(5)	(110)		91	35	22	4	
Increase (decrease) in cash & equivalents	**1,552**	**1,430**	**1,486**	**(2,276)**	**315**	**851**	**500**	**2,080**	**(563)**	**(1,387)**	**(1,651)**	**(7,673)**
Cash and equivalents, beginning of period	5,464	7,016	8,472	9,958	7,682	7,997	8,472	8,848	10,928	10,365	8,978	8,848
Cash and equivalents, end of period	7,016	8,472	9,958	7,682	7,997	8,848	8,848	10,928	10,365	8,978	7,327	7,327

   - Consistently generating positive free cash flow

	Jan-23 F2023	Jan-24 F2024	Jan-25 F2025	Jan-26 F2026
GAAP Income Statement				
Subscriptions and support	**29,021**	**32,537**	**35,679**	**39,388**
y/y change	***17.7%***	***12.1%***	***9.7%***	***10.4%***
Professional services	**2,331**	**2,320**	**2,216**	**2,137**
y/y change	**27.0%**	**-0.5%**	**-4.5%**	**-3.6%**
Total revenue	**31,352**	**34,857**	**37,895**	**41,525**
y/y change	***18.3%***	***11.2%***	***8.7%***	***9.6%***
y/y change, CC	***21.9%***	***11.1%***	***9.1%***	***8.8%***
Cost of subscription & support	5,821	6,177	6,198	6,796
% license gross margin	*79.9%*	*81.0%*	*82.6%*	*82.7%*
Cost of services	2,539	2,364	2,445	2,474
% service gross margin	*-8.9%*	*-1.9%*	*-10.3%*	*-15.8%*
Total cost of revenue	**8,360**	**8,541**	**8,643**	**9,270**
% of total revenue	*26.7%*	*24.5%*	*22.8%*	*22.3%*
y/y change	*19.0%*	*2.2%*	*1.2%*	*7.3%*

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Salesforce (CRM)

What's the market thinking?

1. AI reduces the cost to create software applications
2. AI erodes per-seat pricing business model (which is historically SaaS)

Caught in the Crossfire

The Key Question: How Bad is AI for Salesforce

1. Will 3rd party CRM AI completely replace Salesforce?
2. Can Salesforce defend against relegation?
3. Can agent-related pricing counteract potentially declining per-seat pricing?

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Investment Summary:

1. AI can't touch the core moat of Salesforce
2. Salesforce can win the Agent layer
3. Salesforce can monetize external Agents
   - Price Target: $172.02
   - Upside: $58.85/52% per Share
   - Base: $5.722/5% per Share
   - Bear: -$25.35/-22% per Share
   - Next Meeting: Aug 6th
   - Time Horizon: 2 years+

Thesis 1: AI can't touch the core moat of Salesforce

1. In a perfect would, you could make your own Salesforce
   - Fundamentally simple: database, user interface, workflow engine
2. Ecosystem is the moat, not user data
   - Complex permissions with many variables, decades of trust, and integration
3. Replacements have immense switching cost
   - Time/effort, complexity, embeddedness/integration, compliance, reliability
   - Simpler workflows face greater replacement threat than Salesforce

Thesis 2: Salesforce can win the Agent layer

1. Salesforce cannot be replaced by AI, but can it be partially bypassed?
2. We are already seeing strong adoption for Agentforce and Data 360
   - 50% of Agentforce and Data 360 bookings came from existing customers
   - 28.6T tokens processed last quarter, 152% q/q
   - 3.8B agentic work agents, up 111% q/q
   - **Agentforce ARR > 1B, >3.4B together with Data 360 and Informatica**

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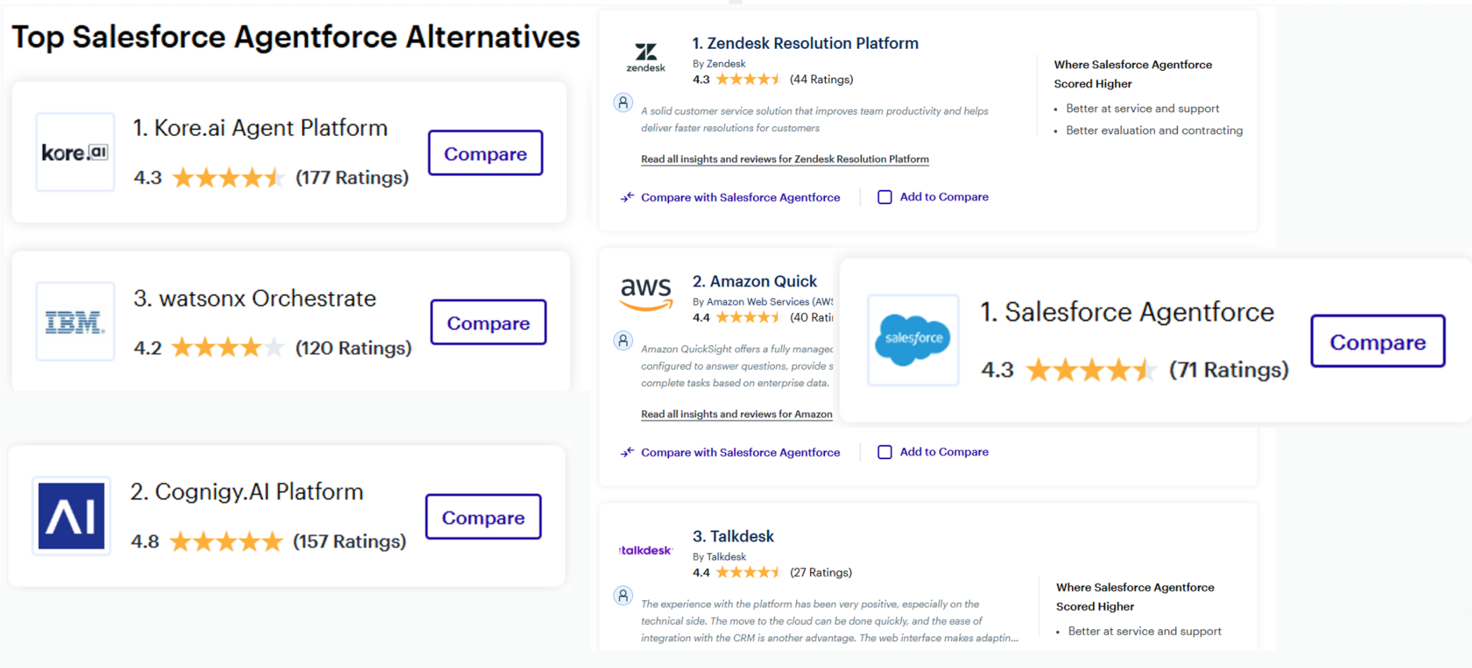
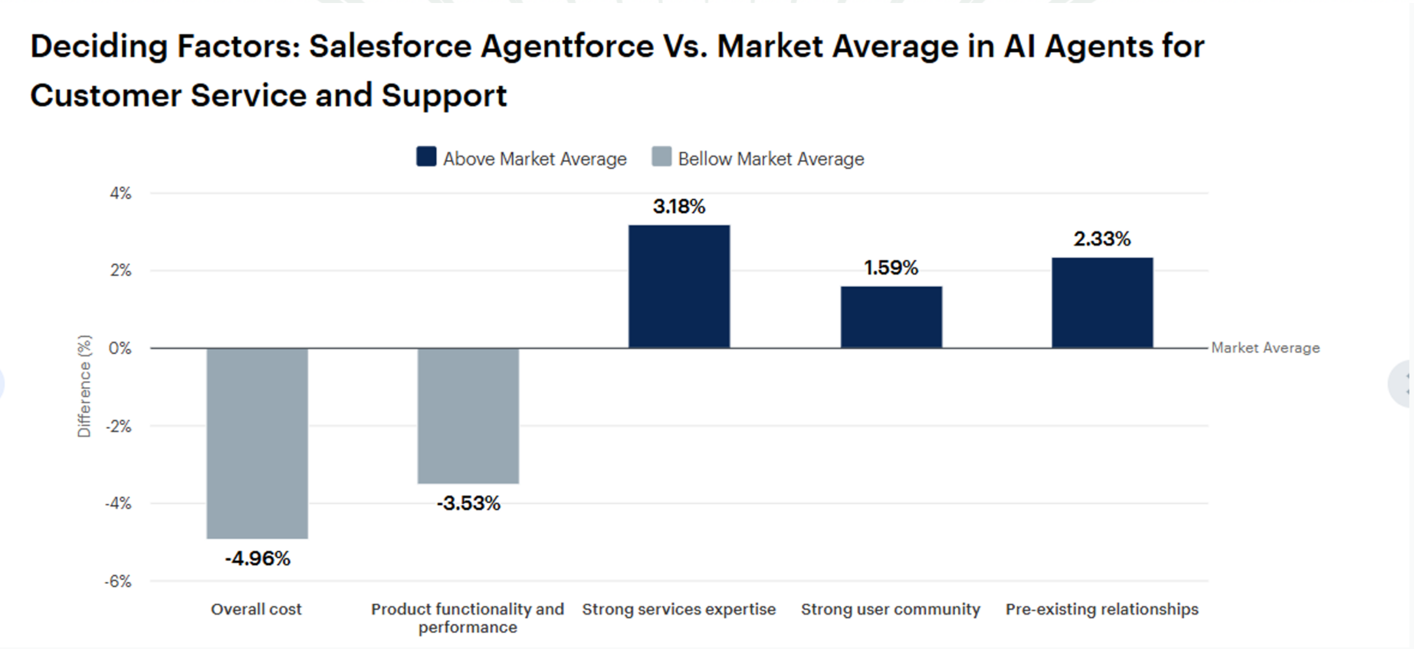
Thesis 2: Salesforce can win the Agent layer





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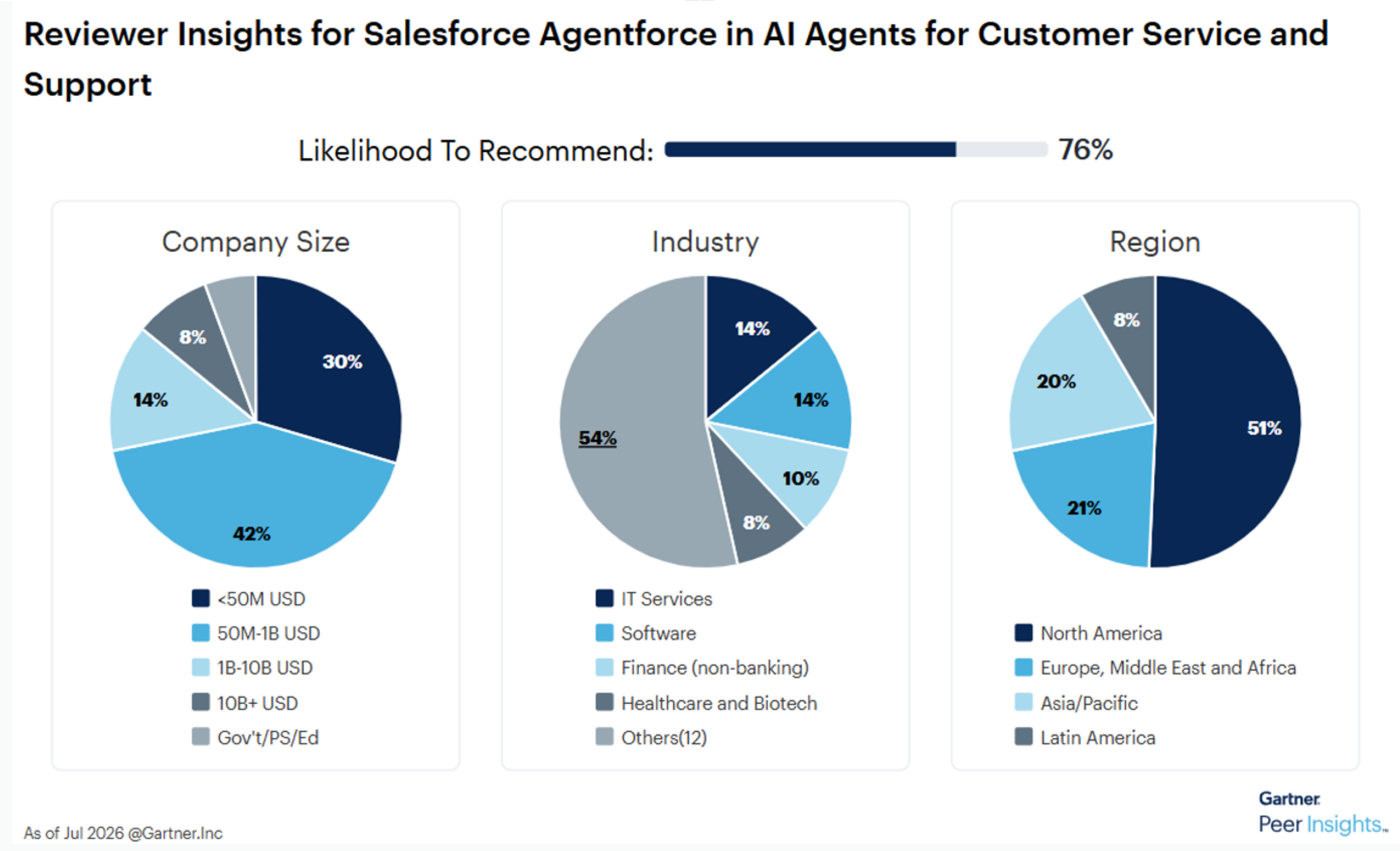
Thesis 2: Salesforce can win the Agent layer



Thesis 3: Salesforce can monetize external Agents

1. What if Salesforce loses the Agent layer?
2. Usage of external agents requires Headless MCP, which is monetized
   - Some level of adoption: 4.5m MCP calls
   - “new area of monetization”
   - Currently limited to top SKUs → generates more revenue than average per-seat pricing
   - Management discussing price with partners and clients

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Thesis 3: External agents cause Salesforce to be used more frequently

- Anthropic: Cowork integration with Sales Cloud resulted in 5x more Salesforce usage
  - More external agents = more interactions with Salesforce database/workflow = more strategic importance
- Increasing activity can be monetized
  - Per action, per conversation, Flex Credits

Margin of Safety

Exhibit 1: CRM EV/NTM Recurring Revenue at Different Prices

	Base Scenario	Current Scenario	Price Target Scenario
rf	4.5%	4.5%	4.5%
β	1.0	1.0	1.0
E(rm)	11.7%	11.7%	11.7%
E(rf)	5.3%	5.3%	5.3%
r	10.90%	10.90%	10.90%
Recurrring Revenue	**1.0**	**1.0**	**1.0**
% Change from Base			
Operating Margin	**75%**	**75%**	**75%**
% Change from Base			
Cash Tax Rate	21%	21%	21%
FCF (Rec Rev)$_1$	**0.59**	**0.59**	**0.59**
% Change from Base			
g	0%	-5%	-1%
NPV	**5.4**	**3.7**	**5.0**
% Change from Base			
Stock Price	**$250.00**	**$156.66**	**$228.00**

Source: Guggenheim Securities, LLC

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Multiples Based Valuation

	Company	Weight	Metric (EV/Sales)	Weight * Metric	Target Price	Win/Loss per Share	% Change
Bear							
Durable, low growth, high	Check Point	20%	4.78	0.956			
margin, mature, no inflection	Akamai 3/31/2025	80%	3.71	2.968	**88.815816**	**-24.354184**	**-22%**
			Sum:	3.924			
Base							
Security platform continues to	Akamai 3/31/2025	60%	3.71	2.23			
drive topline, Delivery continues	Check Point	20%	4.78	0.96	**118.89**	**5.722**	**5%**
to decline, CIS achieves	F5	13%	7.05	0.92			
significant growth	Digital Ocean	7%	16.49	1.15			
			Sum:	5.25			
Bull							
AKAM wins more deals, partial	F5	15%	7.05	1.06			
Neocloud TAM, CIS expansion is	CoreWeave	15%	12.79	1.92			
successful and grows revenue	Digital Ocean	5%	16.49	0.82	**172.02**	**58.85**	**52%**
mix, security becomes more	Fortinet	5%	15.99	0.80			
profitable, platformisation	Akamai	60%	5	3.00			
			Sum:	7.60			

Risk

1. Headless pricing remains to be seen
2. Headless adoption exceeds Agentforce adoption
3. Loss of talent to Frontier AI labs

Catalyst

1. Continued earnings growth (or at least maintenance) will prove Salesforce can survive AI
2. Accelerated share buyback program (50b)
   - Issue debt to buy back equity. completed 25b (11% of outstanding shares)