Business Combinations Analysis Project

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Introduction

COMPETITION

Salesforce and Microsoft have been competing against each other in the collaboration and CRM industry for the past decade. Microsoft added pressure by acquiring LinkedIn. Salesforce responded with similar acquisitions.

DIFFERENTIATION

To differentiate themselves further, Salesforce acquired Slack, the target at around $27.7 billion in valuation in comparison to the software services industry has been rapidly growing during this time, with a Year on Year growth of 37% (Gartner Inc.)

THE DEAL

Slack stockholders were to recieve a cash and stock combination for the merger. The deal was $26.79 in cash, and 0.0776 shares of Salesforce common stock per Slack share. The merger was aimed at enhancing collaboration tools, driving digital transformation, and leveraging synergies with Salesforce's CRM

Salesforce' Vision

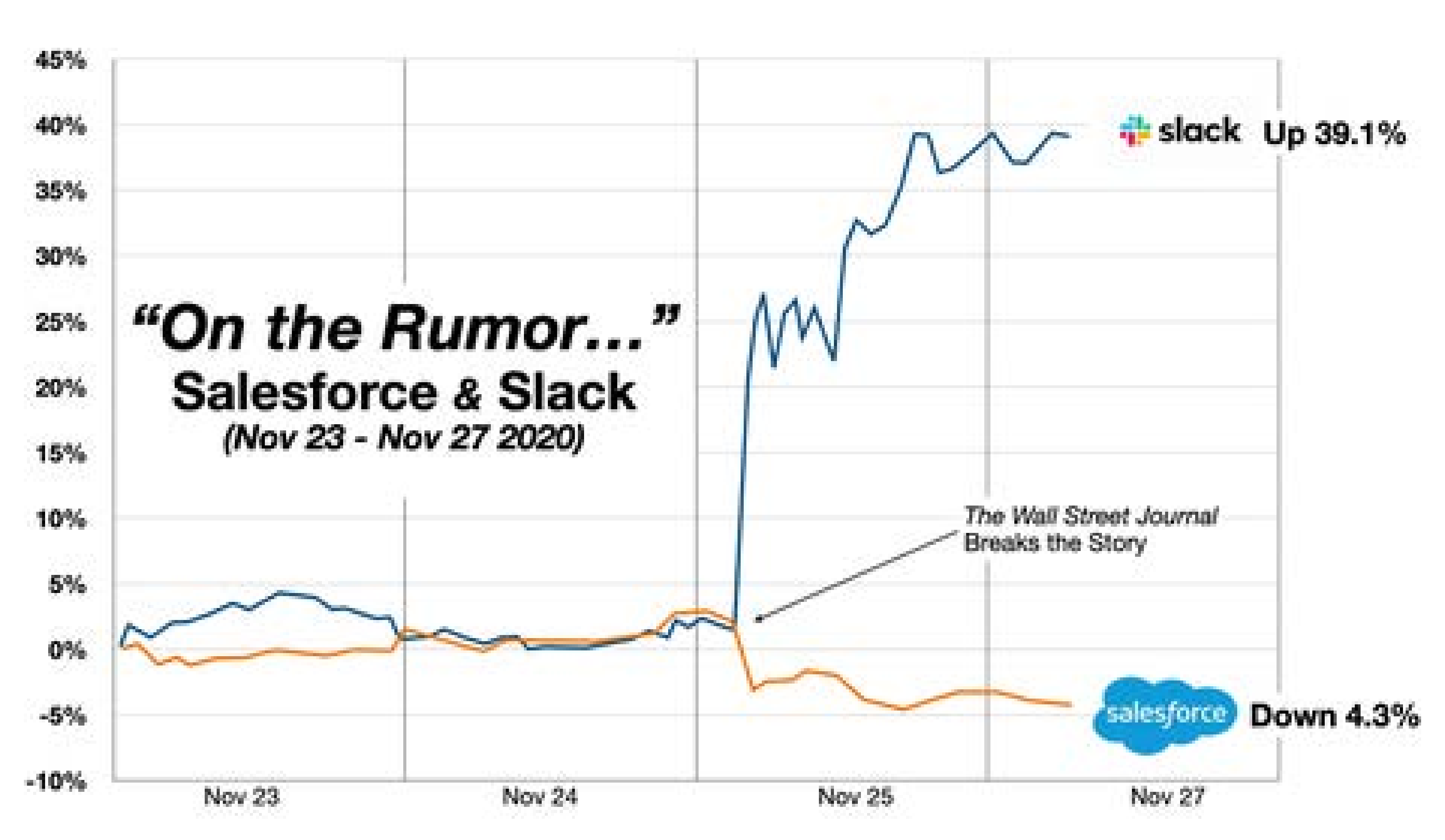
- Salesforce' motive for acquiring Slack was to diversify its strategy and use Slack as a CRM interface software, and to integrate it into their new Salesforce Customer 360 platform.
- Salesforce new platform would serve companies seeking a digital transformation.
- Slack's open platform could easily integrate with 2,400 apps, allowing people from all types of organizations and companies to be connected.
- Salesforce hoped that the impact of the merger would result in future growth opportunities by combining products with existing Salesforce ecosystems.

Stock Market Analysis

Initial acquisition rumor - Nov 25, 2020

As news of the acquisition unfolded, the market had different reactions.

- Slack's stock surge in stock price from $28 to $40, as investors anticipated an upcoming buyout.
- Salesforce's stock saw a decrease from $260 to $246. Consistent with other acquirer and acquiree stocks in the Tech sectors as perceived threats increase stock volatility.
- At this time, the movement in the S&P 500 saw growth of 3550 to 3592. Suggesting Salesforce decrease in price was due to acquisition rumors rather than market changes



Official Announement Date December 1, 2020

Concerns of high integretion costs of Slack

Bidder pressure from competition with Microsoft

55% premium paid, causing Salesforce stock to drop from $241 to $220

Date	Salesforce (CRM)	Slack	S&P 500 (^GSPC)
2020-11-20	258	28	3550
2020-11-24	260	29	3592
2020-11-25	246	33	3627
2020-12-01	241	43	3662
2020-12-02	220	42	3670
2020-12-10	222	42	3691

Post Acquisition

- The acquisition was closed on July 20, 2021 at which point Slack's stock was no longer listed on the stock exchange.
- In the months following the close of the transactions, Salesforce stock rallied to a record high of $300 in November 2021.
- However, high inflation and high interest rates in 2022 pushed the stock to a low of $130 in December. Attribution to macroeconomic trends rather than a poor decision in the acquisition of slack.

Salesforce Response

- In response to the low stock price in 2022, the company initiated large-scale layoffs in 2023 as well as investment into the new and popular artificial intelligence as well as into their Slack integration platform. This propelled the stock to prices higher than in 2022 but still not quite as high as pre-2022 times.

Accounting Analysis

Acquisition overview: Salesforce acquired Slack through a two-step merger using two wholly owned subsidiaries: Skyline Strategies I, Inc. and Skyline Strategies II, LLC.

Structure:

Skyline I merged into Slack and Slack survived as a wholly owned Salesforce subsidiary.

Slack then merged into Skyline II and renamed Slack Technologies, LLC.

Result: Slack became an indirect, wholly owned subsidiary of Salesforce at closing.

Accounting treatment: The transaction was accounted for as a business combination under ASC 805, requiring Salesforce to recognize Slack's identifiable assets and liabilities at fair value as of the acquisition date and include Slack in consolidated financial statements.

Consideration

Item	FV
Cash	$ 15,799.00
Common stock	$ 11,064.00
Fair value of stock options, restricted stock units and restricted stock awards assumed	$ 205.00
Total	**$ 27,068.00**

01 Funding

Cash portion financed with cash on hand + new debt, including $8.0B bonds (June 2021) and a $10B 364-day bridge loan was arranged but not fully used.

02 Equity

Stock portion funded via new Salesforce share issuance to Slack holders.

03 Post-close

Slack became an operating unit of Salesforce and retained its CEO and core management/operations.

AAP and Adjustments

Assets	Slack book value ($m)	Fair value ($m)	FV adjustment ($m)	
Cash and cash equivalents	$ 1,332.60	$ 1,508.00	$ 175.40	
Accounts receivable	$ 141.50	$ 97.00	$ (44.50)	
Acquired customer contract asset	$ -	$ 70.00	$ 70.00	
Operating lease right-of-use assets	$ 212.50	$ 208.00	$ (4.50)	
Intangible assets	$ 16.20	$ 6,350.00	$ 6,333.80	
Goodwill (purchase accounting)	$ -	$ 21,161.00	$ 21,161.00	
Other assets	$ 719.50	$ 405.00	$ (314.50)	
Total assets	**$ 2,422.30**	**$ 29,799.00**	**$ 27,376.70**	
Liabilities				
Accounts payable, accrued expenses and other liabilities	$ 100.00	$ 186.00	$ 86.00	
Unearned revenue	$ 515.80	$ 382.00	$ (133.80)	
Operating lease liabilities	$ 255.50	$ 283.00	$ 27.50	
Slack Convertible Notes	$ 662.20	$ 1,339.00	$ 676.80	
Deferred tax liability	$ -	$ 541.00	$ 541.00	
Total liabilities	**$ 1,533.50**	**$ 2,731.00**	**$ 1,197.50**	
Net Assets	**$ 888.80**	**$ 27,068.00**	**$ 26,179.20**	AAP

Asset	FV Allocated	Useful life
Developed technology	$ 2,360.00	5 years
Customer relationships	$ 3,690.00	8 years
Other purchased intangible assets	$ 300.00	6 years
Total	**$ 6,350.00**	

Context for Financial Performance

Market Dynamics	• Post Covid (2020-2021) demand increase in cloud expansion • 2022-2023 tightened spending on IT
Competitive Landscape	• Microsoft Teams' bundling with office 365
Cost Management	• FY23-FY24 restructuring and cost discipline
Non-Operational Effects	• Slack related goodwill and intangibles mechanically drove down ROA and ROE

Key Financial Metrics

	2020	2021	2022	2023	2024
Gross Margin	87.7%	85.6%	83.2%	82.6%	84.2%
Operating Margin	3.1%	1.4%	3.1%	3.2%	1.3%
Rev. Growth	28.7%	24.3%	24.6%	18.3%	11.2%
ROA	3.9%	3.7%	1.4%	4.2%	38.7%

Did Salesforce Realize Expected Acquisition Benefits?

Expectation	Reality
Achieve revenue synergies through cross selling	Short term lift without long term acceleration
Improve operating leverage	Did not materialize until restructuring
Enhance long term efficiency	Efficiency declined before it leveled out after restructuring

Conclusion

- EXPANDED PRODUCT ECOSYSTEM
- FINANCIAL GROWTH
- MACRO - ECONOMIC TRENDS