

# Salesforce shares soaring on cloud computing craze

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(AP) -- A hot high-tech concept known as "cloud computing" is lifting Salesforce.com Inc.'s stock to lofty heights.

The shares rocketed more than 18 percent Friday after Salesforce issued a strong third-quarter earnings report and an optimistic management forecast that persuaded several analysts that the stock is bound to climb even higher. As it is, Salesforce in nearly 6 1/2 year as a public company is proving to be more fruitful than high-tech darling Google Inc.

The fervor surrounding Salesforce has been swelling during the past year because the company appears to be sitting in a sweet spot as more businesses and government agencies change the way they buy and use software.

After years of paying huge upfront fees to install and maintain applications on individual computers in their offices, more companies are embracing the idea of subscribing to software that can be accessed from any machine with an Internet connection. The trend is becoming so popular that it has been tagged with the catchphrase "[cloud computing](#)" to replace its more geeky shorthand of "SaaS, an abbreviation of "software as a service."

The transition has enriched and vindicated Salesforce CEO Marc Benioff, who faced widespread ridicule when he started the company 11 years ago on the presumption that the old way of installing software made by the likes of Microsoft Corp., [Oracle Corp.](#) and SAP was

doomed. Skeptics abounded at the time, contending that businesses would never be willing to trust a vendor to run their critical programs and applications on computers far away from their own premises.

But now Salesforce is seen as being ahead of the curve, as [Microsoft](#), Oracle and SAP all scramble to build their own online subscription services. At the end of its latest quarter, Salesforce boasted 87,200 customers, including personal computer manufacturer Dell Inc. and health insurer Kaiser Permanente.

Wall Street has become so enamored with Salesforce that its stock is outshining Internet search leader Google, a much more renowned company that went public just two months after Salesforce did in 2004.

A \$10,000 investment in Salesforce's June 2004 initial public offering would now be worth \$124,000 after Friday's surge left shares with a gain of 85 percent so far this year. A \$10,000 investment in Google's August 2004 IPO would be worth about \$70,000.

Even Google has latched on to some of Salesforce's ideas as it tries to expand its own cloud computing service. Google now offers a suite of word processing, spreadsheet and calendar programs in hopes of luring people away from Microsoft's Office bundle of applications. Salesforce and Google have also teamed up on some cloud computing projects.

[Google](#) remains the far larger company with more than 23,000 employees and revenue expected to approach \$30 billion this year. Salesforce employs about 5,000 people and is on track for about \$1.7 billion in revenue in its fiscal year, which ends in January. Salesforce stirred excitement late Thursday when it topped off the release of better-than-expected third-quarter earnings with a prediction that its revenue for the year ending in January 2012 would reach \$2 billion for the first time.

Salesforce shares soared \$20.97, or 18.1 percent, Friday to close at \$136.74 after hitting a new record high of \$137.31 earlier in the session. The run-up has left Salesforce with an exceptionally high price-to-earnings, or "p/e," ratio, a wildly used yardstick for sizing up a company's value. Based on its projected earnings for fiscal 2012, Salesforce's p/e is 90; Google's is 18. An extremely high p/e ratio sometimes signals investors are becoming irrationally exuberant about a company's prospects, but most analysts don't seem to believe that's what's happening with Salesforce.

Benioff, 46, has relied on some of the marketing skills that he picked up while working at Oracle to win over potential customers and investors. He's a protege of Oracle CEO Larry Ellison, who has blended a flair for the dramatic with technological savvy and ruthless negotiating tactics to build his software empire. Ellison was among Salesforce's early investors and served on the company's board until Benioff fired him because he thought his former boss was stealing secrets to help Oracle develop a competing product.

Ellison also is the largest shareholder in another cloud computing service, NetSuite Inc., which competes with Salesforce.

Investors are now betting NetSuite will also prosper from the cloud computing craze: NetSuite shares gained \$2.57, or nearly 12 percent, to close Friday at \$24.57.

Ellison recently has been publicly criticizing Salesforce, something he has done to other companies that Oracle has ended up buying. A suitor interested in making a bid would have to have deep pockets, as Oracle does, because Salesforce's market value now stands at \$15 billion.

With Salesforce flying high, Benioff's stake in the company is now worth about \$1.4 billion. The fortune has allowed Benioff to build a

huge home in Hawaii, where he says he likes to swim with dolphins to clear his mind. Although Salesforce has its headquarters in San Francisco, Benioff sometimes runs the company from Hawaii, using high-definition videoconferencing technology.

One of Benioff's latest ideas has been focused on building a business version of Facebook's social networking tools. That effort appears to be paying off as 60,000 Salesforce customers use a new tool called "Chatter." Although Chatter is free, analysts believe its popularity will make workers even more reliant on Salesforce's money-making services that help companies manage their customer relationships.

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