

Salesforce Inc (NYSE: CRM)

Salesforce (NYSE: CRM) meets most parameters for a stable investment. Despite its high price, my predictions for its growth are quite bullish as demonstrated by its strong fundamentals, ESG stewardship, and industry dominance.

From a financial perspective it passes the Investrain ESG Fund's basic due diligence checks in profitability. As demonstrated by [Yahoo Finance](#) its Free Cash Flow (FCF) has been growing at a strong rate with consistent growth every year for the past 4 years. Increasing from \$1,698,240 in 2017 to \$3,688,000 in 2020, this rate of increase is comparatively larger than most of its competitors in software. High free cash flow guarantees that Salesforce is profitable.

One issue is, however, is that their Return on Invested Capital is around 0.37% TTM, which is lower than other competitors in the SAS field. In addition to this, their low debt to equity ratio of 0.07x indicates that CRM is not making investments on debt either. Salesforce is not investing as much in R&D as competitors. This can indicate that the companies' growth will potentially not be as rapid as in competing companies. Looking back, however, this was a positive factor in CRM's strong response to COVID as their less aggressive strategy allowed for them to minimize volatility (note that stock still did drop around March 17 as consistent with the rest of NYSE). It is also worth noticing that CRM's gross margin is 74.62% which is quite high, as expected by IT Service companies. Better yet, according to ETRADE, their gross margin is "more than 76% of other companies" in the same industry. It is this stability which makes Salesforce such an attractive buy for investors as they can rely on a consistent revenue stream without many unexpected drops in earnings.

Recommendation: **Buy**

CRM

Price: **\$258.04**

MSCI ESG Ranking: **AAA**

Sustainalytics' ESG Risk Ratings:
Low Risk

Software & IT Services

Analyst: Chinmay Varshneya

However, outlook on this stock remains modest because Salesforce does have an extremely high P/E ratio of 102.14 TTM. Investors are quite bullish on this stock and the company may be overvalued.

From a more qualitative perspective, it is not difficult to see why investors are so aggressive regarding CRM stock. It is the leader in CRM software and is outperforming many key competitors such as Microsoft and SAP in the industry. Boasting around 18 percent of the global CRM software market in terms of consumer usage, it leads competitors by a factor of around 3. Current competitors appear to be Zoho as well as Hubspot, but considering that they are much smaller and lack the capital to gain as great a penetration the market as CRM has already established, it seems Salesforce's reputation as the leader in customer relationship management software will hold.

Furthermore, most companies and publications view Salesforce as offering the best product available, which will prevent CRM from being overtaken by newer companies. As corroborated by Seeking Alpha, it's customizability, security, and ability to scale makes it an attractive buy for nearly all companies looking to purchase cloud software.

This domination in the market also gives it the most user data to work with allowing for a superior analytical service. This creates an upward spiral where market dominance leads to superior data aggregation which furthers CRM's competitive advantage.

In addition to its key product, Salesforce Ventures has become a major source of revenue while demonstrating CRM's ability to successfully leverage cash. It's investments in Zoom, Dropbox, Snowflake and its 466 other positions have brought in over 1 billion dollars for the company TTM.

Most integral to this fund are the ESG capabilities of Salesforce. In addition to having a strong outlook as demonstrated above, it shines

in its stewardship of strong corporate and social responsibility. Since 2018, MSCI has rated Salesforce with the highest possible rating of AAA in its ESG performance, making it a “leader among 141 companies in the software & services industry”. It is worth noting that the one area in which Salesforce is a laggard is in corporate governance. However, with the development of the Chief Diversity Officer position in addition to several initiatives looking to increase diversity within the workplace, it is apparent that Salesforce is making a deliberate effort to continue bettering its corporate practices. Other initiatives such as giving all employees a day-off for Election Day point towards Benioff’s positive leadership as well.

Salesforce also scores highly in Sustainalytics’ Company ESG Risk Ratings. It’s overall ESG risk rating is 1.2 which is at the lowest end, making it fifth out of 735 companies in the Software & Services industry and 169 out of 12704 overall. It is therefore in the top 99% in terms of ESG factors. This can be further corroborated with Sustainalytics rating Salesforce “low” with regards to exposure to ESG issues and “strong” in terms of its Management of ESG Material.

Looking at their environmental behavior in closer detail, the non-profit company CDP Worldwide also gives Salesforce an A rating (the highest) on their climate change watch list. Unfortunately, it is not on the EPA Green Power Partners list.

Addressing social factors, Salesforce scores very highly again. On Glassdoor, it has a 4.4/5 overall score and was on its list of best places to work in 2020, 2019, 2018, 2017, 2016, 2014, 2013, 2012, 2011, and 2009. Their Founder and CEO Marc Benioff was also on Glassdoor’s top CEOs list in 2019, 2018, 2017, 2016, 2015, 2014, and 2013. Salesforce’s work environment was highly acclaimed this past year as it appears on Forbes America’s Best Employers for Women 2020 list. It also has a Corporate Equality Index 2020 rating of 100 which is the highest possible score. A rating of 100 means that CRM has a

workplace which champions Lesbian, Gay, Bisexual, Transgender, and Queer Equality.

Overall, I recommend Salesforce as a strong buy for the Investrain ESG Fund as it performs well from a qualitative, quantitative, and ESG standpoint. It thereby checks the boxes necessary to have a “buy” recommendation. This stock can provide stability in a tech heavy index.