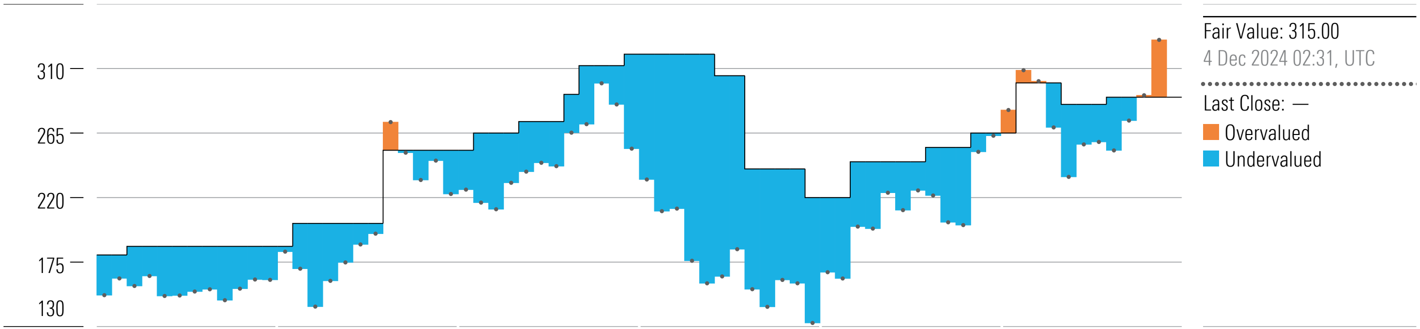
Morningstar Equity Analyst Report | Report as of 4 Dec 2024 02:42, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 1 of 23

Salesforce Inc CRM ★★★ 4 Dec 2024 02:32, UTC

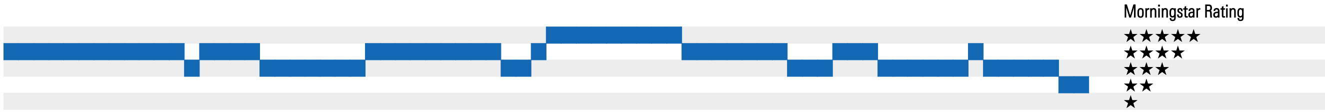
Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
—	315.00 USD 4 Dec 2024 02:31, UTC	—	316.85 Bil 3 Dec 2024	Wide	Large Blend	High	Standard	6 Nov 2024 06:00, UTC

Price vs. Fair Value



	2019	2020	2021	2022	2023	YTD	
	0.87	0.88	0.79	0.60	0.99	1.14	Price/Fair Value
	18.74	36.82	14.20	-47.83	98.46	—	Total Return %

Morningstar Rating



Total Return % as of —. Last Close as of —. Fair Value as of 4 Dec 2024 02:31, UTC.

Contents

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The primary analyst covering this company does not own its stock.

[1]The ESG Risk Rating Assessment is a representation of Sustainalytics' ESG Risk Rating.

Salesforce Earnings: Good Results; With Shares Up About 50% In 3 Months, We're Cautious on Valuation

Analyst Note Dan Romanoff, CPA, Senior Equity Analyst, 4 Dec 2024

We raise our fair value estimate for wide-moat Salesforce to $315 per share from $290 after its third-quarter results, while fourth-quarter guidance was slightly shy of our expectations. Still, third-quarter strength more than makes up for the modest guidance differential. Management is very enthusiastic about Agentforce, which we think represents a good long-term opportunity to transition from a mostly human agent labor force to a mostly virtual agent pool over time. Shares have run dramatically and are up 45% to 50% over the last three months, assuming the 9% after-hours surge holds. Even with our fair value increase today, we see shares as overvalued. Our revenue estimate for next year is 1% above FactSet consensus, while non-GAAP operating margin is approximately in line, and shares are trading above our fair value estimate.

To support shares at these levels, investors must believe Agentforce will drive more top-line acceleration or that margin expansion will come faster and prove greater. Both of these things can happen, but we would prefer to see any evidence of the former before we allow our excitement levels to catch up with the stock. Additionally, shares from much of our software coverage have generally performed well over the last several months despite no real change in fundamentals, so investors must be incorporating a more pro-growth stance, including further rate cuts, from the incoming administration.

Despite continued macroeconomic pressures, demand came in better than expected, with broad-based

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Sector	Industry
Technology	Software - Application

Business Description

Salesforce provides enterprise cloud computing solutions. The company offers customer relationship management technology that brings companies and customers together. Its Customer 360 platform helps the group to deliver a single source of truth, connecting customer data across systems, apps, and devices to help companies sell, service, market, and conduct commerce. It also offers Service Cloud for customer support, Marketing Cloud for digital marketing campaigns, Commerce Cloud as an e-commerce engine, the Salesforce Platform, which allows enterprises to build applications, and other solutions, such as MuleSoft for data integration.

strength supporting growth. Current remaining performance obligations, or CRPO, accelerated, which bodes well for revenue acceleration in the coming quarters. Total revenue rose 8% year over year (8% in constant currency) to $9.444 billion versus the high end of guidance at $9.360 billion. CRPO grew 10% year over year, accelerated sequentially, and outpaced subscription revenue growth, which are all positive indicators.

Business Strategy & Outlook Dan Romanoff, CPA, Senior Equity Analyst, 30 May 2024

We believe Salesforce represents one of best long-term investment opportunities in software, particularly as it should provide investors with a nice balance between revenue growth and improving profitability. Even as revenue growth has decelerated, we believe a new focus on margin expansion, share buybacks, and dividends should continue to compound strong earnings growth for years to come.

After introducing the software-as-a-service model to the world, Salesforce has assembled a front-office empire that it can build on for years to come, in our view. Sales Cloud represents the original salesforce automation product, which streamlined process management for sales leads and opportunities, contact and account data, process tracking, approvals, and territory tracking. Salesforce's critical differentiator was that the software was accessed through a web browser and delivered over the internet, thus inventing the SaaS software delivery model. Service Cloud brought in customer service applications, and Marketing Cloud delivers marketing automation solutions. Finally, we think Data Cloud helps ties the offerings together. These solutions encompass nearly all aspects of customer acquisition and retention and, in our view, are mission-critical. Salesforce Platform also offers customers a platform-as-a-service solution, complete with the AppExchange, as a way to rapidly create and distribute apps. We believe this further strengthens the substantial community of Salesforce users.

In our view, Salesforce will benefit further from natural cross-selling among its clouds, upselling more robust features within product lines, vertical solutions, pricing actions, and international growth. Salesforce is widely considered a leader in each of its served markets, which is attractive on its own, but the tight integration among the solutions and the natural fit they have with one another makes for a powerful value proposition, in our view. To that end, more than half of enterprise customers use multiple clouds. Further, customer retention has gradually improved over time and is better than 92%, which we expect to grind higher still in the coming years.

Bulls Say Dan Romanoff, CPA, Senior Equity Analyst, 4 Dec 2024

- Salesforce dominates salesforce automation but still only controls 30% in a highly fragmented market that continues to grow double digits each year, suggesting there is still room to run.
- The company has added legs to the overall growth story, including customer service, marketing automation, e-commerce, analytics, and artificial intelligence.
- Management is likely going to focus on expanding margins after years of subscale profitability.

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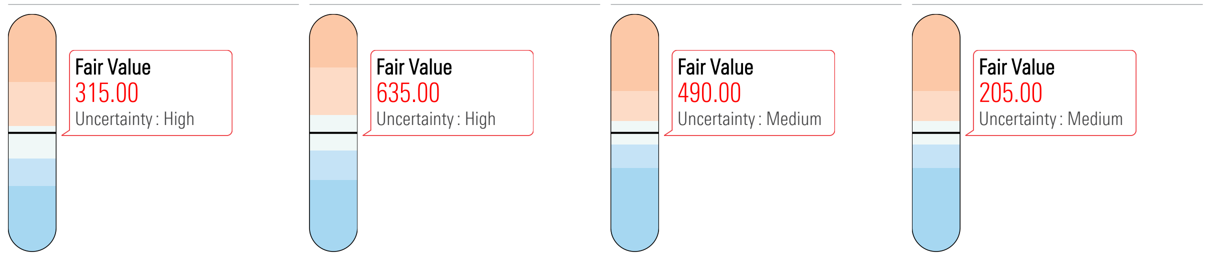
Competitors



	CRM	ADBE	MSFT	ORCL
Economic Moat	Wide	Wide	Wide	Narrow
Currency	USD	USD	USD	USD
Fair Value	315.00 4 Dec 2024 02:31, UTC	635.00 14 Jun 2024 02:13, UTC	490.00 31 Jul 2024 06:07, UTC	205.00 25 Nov 2024 15:37, UTC
1-Star Price	488.25	984.25	661.50	276.75
5-Star Price	189.00	381.00	343.00	143.50
Assessment	Overvalued 3 Dec 2024	Undervalued 3 Dec 2024	Undervalued 3 Dec 2024	Fairly Valued 3 Dec 2024
Morningstar Rating	★★★4 Dec 2024 02:32, UTC	★★★★3 Dec 2024 22:40, UTC	★★★★3 Dec 2024 22:39, UTC	★★★3 Dec 2024 22:39, UTC
Analyst	Dan Romanoff, Senior Equity Analyst	Dan Romanoff, Senior Equity Analyst	Dan Romanoff, Senior Equity Analyst	Dan Romanoff, Senior Equity Analyst
Capital Allocation	Standard	Exemplary	Exemplary	Poor
Price/Fair Value	1.14	0.81	0.88	0.89
Price/Sales	8.70	11.18	12.67	9.62
Price/Book	5.41	15.79	11.14	46.86
Price/Earning	54.16	38.14	35.55	42.97
Dividend Yield	0.36%	0.00%	0.71%	0.87%
Market Cap	316.85 Bil	227.26 Bil	3,205.92 Bil	506.80 Bil
52-Week Range	212.00—348.86	433.97—638.25	362.90—468.35	99.26—196.04
Investment Style	Large Blend	Large Blend	Large Blend	Large Blend

Bears Say Dan Romanoff, CPA, Senior Equity Analyst, 4 Dec 2024

- As the company grows larger, it may be increasingly difficult for Salesforce to grow faster than its various end markets.
- Salesforce has entered new areas via acquisition and has arguably paid material premiums in the process. Integration risk is real, as is the risk of increasingly large, dilutive, or ill-conceived deals.
- Despite its size, Salesforce has generated substandard margins in recent years, and its renewed focus on profitability may negatively affect already-slowing growth.

Economic Moat Dan Romanoff, CPA, Senior Equity Analyst, 30 May 2024

For Salesforce overall, we assign a wide economic moat, arising primarily from switching costs, with the network effect serving as a secondary moat source. Based on the company's product lines, we believe Sales Cloud, Service Cloud, and Salesforce Platform and other have earned wide moats, while

Salesforce, Marketing and Commerce Cloud, and Data Cloud have carved out narrow moats. While services, which is a small portion of revenue, help facilitate software sales and contribute to customer relationships, we do not think the company's professional services business would warrant a moat on a stand-alone basis. We believe Salesforce's moat will probably allow the company to earn returns in excess of its cost of capital over the next 20 years.

We believe customers value Salesforce's discrete clouds as stand-alone solutions, but the various clouds are highly complementary and are tightly integrated with one another, making the complete set of solutions more compelling. In our opinion, the strength of these clouds is important but should not overshadow the importance of all the solutions being offered under one umbrella by Salesforce as customers are usually looking to consolidate vendors. These factors combine to reinforce our wide moat assertion. As Salesforce offers a wider set of related and best-in-class solutions, we believe it becomes more deeply entrenched in its customers as they adopt multiple clouds.

Switching costs for software are often driven by several factor,s in our view. The more critical the function and the more touch points across an organization a software vendor has, the higher the switching costs. There is also the direct time and expense of implementing a new software package for the customer while maintaining the existing platform and retraining employees on a new system. Additionally, there is operational risk of changing software vendors, including business process reengineering, loss of data during the changeover, and overall project execution. A major implementation is likely to involve a system integrator and can take in excess of a year in bad cases. Lastly, lost productivity is likely to be an issue as customers move up a learning curve on the new system along with the distraction of users involved in the function where the change is occurring.

Retention metrics typically help inform investors on both the presence and the durability of a moat. These come in two flavors: gross, which describes what percentage of the customer base remains customers after a given period, and net, which highlights what percentage of customer spending is retained by the software provider after a given period. Salesforce's customer retention has been improving gradually over the last 20 years and now sits at approximately 92% annually, which we characterize as good. Software firms regularly see lower retention rates for small-business users than for enterprise customers, so retention is weighed down by a large proportion of small-business customers.

We believe Sales Cloud and Service Cloud enjoy a wide moat based on switching costs. Sales Cloud represents 20%-25% of total revenue, while Service Cloud represents approximately 25% of total revenue. Key modules within Sales Cloud include buyer engagement, sales engagement, team collaboration, sales analytics, sales programs, partner management, performance management, configure, price, and quote, and billing. Critical elements of Service Cloud cover customer service automation, field service, self-service experience, omnichannel customer engagement, agent and mobile worker productivity, intelligent service operations, contact center, and voice support.

The CRM and Service suites are mission critical to business users in that they drive the selling and servicing processes, contain all known information on the customer base, and are tied into a variety of other back end systems, such as accounting, accounts receivable, inventory, customer service, customer relationship management, marketing, email, among others. Changing out either the CRM or customer services applications then becomes a monumental task that users are usually unwilling to undertake because of the time, expense, and operational risk involved.

Salesforce revolutionized the software industry in 2000 with the release of its salesforce automation application. It generally had a feature set competitive with other CRM packages but offered workflow streamlining capabilities and was accessed through a browser and delivered over the internet. The streamlining capabilities were critical and represent the automation portion of the product name. We now refer to this business model as software as a service. While the company did not invent the CRM, it represented a variety of critical technology and category advancements. Service Cloud is a natural extension of Sales Cloud and was the company's second core product.

Salesforce is considered a leader in software solutions for both the CRM and customer service industries. We believe the company's offerings are still considered best of breed despite being part of a much larger software provider. There is no shortage of competition, including point solutions from upstart vendors to modules included in enterprise resource planning behemoths, and everything in between. However, we believe that Salesforce's offerings are best in class and that the inclusion of its other offerings cements the company's lead.

We think the Salesforce Platform and other segment enjoys a wide moat based on switching costs and network effects. This segment accounts for approximately 20% of total revenue. Application development platforms are sticky in that they serve as the core platform on which businesses and processes are built, and switching could be highly disruptive and expensive for developers. The network effect arises from the fact that the software is extensible and the company provides software development kits, offers the development platform, offers an application exchange, and has worked with leading system integrators to establish a large ecosystem of consulting partners.

Salesforce was early to the market with a cloud-based application development platform for customers. Use of the platform provided the low-investment benefits of a SaaS product, allowed for immediate and smooth integration with Salesforce's solutions, and also allowed developers to sell and distribute their applications on the company's AppExchange. Developing code is clearly mission critical to users is an area that would be extremely difficult to change given ongoing research and development programs, including maintenance of existing code, code repositories, and an always challenging hiring environment for software engineers.

The AppExchange was revolutionary and was very enticing to developers. A variety of publicly traded companies started out as apps developed on the platform and initially distributed on the AppExchange. The popularity of Salesforce's solutions attracts developers, the company provided a robust and easy-to-use application development platform, and developers created additional applications often built as add-ons to various Salesforce solutions to extend the software's functionality. We believe these dynamics allow Salesforce to continue to benefit from network effects. That is, as more customers adopt any of the company's solutions, the AppExchange provides an ever-expanding audience, which makes it incrementally more attractive to developers, thus perpetuating a virtuous cycle. We also think the large ecosystem of consultants that have built practices around Salesforce furthers the network effects.

Salesforce reports Marketing Cloud and Commerce Cloud as a single segment, which represents approximately 15% of total revenue and has a narrow moat based on switching costs in our view. Key Marketing Cloud applications include Data Cloud for marketing, marketing automation, email marketing, mobile advertising, personalization, analytics, and loyalty programs. Commerce Cloud applications include digital storefronts, customer acquisition, loyalty programs, reporting and insights, and order management and fulfillment.

Digital experience solutions are relatively new compared with CRM and customer service and there are a wide variety of large competitors in the various marketing analytics, campaign management, customer engagement, advertising platform, and related areas. While this has been a nascent and rapidly emerging area, more recently we see several companies starting to emerge as leaders with a holistic and complete platform. One of these leaders is Salesforce. We believe Salesforce's tightly integrated and robust platform, with its accelerated innovation based on customer feedback from its extensive customer base is seen as a strong suite by the marketplace, and well positioned to capture an outsize position in this young and growing market.

We view Marketing Cloud and Commerce Cloud as natural extensions of Salesforce's core solutions and they are also mission-critical to the users' operations. Once these applications are integrated in a business process workflow, we believe they are difficult to change. A digital experience platform, by its very nature, is complex involving numerous applications and touching a wide range of systems and data repositories used by the customer.

Unlike salesforce automation, Salesforce does not have a first-mover advantage in these areas. Indeed, the company's first marketing foray was the acquisition of ExactTarget while Commerce Cloud was established with the acquisition of Demandware. The company has made other acquisitions to bolster these emerging areas and has also organically added solutions to the portfolio.

We think the Data Cloud segment, which represents approximately 15% of revenue, enjoys a narrow moat based on switching costs. Both MuleSoft and Tableau are included here. We view this segment as an add-on solution to the company's other main offerings. It pulls in data from disparate sources and helps connect data in commerce, sales, marketing, and service areas into a single interface. We therefore think realistically Data Cloud enhances the moat of the other clouds as it makes those solutions more useful to customers. Lastly, professional services represents approximately 5% of revenue and does not warrant an economic moat.

Fair Value and Profit Drivers Dan Romanoff, CPA, Senior Equity Analyst, 3 Dec 2024

Our fair value estimate for Salesforce.com is $315 per share, which implies a fiscal 2025 enterprise value/sales, or EV/S, multiple of 7 times, adjusted price/earnings, or P/E, multiple of 31 times, and a 4% free cash flow yield.

We model a five-year compound annual growth rate, or CAGR, for total revenue of 9% through fiscal 2029, which we think will be driven by solid growth in all clouds, with most notable strength coming from the data cloud. Our revenue forecast assumes modest revenue acceleration after depressed growth in both fiscal 2023 and 2024. We forecast non-GAAP operating margin expanding from 31% in fiscal 2024 (actual) to the mid 30% area in fiscal 2029, which we think is consistent with management’s new profitability focus.

We believe the underlying markets are large and growing. According to management, the total addressable market will grow to $248 billion by 2025, with compound annual growth rates for the markets served by Salesforce’s various clouds generally in the low-double-digit percentage area, notwithstanding the post-covid slowdown. In our view the company will benefit from natural cross-selling of solutions among the clouds. To help support a decade of strong growth, we model several hundred million dollars in bolt-on acquisitions annually after a strategic shift away from inorganic growth.

Risk and Uncertainty Dan Romanoff, CPA, Senior Equity Analyst, 30 May 2024

We assign Salesforce a Morningstar Uncertainty Rating of High. From a big-picture perspective, we believe CEO Marc Benioff will be difficult to replace, as he pioneered the software industry, co-founded the company, and led it to be a dominant force with a broad portfolio of sales and marketing related solutions.

We believe the most important metric for Salesforce investors is revenue growth. Therefore, continued deceleration in the Sales Cloud, or growth that does not materialize as expected in the Service, Marketing, and Commerce Clouds or the Salesforce Platform would likely have an adverse impact on the stock, in our view.

To help drive growth, Salesforce has also been acquisitive. While we do not believe acquisitions have been transformative, the company has certainly executed some larger transactions in order to help establish an immediate or larger presence with a particular solution. Investors have been concerned at times about rich valuations and organic growth prospects, as was the case with the Slack, Tableau, and Mulesoft acquisitions over the last several years. We believe the company is likely to continue to make acquisitions but has pulled back from larger deals. In these situations, valuation and integration will remain risks.

Building on the acquisition-driven risks, Salesforce is likely to face new competitors as it continues to acquire its way into markets the company was not previously serving. The Demandware acquisition drove entry into a completely new area and brought a wide variety of competitors the company did not previously come across.

While we do not see significant environmental, social, and governance risks, Salesforce faces strong competition for software engineers on the hiring front and also faces risks arising from a potential data breach in its data centers.

Capital Allocation Dan Romanoff, CPA, Senior Equity Analyst, 30 May 2024

We assign Salesforce a Standard Capital Allocation Rating. This rating reflects our assessments of a sound balance sheet, fair investments, and appropriate shareholder distributions. Salesforce dramatically changed its capital allocation strategy in August 2022 when it began a formal share-repurchase program, with $18 billion in repurchase authorization remaining as of February 2024. In February 2024, the company instituted a quarterly dividend. We expect a balanced approach between buybacks, dividends, and internal investments for product innovation. While the firm has been active historically from an acquisition standpoint, including large deals, we expect deals to skew smaller and occur with less frequency going forward.

After spending 13 years at Oracle in various leadership roles in sales and product development, Marc Benioff cofounded Salesforce in 1999 with the “end of software” mission statement. In 2000, the company released the original version of its of salesforce automation product and offered it solely in a SaaS model. This delivery model revolutionized the industry, and 20 years after forming the company, while Benioff has yet to fully achieve his goal of ending the on-premises software model, it is clear he has steered the industry along the path he envisioned.

Analyst Notes Archive

Salesforce: Agentforce on Display at Dreamforce Dan Romanoff, CPA, Senior Equity Analyst, 19 Sep 2024

While there was no financial update at Salesforce's Dreamforce artificial intelligence event, the firm made various AI-themed announcements. Among these were a heavy dose of Agentforce; a partnership with Nvidia; an expanded partnership with Google; and a deep dive into the data cloud. We made no update to our model and are maintaining our $290 fair value estimate for shares of wide-moat Salesforce. Share performance has been underwhelming year to date; we think this is partly because investors worry about AI disruption. Given the company's entrenched position with enterprise customers and its leading technology, we conclude that Salesforce is well positioned for the coming wave of generative AI with data cloud and the evolution of both Einstein Copilot and virtual agents. This is combined with the firm's presence in customer-related software. Based on what we saw at Dreamforce, we are incrementally confident in that position, and we see the stock as attractive.

Overall, we think Salesforce continues to make strides in its offerings. We also see the evolution of the pricing model with the $2-per-conversation threshold. Clearly, the company is willing to invest in its technology and to try different methods of monetization. We haven't seen the same level of success for Salesforce that enterprise software peer ServiceNow is having in the early days of generative AI, but we think that it's too soon to tell. We do think that Salesforce is positioned to capture its share of this business.

While we view Agentforce as evolutionary based on the firm's existing Einstein Copilot offering, we see it as a meaningful advancement. Agentforce agents are designed to run autonomously and operate by using data from the entire Salesforce platform, including all the firm's clouds. The demos were impressive, and we can see the potential for virtual customer-service agents actually becoming helpful instead of being the putative nuisance they currently are.

Salesforce Earnings: Nice Rebound Quarter With Lots of Excitement Around Agentforce Virtual Agents Dan Romanoff, CPA, Senior Equity Analyst, 29 Aug 2024

We are raising our fair value estimate for wide-moat Salesforce to $290 per share from $285 after the company reported good second-quarter results, while full-year revenue guidance was maintained and profitability raised slightly. Macroeconomic conditions continue to weigh on growth, even as the company delivered upside relative to our expectations on both the top and bottom lines. Recent trends continued, with multicloud deals and vertical domain sales driving relative strength compared with expectations. Management was enthusiastic about its new Agentforce platform, which we think represents a good long-term opportunity to transition from a mostly human agent labor force to a mostly virtual agent pool over time. Monetization will be on a per conversation basis. We see some upside to shares still, but the window has narrowed over the last three months.

We wish President and CFO Amy Weaver well, as she announced she is leaving the firm as soon as a successor is found, which may take six months. We have no doubt the firm will attract a variety of top-tier candidates. Weaver's transformation of the company's approach to both profitability and capital allocation is nothing short of remarkable.

Revenue rebounded nicely from last quarter's sluggishness. Strength was evenly distributed across

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solutions, with multicloud performing well and certain verticals, such as health and life sciences, and communications and media, also providing resiliency. Total revenue rose 8% year over year (9% in constant currency) to $9.325 billion versus the high end of guidance at $9.25 billion. Both subscriptions and professional services were ahead of our model, with the former growing 9% as reported and the latter contracting 6% year over year as customers continue to take on smaller projects. Current remaining performance obligations grew 10% year over year but decelerated 210 basis points. Still, CRPO outpaced revenue, however modestly, which is a positive indicator.

Salesforce Earnings: Slowing Growth Leaves Us Wondering If Guidance Is Too Aggressive Dan Romanoff, CPA, Senior Equity Analyst, 30 May 2024

We are lowering our fair value estimate for wide-moat Salesforce to $285 per share from $300 after the company reported lower-than-expected fiscal 2025 first-quarter revenue and guided for second-quarter revenue lower than we anticipated. After robust fourth-quarter results, management pointed to macro trends reverting to where they have been for the last couple of years, with elongated sales cycles and more approvals factoring into guidance. While the second-quarter outlook was light, management maintained its full-year outlook, raising the possibility of further disappointment throughout the rest of the year. The firm had success during the quarter with multicloud deals, while management remains excited about the artificial intelligence opportunity, which we believe Salesforce is well positioned to capitalize on. We see the shares as attractive.

Sluggishness in the quarter was driven by weakness in Europe and several verticals, such as technology, retail, and consumer goods. Weakness in Europe and technology is a common thread in our software coverage. Revenue grew 11% year over year (11% in constant currency) to $9.133 billion versus the midpoint of guidance of $9.145 billion. Subscriptions and professional services fell short of our model, with the former growing 12% and the latter contracting 9% year over year as customers continue to take on smaller projects. Data cloud and multicloud deals were strong, Canada and Japan were resilient, and the public sector and financials sector performed well in the quarter. Current remaining performance obligations grew 10% year over year but decelerated more than 250 basis points year over year and sequentially, which heightens the risk that achieving revenue growth objectives as the year progresses could be challenging.

While profitability remains a bright spot, we see a path for continued margin expansion even as the firm invests in AI innovation. Non-GAAP operating margin was 32.1% versus 27.6% a year ago.

Salesforce: Our Initial High-Level View of Possible Informatica Acquisition Is Negative Dan Romanoff, CPA, Senior Equity Analyst, 15 Apr 2024

Late on April 12, The Wall Street Journal reported that wide-moat Salesforce was in talks to acquire Informatica. Since there is no official announcement, we are addressing the report without any context, such as deal price, rationale, or longer-term plans. With no real information to assess, we are maintaining our $300 fair value estimate and see the shares as slightly undervalued after the April 15 selloff.

Our initial reaction to this possible deal at a high level is negative—again, with no deal terms to parse—because Informatica grows more slowly and has lower non-GAAP operating margins than Salesforce. We also remember investor discontent around Salesforce’s acquisition activity, which ultimately resulted in substantial changes, including structurally higher margins, an entirely new share-buyback program, a dividend, and importantly, a vastly scaled-back acquisition program. We think margin improvements, a slowdown in M&A, and a cessation of large deals altogether were the key elements of that process. On this last point, a $10 billion-$13 billion acquisition is not all that material compared with Salesforce’s $265 billion market cap, but it is seemingly a reversion to larger deals, which is something investors emphatically do not want. As a reminder, management went so far as to disband its M&A committee. Salesforce could have done this deal a year ago for perhaps half the valuation that Informatica now commands, which gives the rumored acquisition a reactionary feel.

We absolutely do see the strategic rationale for combining Informatica’s data integration platform with Salesforce's own Data Cloud. In this light, we are more upbeat. Salesforce acquired MuleSoft in part to make it easier for customers to connect applications, and this potential deal would be along similar lines. As customers are grappling with how to use artificial intelligence, the importance of data has increased. Informatica’s platform would clearly help in this regard.

Salesforce Earnings: Salesforce Declares a Dividend Dan Romanoff, CPA, Senior Equity Analyst, 29 Feb 2024

Salesforce continues to perform well in what remains a tight demand environment, with upside versus our expectations on both the top and bottom lines for its fiscal fourth quarter. Guidance was mixed, with revenue slightly worse than we expected while earnings per share, or EPS, was slightly better. The biggest headline is the capital allocation strategy evolution, with the buyback program expanded by another $10 billion and the establishment of $0.40 quarterly dividend. Management was enthusiastic in its discussion of everything AI, which we think will be an area of strength for Salesforce, with the Einstein 1 Platform already generating revenue. Based on continued quarterly upside and new guidance, we are raising our midterm profitability estimates and are raising our fair value estimate to $300 per share, from $265. We see the stock as fairly valued.

Fourth-quarter revenue grew 11% year over year (10% in constant currency) to $9.29 billion, versus the high end of guidance of $9.23 billion. Like the last several quarters, strength was driven by MuleSoft, data cloud, and solid execution. Remaining performance obligation grew 13% year over year in constant currency, outpacing revenue growth for the second consecutive quarter. Professional services remains pressured and declined 9% year over year—based on difficult comparisons and customers taking on smaller projects—and missed our estimates. Multicloud deals were strong, with eight of the top 10 deals and more than half of the 100 largest deals involving six or more clouds.

While profitability remains a bright spot, we continue to see a path for margins to expand even as the firm invests in near-term AI innovation. The non-GAAP operating margin was 31.4%, versus 29.2% a year ago. Major restructuring actions from January 2023 continue to boost margins, but the internal cultural shift remains apparent, and we expect operational efficiencies and pricing to serve as tailwinds to margins over the next couple years.

Salesforce Earnings: MuleSoft Shines in Another Overall Good Quarter Dan Romanoff, CPA, Senior Equity Analyst, 30 Nov 2023

Salesforce continues to perform well in a measured environment, with upside versus our aggressive expectations for both revenue and profitability for its fiscal third quarter. Guidance, particularly for profitability, was also good. Management was enthusiastic to discuss green shoots in data cloud, while we were impressed by performance in large deals and the acceleration in remaining performance obligation, or RPO, growth. We also applaud the firm's continued focus on capital returns, with $1.9 billion in share buybacks this quarter. Based on quarterly upside and updated guidance, we made minor adjustments to our model and raised our fair value estimate to $265 per share, from $255. With shares jumping in the aftermarket the stock seems slightly undervalued, in our view.

Third-quarter revenue grew 11% year over year (10% in constant currency) to $8.72 billion, versus the high end of guidance of $8.72 billion. Like the last several quarters, strength was driven by MuleSoft and data cloud, and solid execution. Current RPO grew 13% year over year in constant currency, representing an acceleration beyond revenue growth after lagging since the beginning of fiscal 2023, which management indicated was mainly due to a very large customer contract. Professional services remain subdued and the overall demand environment remains measured. Multicloud deals were strong, with nine of the top 10 deals involving six or more clouds and an impressive 80% growth in deals worth $1 million or more. Offsetting these revenue drivers was softness in transactional type revenue and Slack self-service.

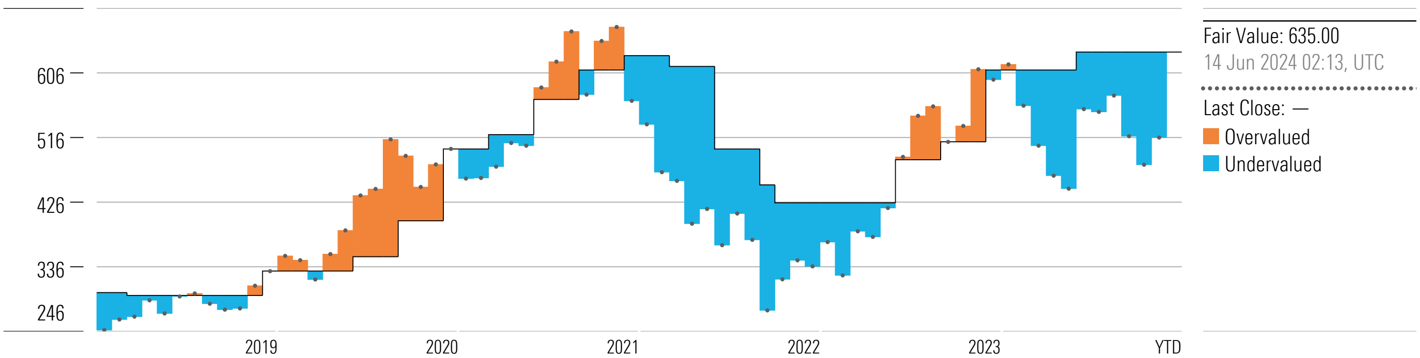
We continue to see a path for margins to expand even as the firm invests in near-term artificial intelligence, or AI, innovation. Profitability remains impressive, as Salesforce produced a non-GAAP operating margin of 31.2%, versus 22.7% a year ago. Major restructuring actions from January 2023 continue to help boost margins but the internal cultural shift is evident.

Morningstar Equity Analyst Report | Report as of 4 Dec 2024 02:42, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC.

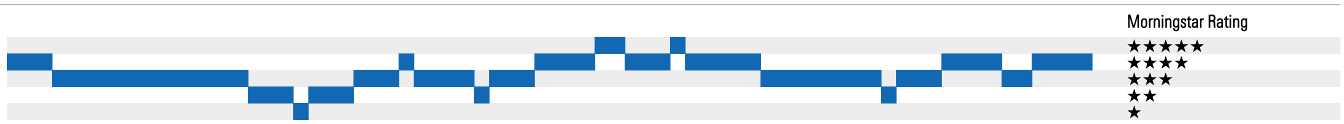
Salesforce Inc CRM ★★★ 4 Dec 2024 02:32, UTC

Competitors Price vs. Fair Value

ADBE

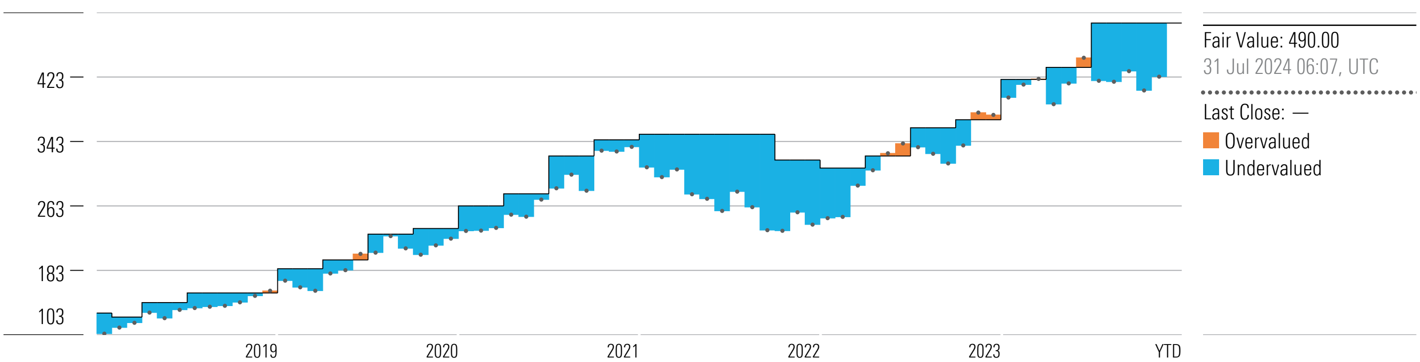


	2019	2020	2021	2022	2023	YTD	
	1.00	1.00	0.90	0.79	0.98	0.81	Price/Fair Value
	45.78	51.64	13.38	-40.65	77.28	—	Total Return %

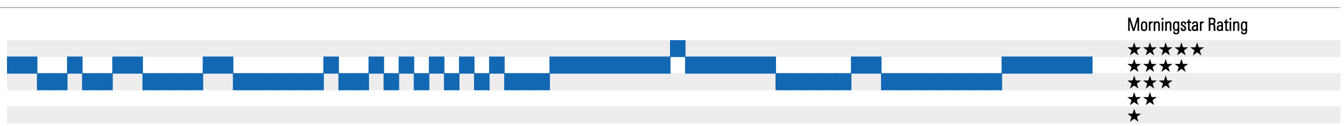


Total Return % as of —. Last Close as of —. Fair Value as of 14 Jun 2024 02:13, UTC.

MSFT



	2019	2020	2021	2022	2023	YTD	
	1.02	0.95	0.97	0.75	1.02	0.88	Price/Fair Value
	57.12	42.37	52.24	-27.94	57.96	—	Total Return %



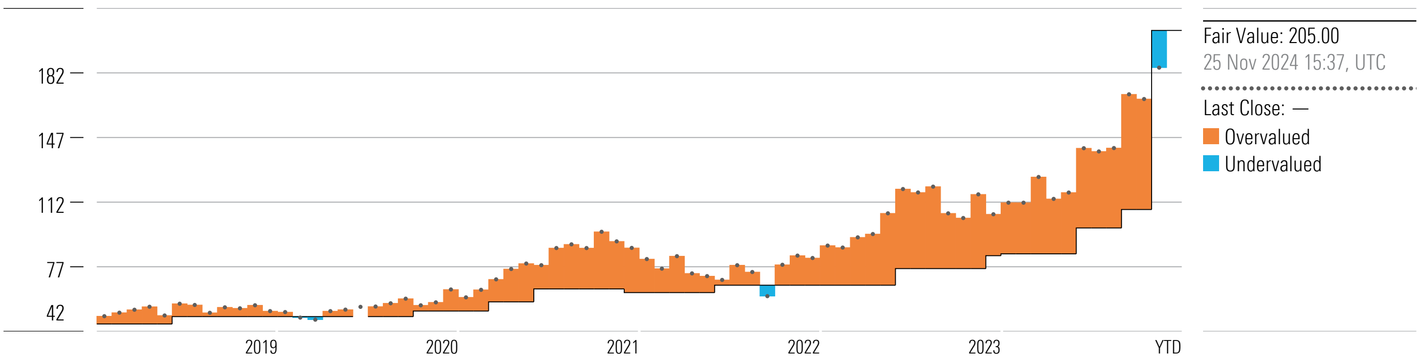
Total Return % as of —. Last Close as of —. Fair Value as of 31 Jul 2024 06:07, UTC.

Morningstar Equity Analyst Report | Report as of 4 Dec 2024 02:42, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC.

Salesforce Inc CRM ★★★ 4 Dec 2024 02:32, UTC

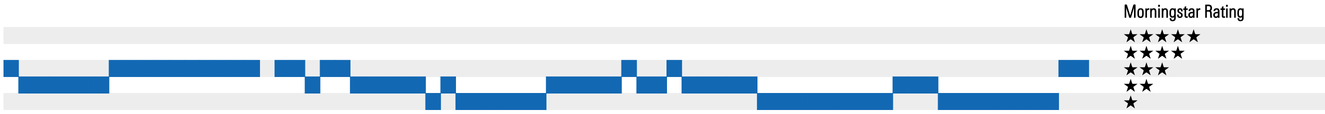
Competitors Price vs. Fair Value

ORCL



2019	2020	2021	2022	2023	YTD	
1.06	1.22	1.38	1.22	1.27	0.89	Price/Fair Value
19.36	23.91	36.67	-4.80	30.84	—	Total Return %

Morningstar Rating



Total Return % as of —. Last Close as of —. Fair Value as of 25 Nov 2024 15:37, UTC.

Morningstar Equity Analyst Report | Report as of 4 Dec 2024 02:42, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 15 of 23

Salesforce Inc CRM ★★★ 4 Dec 2024 02:32, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
—	315.00 USD 4 Dec 2024 02:31, UTC	—	316.85 Bil 3 Dec 2024	Wide	Large Blend	High	Standard	6 Nov 2024 06:00, UTC

Morningstar Historical Summary

Financials as of 31 Jul 2024

Fiscal Year, ends 31 Jan	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	YTD	TTM
Revenue (USD Bil)	4.07	5.37	6.67	8.44	10.54	13.28	17.10	21.25	26.49	31.35	18.46	36.47
Revenue Growth %	33.5	32.0	24.1	26.5	24.9	26.0	28.7	24.3	24.7	18.4	9.5	10.3
EBITDA (USD Mil)	89	308	663	900	1,238	1,517	2,598	3,301	3,846	5,644	5,385	10,551
EBITDA Margin %	2.2	5.7	9.9	10.7	11.8	11.4	15.2	15.5	14.5	18.0	29.2	28.9
Operating Income (USD Mil)	-286	-146	115	218	454	535	463	455	548	1,858	3,599	6,950
Operating Margin %	-7.0	-2.7	1.7	2.6	4.3	4.0	2.7	2.1	2.1	5.9	19.5	19.1
Net Income (USD Mil)	-232	-263	-47	323	360	1,110	126	4,072	1,444	208	2,962	5,632
Net Margin %	-5.7	-4.9	-0.7	3.8	3.4	8.4	0.7	19.2	5.5	0.7	16.1	15.4
Diluted Shares Outstanding (Mil)	598	624	662	700	735	775	850	930	974	997	979	980
Diluted Earnings Per Share (USD)	-0.39	-0.42	-0.07	0.46	0.49	1.43	0.15	4.38	1.48	0.21	3.03	5.74
Dividends Per Share (USD)	—	—	—	—	—	—	—	—	—	—	0.80	0.80

Valuation as of 29 Nov 2024

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Recent Qtr	TTM
Price/Sales	7.2	8.1	6.0	7.5	8.4	8.4	10.1	9.7	4.4	7.6	7.4	8.9
Price/Earnings	-113.6	-588.2	238.1	0.0	147.1	178.6	58.5	140.8	500.0	100.0	47.6	57.5
Price/Cash Flow	32.9	34.5	25.3	31.0	33.7	33.0	48.3	39.4	21.1	27.0	22.2	26.8
Dividend Yield %	—	—	—	—	—	—	—	—	—	—	0.44	0.36
Price/Book	9.9	11.0	7.0	8.4	7.1	4.3	5.1	4.4	2.2	4.4	4.5	5.5
EV/EBITDA	436.5	171.3	73.9	80.9	85.4	94.8	77.2	77.2	35.0	45.3	0.0	0.0

Operating Performance / Profitability as of 31 Jul 2024

Fiscal Year, ends 31 Jan	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	YTD	TTM
ROA %	-3.2	-2.7	-0.4	2.1	1.8	4.2	0.3	6.7	1.8	0.2	3.1	6.1
ROE %	-8.5	-7.5	-1.1	5.2	4.0	8.5	0.5	10.8	2.9	0.4	5.1	9.7
ROIC %	-4.4	-4.0	-0.2	4.2	3.2	7.4	0.4	9.3	2.4	0.3	4.2	8.1
Asset Turnover	0.6	0.5	0.6	0.6	0.5	0.5	0.4	0.4	0.3	0.3	0.2	0.4

Financial Leverage

Fiscal Year, ends 31 Jan	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Recent Qtr	TTM
Debt/Capital %	38.7	35.6	28.9	26.4	6.3	16.9	13.1	11.7	18.6	17.4	15.8	—
Equity/Assets %	33.5	37.3	39.2	42.7	47.2	50.8	61.5	62.6	61.1	59.0	62.5	—
Total Debt/EBITDA	28.3	7.1	3.1	3.1	1.4	2.1	2.3	1.9	3.6	2.5	2.1	—
EBITDA/Interest Expense	1.1	4.2	9.1	10.1	—	—	—	—	—	—	—	—

Morningstar Analyst Historical/Forecast Summary as of 03 Dec 2024

Financials

			Estimates		
Fiscal Year, ends 31 Jan 2024	2023	2024	2025	2026	2027
Revenue (USD Mil)	31,352	34,857	37,906	41,518	45,428
Revenue Growth %	18.4	11.2	8.8	9.5	9.4
EBITDA (USD Mil)	3,563	7,950	10,072	11,743	11,698
EBITDA Margin %	11.4	22.8	26.6	28.3	25.8
Operating Income (USD Mil)	1,030	5,011	7,516	8,981	10,153
Operating Margin %	3.3	14.4	19.8	21.6	22.4
Net Income (USD Mil)	5,226	8,087	9,882	11,046	12,488
Net Margin %	16.7	23.2	26.1	26.6	27.5
Diluted Shares Outstanding (Mil)	997	984	975	972	972
Diluted Earnings Per Share(USD)	5.24	8.22	10.13	11.36	12.85
Dividends Per Share(USD)	0.00	0.00	1.60	1.73	1.87

Forward Valuation

			Estimates		
	2023	2024	2025	2026	2027
Price/Sales	5.3	7.8	8.4	7.6	7.0
Price/Earnings	32.1	34.2	32.7	29.2	25.8
Price/Cash Flow	—	—	—	—	—
Dividend Yield %	—	—	0.5	0.5	0.6
Price/Book	2.9	4.6	5.3	4.9	4.5
EV/EBITDA	46.8	34.4	31.3	26.9	27.0

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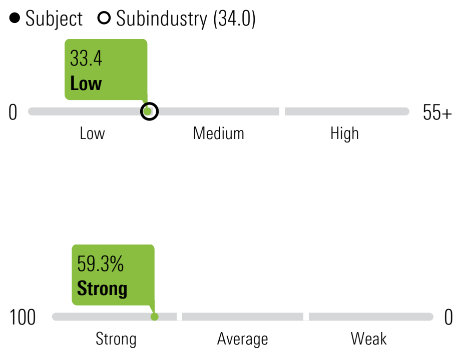
Salesforce Inc CRM ★★★ 4 Dec 2024 02:32, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
—	315.00 USD 4 Dec 2024 02:31, UTC	—	316.85 Bil 3 Dec 2024	Wide	Large Blend	High	Standard	6 Nov 2024 06:00, UTC

ESG Risk Rating Breakdown

Exposure	
Company Exposure[1]	33.4
– Manageable Risk	31.1
Unmanageable Risk[2]	**2.3**
Management	
Manageable Risk	31.1
– Managed Risk[3]	18.4
Management Gap[4]	**12.7**
Overall Unmanaged Risk	**15.0**



- Exposure represents a company's vulnerability to ESG risks driven by their business model
- Exposure is assessed at the Subindustry level and then specified at the company level
- Scoring ranges from 0-55+ with categories of low, medium, and high-risk exposure

- Management measures a company's ability to manage ESG risks through its commitments and actions
- Management assesses a company's efficiency on ESG programs, practices, and policies
- Management score ranges from 0-100% showing how much manageable risk a company is managing

ESG Risk Rating

ESG Risk Ratings measure the degree to which a company's value is impacted by environmental, social, and governance risks, by evaluating the company's ability to manage the ESG risks it faces.

1. A company's Exposure to material ESG issues 2. Unmanageable Risk refers to risks that are inherent to a particular business model that cannot be managed by programs or initiatives 3. Managed Risk = Manageable Risk multiplied by a Management score of 59.3% 4. Management Gap assesses risks that are not managed, but are considered manageable 5. ESG Risk Rating Assessment = Overall Unmanaged Risk = Management Gap plus Unmanageable Risk

ESG Risk Rating Assessment[5]

ESG Risk Rating is of Nov 06, 2024. Highest Controversy Level is as of Nov 08, 2024. Sustainalytics Subindustry: Enterprise and Infrastructure Software. Sustainalytics provides Morningstar with company ESG ratings and metrics on a monthly basis and as such, the ratings in Morningstar may not necessarily reflect current Sustainalytics' scores for the company. For the most up to date rating and more information, please visit: sustainalytics.com/esg-ratings/.

Peer Analysis 06 Nov 2024

Peers are selected from the company's Sustainalytics-defined Subindustry and are displayed based on the closest market cap values

Company Name	Exposure		Management		ESG Risk Rating	
Salesforce Inc	33.4 | Low	0 – 55+	59.3 | Strong	100 – 0	15.0 | Low	0 – 40+
Microsoft Corp	33.8 | Low	0 – 55+	62.2 | Strong	100 – 0	14.2 | Low	0 – 40+
Adobe Inc	32.0 | Low	0 – 55+	60.3 | Strong	100 – 0	14.1 | Low	0 – 40+
Oracle Corp	33.8 | Low	0 – 55+	61.0 | Strong	100 – 0	14.5 | Low	0 – 40+
Pegasystems Inc	38.9 | Medium	0 – 55+	40.5 | Average	100 – 0	24.2 | Medium	0 – 40+

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Appendix
Historical Morningstar Rating

CRM 3 Dec 2024 22:44, UTC

Dec 2024	Nov 2024	Oct 2024	Sep 2024	Aug 2024	Jul 2024	Jun 2024	May 2024	Apr 2024	Mar 2024	Feb 2024	Jan 2024
★★	★★	★★★	★★★	★★★	★★★	★★★	★★★★	★★★	★★★	★★★	★★★
Dec 2023	Nov 2023	Oct 2023	Sep 2023	Aug 2023	Jul 2023	Jun 2023	May 2023	Apr 2023	Mar 2023	Feb 2023	Jan 2023
★★★	★★★	★★★★	★★★★	★★★★	★★★	★★★	★★★	★★★★	★★★★	★★★★	★★★★
Dec 2022	Nov 2022	Oct 2022	Sep 2022	Aug 2022	Jul 2022	Jun 2022	May 2022	Apr 2022	Mar 2022	Feb 2022	Jan 2022
★★★★	★★★★	★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★
Dec 2021	Nov 2021	Oct 2021	Sep 2021	Aug 2021	Jul 2021	Jun 2021	May 2021	Apr 2021	Mar 2021	Feb 2021	Jan 2021
★★★★	★★★	★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★
Dec 2020	Nov 2020	Oct 2020	Sep 2020	Aug 2020	Jul 2020	Jun 2020	May 2020	Apr 2020	Mar 2020	Feb 2020	Jan 2020
★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★★	★★★★	★★★★	★★★★	★★★
Dec 2019	Nov 2019	Oct 2019	Sep 2019	Aug 2019	Jul 2019	Jun 2019	May 2019	Apr 2019	Mar 2019	Feb 2019	Jan 2019
★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★

ADBE 3 Dec 2024 22:40, UTC

Dec 2024	Nov 2024	Oct 2024	Sep 2024	Aug 2024	Jul 2024	Jun 2024	May 2024	Apr 2024	Mar 2024	Feb 2024	Jan 2024
★★★★	★★★★	★★★★	★★★★	★★★	★★★	★★★★	★★★★	★★★★	★★★★	★★★	★★★
Dec 2023	Nov 2023	Oct 2023	Sep 2023	Aug 2023	Jul 2023	Jun 2023	May 2023	Apr 2023	Mar 2023	Feb 2023	Jan 2023
★★★	★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★★	★★★★
Dec 2022	Nov 2022	Oct 2022	Sep 2022	Aug 2022	Jul 2022	Jun 2022	May 2022	Apr 2022	Mar 2022	Feb 2022	Jan 2022
★★★★	★★★★	★★★★	★★★★★	★★★★	★★★★	★★★★	★★★★★	★★★★★	★★★★	★★★★	★★★★
Dec 2021	Nov 2021	Oct 2021	Sep 2021	Aug 2021	Jul 2021	Jun 2021	May 2021	Apr 2021	Mar 2021	Feb 2021	Jan 2021
★★★★	★★★	★★★	★★★	★★	★★★	★★★	★★★	★★★	★★★★	★★★	★★★
Dec 2020	Nov 2020	Oct 2020	Sep 2020	Aug 2020	Jul 2020	Jun 2020	May 2020	Apr 2020	Mar 2020	Feb 2020	Jan 2020
★★★	★★	★★	★★	★	★★	★★	★★	★★★	★★★	★★★	★★★
Dec 2019	Nov 2019	Oct 2019	Sep 2019	Aug 2019	Jul 2019	Jun 2019	May 2019	Apr 2019	Mar 2019	Feb 2019	Jan 2019
★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★★	★★★★	★★★★

MSFT 3 Dec 2024 22:39, UTC

Dec 2024	Nov 2024	Oct 2024	Sep 2024	Aug 2024	Jul 2024	Jun 2024	May 2024	Apr 2024	Mar 2024	Feb 2024	Jan 2024
★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★	★★★	★★★	★★★	★★★	★★★
Dec 2023	Nov 2023	Oct 2023	Sep 2023	Aug 2023	Jul 2023	Jun 2023	May 2023	Apr 2023	Mar 2023	Feb 2023	Jan 2023
★★★	★★★	★★★★	★★★★	★★★	★★★	★★★	★★★	★★★	★★★★	★★★★	★★★★
Dec 2022	Nov 2022	Oct 2022	Sep 2022	Aug 2022	Jul 2022	Jun 2022	May 2022	Apr 2022	Mar 2022	Feb 2022	Jan 2022
★★★★	★★★★	★★★★	★★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★
Dec 2021	Nov 2021	Oct 2021	Sep 2021	Aug 2021	Jul 2021	Jun 2021	May 2021	Apr 2021	Mar 2021	Feb 2021	Jan 2021
★★★	★★★	★★★	★★★★	★★★	★★★★	★★★	★★★★	★★★	★★★★	★★★	★★★★
Dec 2020	Nov 2020	Oct 2020	Sep 2020	Aug 2020	Jul 2020	Jun 2020	May 2020	Apr 2020	Mar 2020	Feb 2020	Jan 2020
★★★	★★★	★★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★★	★★★★	★★★
Dec 2019	Nov 2019	Oct 2019	Sep 2019	Aug 2019	Jul 2019	Jun 2019	May 2019	Apr 2019	Mar 2019	Feb 2019	Jan 2019
★★★	★★★	★★★	★★★★	★★★★	★★★	★★★	★★★★	★★★	★★★	★★★★	★★★★

Morningstar Equity Analyst Report | Report as of 4 Dec 2024 02:42, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC.

ORCL 3 Dec 2024 22:39, UTC

Dec 2024 ★★★	Nov 2024 ★★★	Oct 2024 ★	Sep 2024 ★	Aug 2024 ★	Jul 2024 ★	Jun 2024 ★	May 2024 ★	Apr 2024 ★	Mar 2024 ★	Feb 2024 ★★	Jan 2024 ★★
Dec 2023 ★★	Nov 2023 ★	Oct 2023 ★	Sep 2023 ★	Aug 2023 ★	Jul 2023 ★	Jun 2023 ★	May 2023 ★	Apr 2023 ★	Mar 2023 ★	Feb 2023 ★★	Jan 2023 ★★
Dec 2022 ★★	Nov 2022 ★★	Oct 2022 ★★	Sep 2022 ★★★	Aug 2022 ★★	Jul 2022 ★★	Jun 2022 ★★★	May 2022 ★★	Apr 2022 ★★	Mar 2022 ★★	Feb 2022 ★★	Jan 2022 ★★
Dec 2021 ★	Nov 2021 ★	Oct 2021 ★	Sep 2021 ★	Aug 2021 ★	Jul 2021 ★	Jun 2021 ★★	May 2021 ★	Apr 2021 ★★	Mar 2021 ★★	Feb 2021 ★★	Jan 2021 ★★
Dec 2020 ★★	Nov 2020 ★★★	Oct 2020 ★★★	Sep 2020 ★★	Aug 2020 ★★★	Jul 2020 ★★★	Jun 2020 —	May 2020 ★★★	Apr 2020 ★★★	Mar 2020 ★★★	Feb 2020 ★★★	Jan 2020 ★★★
Dec 2019 ★★★	Nov 2019 ★★★	Oct 2019 ★★★	Sep 2019 ★★★	Aug 2019 ★★★	Jul 2019 ★★	Jun 2019 ★★	May 2019 ★★	Apr 2019 ★★	Mar 2019 ★★	Feb 2019 ★★	Jan 2019 ★★★

Research Methodology for Valuing Companies

Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, indepth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss shortterm market-price movements), but we believe these negatives are mitigated by deep analysis and our longterm approach.

Morningstar's equity research group ("we," "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our singlepoint star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

When considering a company's moat, we also assess whether there is a substantial threat of value destruction, stemming from risks related to ESG, industry disruption, financial health, or other idiosyncratic issues. In this context, a risk is considered potentially value destructive if its occurrence would eliminate a firm's economic profit on a cumulative or midcycle basis. If we deem the probability of occurrence sufficiently high, we would not characterize the company as possessing an economic moat.

2. Estimated Fair Value

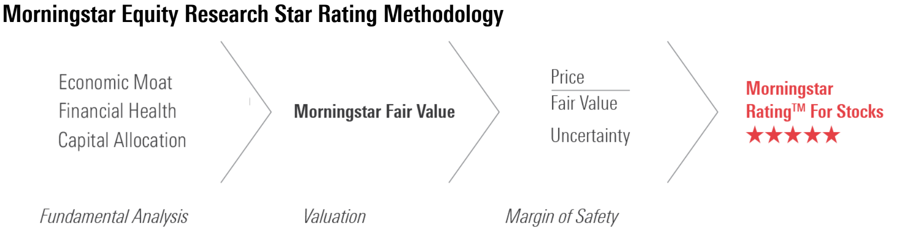
Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in workingcapital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Morningstar Equity Research Star Rating Methodology



Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty Around That Fair Value Estimate

Morningstar's Uncertainty Rating is designed to capture the range of potential outcomes for a company's intrinsic value. This rating is used to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating is aimed at identifying the confidence we should have in assigning a fair value estimate for a given stock.

Our Uncertainty Rating is meant to take into account anything that can increase the potential dispersion of future outcomes for the intrinsic value of a company, and any-

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thing that can affect our ability to accurately predict these outcomes. The rating begins with a suggested rating produced by a quantitative process based on the trailing 12-month standard deviation of daily stock returns. An analyst overlay is then applied, with analysts using the suggested rating, historical rating data, and their own knowledge of the company to inform them as they make the final Uncertainty Rating decision. Ultimately, the rating decision rests with the analyst. Analysts take into account many characteristics when making their final decision, including cyclical factors, operational and financial factors such as leverage, company-specific events, ESG risks, and anything else that might increase the potential dispersion of future outcomes and our ability to estimate those outcomes.

Our recommended margin of safety—the discount to fair value demanded before we'd recommend buying or selling the stock—widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the potential dispersion of outcomes, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the Uncertainty Rating provides guidance in portfolio construction based on risk tolerance.

Our Uncertainty Ratings are: Low, Medium, High, Very High, and Extreme.

	Margin of Safety	
Qualitative Analysis Uncertainty Ratings	★★★★★Rating	★Rating
Low	20% Discount	25% Premium
Medium	30% Discount	35% Premium
High	40% Discount	55% Premium
Very High	50% Discount	75% Premium
Extreme	75% Discount	300% Premium

Our uncertainty rating is based on the interquartile range, or the middle 50% of potential outcomes, covering the 25th percentile–75th percentile. This means that when a stock hits 5 stars, we expect there is a 75% chance that the intrinsic value of that stock lies above the current market price. Similarly, when a stock hits 1 star, we expect there is a 75% chance that the intrinsic value of that stock lies below the current market price.

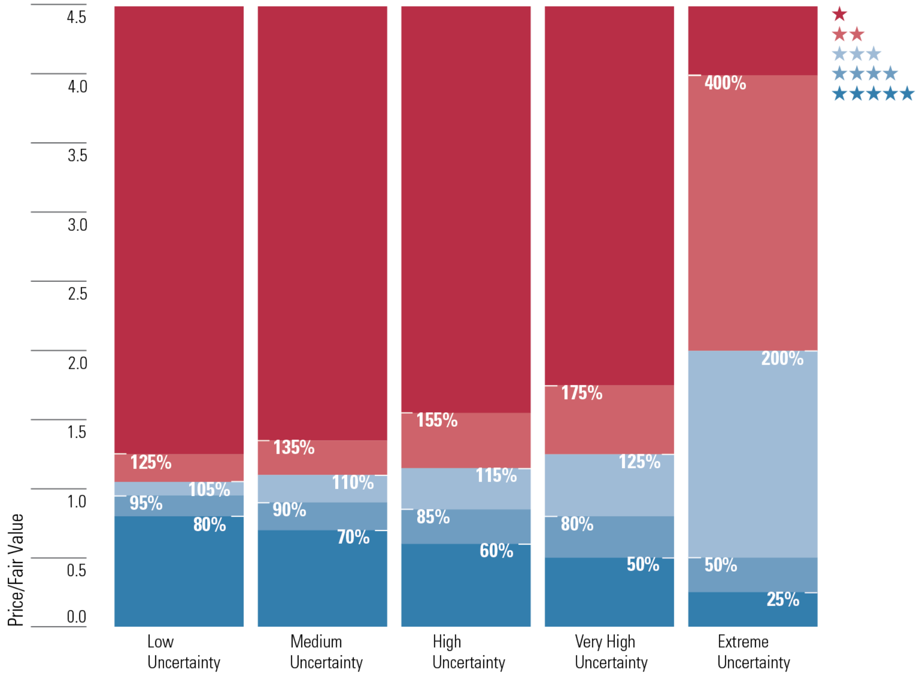
4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more details about our methodology, please go to https://shareholders.morningstar.com

Morningstar Star Rating for Stocks

Morningstar Equity Research Star Rating Methodology



Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

★★★★★ We believe appreciation beyond a fair risk adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

★★★★ We believe appreciation beyond a fair risk-adjusted return is likely.

★★★ Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

★★ We believe investors are likely to receive a less than fair risk-adjusted return.

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Capital Allocation Rating: Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments, and shareholder distributions. Analysts consider compan-

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ies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exemplary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

Capital Allocation (or Stewardship) analysis published prior to Dec. 9, 2020, was determined using a different process. Beyond investment strategy, financial leverage, and dividend and share buyback policies, analysts also considered execution, compensation, related party transactions, and accounting practices in the rating.

Capital Allocation Rating: Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments, and shareholder distributions. Analysts consider companies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exemplary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

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Sustainalytics ESG Risk Rating Assessment: The ESG Risk Rating Assessment is provided by Sustainalytics; a Morningstar company.

Sustainalytics' ESG Risk Ratings measure the degree to which company's economic value at risk is driven by environment, social and governance (ESG) factors.

Sustainalytics analyzes over 1,300 data points to assess a company's exposure to and management of ESG risks. In other words, ESG Risk Ratings measures a company's unmanaged ESG Risks represented as a quantitative score. Unmanaged Risk is measured on an open-ended scale starting at zero (no risk) with lower scores representing less unmanaged risk and, for 95% of cases, the unmanaged ESG Risk score is below 50.

Based on their quantitative scores, companies are grouped into one of five Risk Categories (negligible, low, medium, high, severe). These risk categories are absolute, meaning that a 'high risk' assessment reflects a comparable degree of unmanaged ESG risk across all subindustries covered.

The ESG Risk Rating Assessment is a visual representation of Sustainalytics ESG Risk Categories on a 1 to 5 scale. Companies with Negligible Risk = 5 Globes, Low Risk = 4, Medium Risk = 3 Globes, High Risk = 2 Globes, Severe Risk = 1 Globe. For more information, please visit sustainalytics.com/esg-ratings/

Ratings should not be used as the sole basis in evaluating a company or security. Ratings involve unknown risks and uncertainties which may cause our expectations not to occur or to differ significantly from what was expected and should not be considered an offer or solicitation to buy or sell a security.

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