

This Software Stock Signals a Buy

Shares of cloud software maker Salesforce (CRM) have gained more than 40% over the past three months. Outstanding financial performance and a bullish outlook, with growing AI integration, have recently driven investor sentiment around CRM. Hence, this software stock might be an ideal buy considering its promising growth prospects and high profitability. Keep reading...

Despite macroeconomic instability, the software industry has emerged as a colossal powerhouse in the global economy. The exponential surge in the quantity of enterprise data, coupled with the heightened automation of business operations across various end-use sectors, has spurred the demand for business software and services.

Furthermore, with the proliferation of Artificial Intelligence (AI) and machine learning technologies in software development, the software industry is poised to reap substantial benefits. Given the industry's prospects, Salesforce, Inc. (CRM) could be a noteworthy software stock to add to one's portfolio. Let us delve deeper into the reasons.

CRM is a customer relationship management platform. Its Customer 360 platform serves as a conduit that links customer data across various systems, applications, and devices. This integrated solution enables companies to sell, service, market, and conduct commerce virtually anywhere.

Amidst the pandemic, CRM underwent a rapid expansion, keeping pace with the skyrocketing adoption of cloud technology. The company's strategic acquisitions of Slack and Tableau also contributed to its growth trajectory.

Cloud software maker CRM delivered impressive results for its

fourth quarter and full fiscal year. “For the full year we delivered \$31.4 billion in revenue, up 18% year-over-year, or 22% in constant currency, one of the best performances of any enterprise software company our size,” said Marc Benioff, CRM’s Chairman, and CEO.

“We closed FY23 with operating cash flow reaching \$7.1 billion, up 19% year-over-year, the highest cash flow in our company’s history, and one of the highest cash flows of any enterprise software company our size,” he added.

CRM’s relentless focus on execution and proactive management of the current macro environment enabled the company to close out a strong year and position it for continued solid growth in fiscal 2024.

CRM’s revenue is expected to be in the range of \$8.16-\$8.18 billion for the first quarter and \$34.5-\$34.7 billion for the fiscal year 2024. The company also expects non-GAAP earnings per share to be between \$1.60 and \$1.61 for the first quarter and \$7.12 and \$7.14 for the full year.

Shares of CRM have gained 16.7% over the past month and 44.8% over the past three months to close the last trading session at \$188.68. Moreover, the stock is trading higher than its 50-day and 200-day moving averages of \$167.61 and \$161.45, respectively.

Let’s delve deeper into the factors that render CRM a compelling prospect for investment.

Positive Latest Developments

On March 7, 2023, CRM transformed the CRM technology landscape with Einstein GPT, the world’s first generative AI CRM technology. This innovation employs generative AI to revolutionize the customer experience by delivering AI-generated content at a hyper-scale throughout all sales, service, marketing, commerce, and IT interactions.

Additionally, the company announced the Generative AI Fund, a \$250 million investment fund from Salesforce Ventures, its global investment arm. The fund aims to support the startup ecosystem, back high-potential businesses, and promote the development of trustworthy, generative AI. This move could prove beneficial for the company amid the burgeoning AI craze.

Also, on January 12, CRM unveiled a suite of new advancements designed to help retailers optimize and enhance their advertising sales, obtain a comprehensive view of transactions across both online and offline stores, and extract value from customer data. Implementing these innovations could empower retailers and drive the company's performance forward.

Robust Financials

For the fiscal 2023 fourth quarter that ended January 31, CRM's total revenues increased 14.4% year-over-year to \$8.38 billion. Its gross profit grew 18.3% from the year-ago value to \$6.28 billion. Also, the company's non-GAAP income from operations rose 123.3% from the prior year's period to \$2.45 billion.

Moreover, CRM's non-GAAP net income increased 96.4% year-over-year to \$1.66 billion, while non-GAAP EPS rose 100% from the previous year's quarter to \$1.68. Furthermore, as of January 31, 2023, CRM's cash and cash equivalents stood at \$7.02 billion, compared to \$5.46 billion as of January 31, 2022.

Favorable Analyst Estimates

Analysts expect CRM's revenue to increase 10.4% year-over-year to \$34.62 billion for the fiscal year ending January 2024. The company's EPS for the current year is expected to rise 36% from the prior year's period to \$7.13. Also, CRM surpassed its consensus revenue and EPS estimates in all four trailing quarters, which is impressive.

Furthermore, the company's revenue and EPS for the next fiscal

year (ending January 2025) are expected to grow 11.2% and 22.4% year-over-year to \$38.50 billion and \$8.72, respectively.

High Profitability

CRM's trailing-12-month gross profit margin of 73.34% is 46.2% higher than the 50.17% industry average. Its trailing-12-month EBITDA margin of 17.34% is 75.8% higher than the 9.9% industry average. Likewise, the stock's trailing-12-month levered FCF margin of 32.60% is 436.4% higher than the industry average of 6.08%.

Furthermore, CRM's trailing-12-month cash from operations of \$7.11 billion is significantly higher than the \$39.76 million industry average. And its trailing-12-month CAPEX/Sales of 2.55% compares to the industry average of 2.44%.

POWR Ratings Show Promise

CRM's solid fundamentals are reflected in its POWR Ratings. The stock has an overall rating of B, which equates to Buy in our proprietary rating system. The POWR Ratings are calculated by taking into account 118 different factors, with each factor weighted to an optimal degree.

Our proprietary rating system also evaluates each stock based on eight distinct categories. CRM has an A grade for Growth and Sentiment, consistent with its robust financials and favorable analyst expectations.

In addition, the stock has a B grade for Quality, consistent with its higher-than-industry profitability. CRM is ranked #19 out of 134 stocks in the Software – Application industry. [Click here](#) to access CRM's Value, Momentum, and Stability ratings.

[View all the top stocks in the Software – Application industry here.](#)

Bottom Line

CRM's revenue has experienced a remarkable surge over the past three years, growing at a CAGR of 22.4%. Also, the company's EBITDA and net income have increased at CAGRs of 27.9% and 18.2% over the same period, respectively.

The company's commitment to implementing cutting-edge technological solutions for its clients has been instrumental in its remarkable success in recent years. Furthermore, it is positioned for significant growth and expansion in the fiscal year 2024, driven by increased AI adoption.

Given CRM's robust financial performance, solid growth prospects, and high profitability, this software stock could be an ideal investment now.

How Does Salesforce, Inc. (CRM) Stack up Against Its Peers?

CRM has an overall rating of B, equating to a Buy. Check out these other stocks within the Software – Application industry with an A (Strong Buy) rating: Commvault Systems, Inc. (CVLT), Progress Software Corporation (PRGS), and IBEX Ltd (IBEX).

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3 Stocks to DOUBLE This Year

CRM shares were trading at \$188.76 per share on Wednesday afternoon, up \$0.09 (+0.05%). Year-to-date, CRM has gained 42.36%, versus a 4.68% rise in the benchmark S&P 500 index during the same period.

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Aanchal's passion for financial markets drives her work as an investment analyst and journalist. She earned her bachelor's degree in finance and is pursuing the CFA program. She is proficient at assessing the long-term prospects of stocks with her fundamental analysis skills. Her goal is to help investors build portfolios with sustainable returns.

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