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JWI 531: Financial Management II

Assignment 3

Assignment 3: Financial Statement Analysis

Due: Sunday, Midnight of Week 9 (20% of Final Grade)

Overview

For executives and senior management, financial analysis should be an ongoing pursuit of competitive advantage with the analysis of variances used to gauge whether the corporate strategy is working. There is always one more set of data that can be dissected, one more ratio that can be calculated, one more way to look at the competitive landscape and the opportunities/threats the market presents. Some of the best investments and some of the best strategic moves are made by those who pushed a little further and looked for angles that others had missed.

Our final assignment in the course continues to ask you to use judgment in applying what you have learned about financial statement analysis in this and in previous courses. All financial managers and investors (not to mention, students) must operate in the real world of limited time and resources. You are being given the responsibility to make an informed decision about *which metrics are most important* in analyzing the financial health of Salesforce.com and its potential as an investment opportunity.

Format

This assignment is to be submitted in the form of a letter from an “activist shareholder.” Remember, all investors are actually owners of the company. While it is true that most take little to no action in attending annual meetings or exercising voting rights, some investors secure a large ownership stake in the company and use that leverage to attempt to guide the direction of management.

In this assignment, you are taking on the role of an educated investor (which you now are) who owns a “significant” number of shares in Salesforce.com. You are writing an open letter to the Board of Directors with your suggestions for change. The letter may be positive or negative in tone, but the purpose is to highlight key financial data and urge management to take certain actions.

Your letter must clearly state your reasons for reaching out to the Board, your rationale for buying the stock, and your recommendations for changes going forward.

Instructions

To prepare for your letter to the Board:

- Read sections from the **Salesforce.com: 2016 Annual Report**, which is available in Weeks 8 and 9 of your online course. The sections to read are: “Selected Financial Data” (starting on page 36) and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” (starting on page 38).
- Review sections from the analyst report, also found in your online course: “**May the Force be With You: Wide-Moat Salesforce.com is the Newest Software Empire**”. The sections to review are: “The Economics of SaaS and Salesforce.com’s Valuation” (starting on page 34), and “Appendix” financial data (starting on page 44).

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- Additional valuation and financial data are available on the Morningstar website, at <http://www.morningstar.com/stocks/XNYS/CRM/quote.html>
- You should also use the **Financial Statement Analysis Checklist** and the **Value Investing and Growth Investing Checklist** provided in your online course

Use the prompts below to help you write your letter:

1. **Begin with a brief recap of your reasons for buying the stock.**
 - Explain why you consider Salesforce.com to be a value stock or a growth stock. Support your position with reference to at least two categories from the Value Investing Checklist and two categories from the Growth Investing Checklist
2. **Summarize key product-specific metrics** (see Morningstar Appendix), noting:
 - What the ratios (EPS, EBITDA, ROE, ROIC and RONIC) in the Morningstar and Annual Report show
 - What ratios need to improve and why
 - What Salesforce.com most profitable products and services are
 - Which products or services management should increase or reduce investment in and why (be sure to consider market competition and risk in your comments).
3. **Conclude your letter with an explanation of your opinion about the** company. based on what you have learned about economic moats and your analysis of values, growth and profitability of Salesforce.com,
 - Is Salesforce.com a “great moat” company, a “good moat” company, or is it time to divest? Why did you come to this conclusion?

Submission Requirements

- Assignment is written in the form of an “open letter.” Include the date, your name, etc. and address it to your JWI 531 professor, who will act as the Board Member accepting your letter
- Submitted in MS Word format, and letter is no longer than 5 double-spaced pages (12 pt font)
- Written in appropriate business style, well formatted, and grammatically correct
- Make use of charts and tables where possible, to make it easy to draw readers’ attention to the most important numbers
- Wrap up with a strong closing statement that summarizes your view of the future for Salesforce.com

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RUBRIC: Assignment 3

| CRITERIA | Unsatisfactory | Low Pass | Pass | High Pass | Honors |
|--|---|--|---|---|--|
| 1. Writing and Organization Weight: 20% | Has significant grammatical errors, does not follow required format and/or omits key components | Has minor grammatical errors, is awkwardly written or lacking clear organization | Assignment is free from grammatical errors and follows required format; material is presented in logical style with clear transitions | Plus, makes use of varied writing elements such as full paragraphs, bullets and charts | Plus, is written in a style that demonstrates commitment and passion of the author and delivers a compelling and inspiring message |
| 2. Analysis of Financial Ratios and Key Metrics Weight: 40% | Accurate and well-reasoned analysis of 1 or fewer of the five required ratios | Accurate and well-reasoned analysis of 2 of the five required ratios | Accurate and well-reasoned analysis of 3 of the five required ratios | Accurate and well-reasoned analysis of 4 of the five required ratios | Accurate and well-reasoned analysis of all of the five required ratios |
| 3. Product Strategy Recommendation Weight: 20% | Strategic recommendation is missing or not persuasive | Portions of the strategic plan are persuasive | The strategic plan is reasonable but lacks support for some or all recommendations | Recommendations are clear, reasonable and well-supported | The strategic plan is compelling with clear and new insights into ways to strengthen the moat |
| 4. Investment Recommendation Weight: 20% | Investment recommendation is missing or unclear | Investment recommendation is clear, but lacks sufficient summary rationale | Investment recommendation is clear and includes supporting rationale | Plus, presents a clear position on which sort of investor (value or growth) should be most attracted to the stock | Plus, includes additional consideration of market risks or opportunities that could impact performance |

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