

Salesforce.com Does Well for Itself in Fiscal Q1

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Salesforce.com ups its earnings guidance for a full year based on fiscal first quarter 2008 results.

On-demand software provider Salesforce.com announced its fiscal first quarter 2008 earnings that highlighted a 42 percent increase in net paying customers and a \$0.1 profit on earnings per share.

The company posted first-quarter net income of \$730,000, which amounted to the penny-per-share profit, compared with a net loss of \$229,000 or break even per share, in the same year ago quarter.

Total revenues for the quarter were \$162.4 million, an increase of 55 percent on a year-over-year basis, and an increase of 13 percent on a quarter-over-quarter basis. Subscription and support revenues were \$147.7 million, an increase of 56 percent from the same quarter last year, and an increase of 12 percent from the fiscal fourth quarter, 2007.

Salesforce.com also pulled in \$14.7 million in professional services for the quarter, an increase of 44 percent from the same year-ago quarter, and up 21 percent from the last quarter. The company's Q1 cash flow is topped at \$37 million - more than double than any other quarter in the company's history and a good indication of the company's long-term ability to generate cash, according to Marc Benioff, chairman and CEO of Salesforce.com.

"The momentum for our industry-leading on-demand applications and

platform was truly global in our fiscal first quarter, as large enterprises around the world entrusted their futures to Salesforce," said Benioff, during an analyst call following the quarter's earnings release.

"Just two quarters ago we were the first on-demand company to cross the significant threshold of a \$500 million annual revenue run rate. Now we have surpassed the \$600 million run rate - another step closer to our \$1 billion goal."

Salesforce.com also added about 2,500 new paying customers for the quarter, upping the full customer roster to 32,000 companies, an increase of 42 percent from the same year-ago period, and an 8 percent increase from the prior quarter.

The largest customer Salesforce.com announced this quarter is Japan Post, the Japanese Postal Services that is transitioning from a government-owned entity to a privately run company.

"Japan Post is the clear centerpiece of the quarter," said Benioff. "It's Japan's largest bank and its traditional mail carrier. It's 5,000 subscribers will use Salesforce to help sell financial products to its vast customer base."

Benioff said the deal is also a clear signal that the entire Japanese IT market is on board with on-demand software. Other customers gained in the quarter include Cannon, Saber Travel, Houghton Mifflin and CA.

Saber and Houghton Mifflin signed deals for 5,000 and 4,000 seats respectively - a far cry from Salesforce.com's banner deal with Merrill Lynch last quarter that brought 25,000 subscribers to the Salesforce fold.

It's not clear from the earnings call or press release how many subscribers Salesforce added for the quarter. Wedbush Morgan

Securities analyst Michael Nemeroff estimated in his before-the-call research note that Salesforce could pull in 65,000 subscribers for the quarter - a good deal less than the 90,000 subscribers added in Q4.

Nemeroff advises clients to buy shares of Salesforce.com. "Our long-term thesis is that the company is poised to lead the paradigm shift toward on-demand computing through the AppExchange platform and continued innovation," writes Nemeroff in his May 16 research note.

"Despite the looming entrance of Microsoft and the recent entrance of Oracle and SAP in the competitive on-demand software market, we believe that significant opportunity still exists for CRM as the technology leader."

Benioff, well known for his verbose and meandering answers to questions about the company, said he also believes Salesforce will remain the leader to distant followers Microsoft, SAP and Oracle.

"We are able to point to customers that have signed up to 25,000 users, 15,000 users. A year ago we were not at that level. That just brings more prospects and more excitement," said Benioff. "That's why [SAP chairman] Hasso Plattner, [Microsoft CEO] Steve Ballmer and [Oracle CEO] Larry Ellison are responding to us. We're in their pipeline."

In light of its quarter profits, Salesforce raised its guidance for the coming year. The company is projecting revenues to be between \$722 million and \$728 million, with earnings between \$0.07 to \$0.09 cents per share.

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