

NEW RISK ALERT: (CRM)

Salesforce Earned \$860 Million in 2020, Not \$4 Billion

Non-operating items overstate Salesforce's net income 373%.

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This alert compares the language used in the company's latest filing with the period before. [Research](#) suggests changes in language, particularly in the risk factor section, is a powerful indicator of future performance. Companies that change filing language, according to research, underperform those that don't by 30-50 basis points per month for the following year.

Salesforce Overstates Earnings by More Than \$3 Billion

In the fiscal year ending January 31, 2021, Salesforce, an enterprise cloud customer relationship management (CRM) software provider, disclosed net income significantly distorted by non-operating and one-time items. Our analysis reveals these items resulted in Salesforce overstating core earnings by more than \$3 billion, or 373%.

In its 2020 [10-K](#), Salesforce revealed that like a handful of other technology companies, it shuffled some of its IP property among foreign affiliates to realize a significant tax benefit:

*"In fiscal 2021, the Company changed its international corporate structure, which included the transfer of certain intangible property to Ireland resulting in a **net tax benefit of \$2.0 billion** related to foreign deferred tax assets."*

The deferred tax assets were recognized as a result of the book and tax basis difference on the intangible property and were based on the intangible property's current fair value. The deferred tax asset and the tax benefit were measured based on the current tax rate in Ireland.

Salesforce Nets IPO Windfall

Separately, Salesforce invests in private and publicly traded companies. During FY21, two of Salesforce's strategic investments, including Snowflake, completed initial public offerings. These two investments alone have netted Salesforce a \$1.7 billion in unrealized gains as of January 31, 2021.

In FY21, Salesforce reported net income of \$4.07 billion. Without the one-time tax benefit associated with the IP property transfer— which was offset by the release of a valuation allowance— Salesforce’s net income would have been \$2.56 billion. If we back out the \$1.7 billion unrealized gain from Salesforce’s unrealized equity investment gains— Salesforce’s net income was just \$860 million, or \$0.92 per diluted share instead of \$4.38 per diluted share.