AMERICAS TECHNOLOGY: SOFTWARE

Braze is differentiated technology; Salesforce questions will center on stack integration and expanding the TAM

Gabriela Borges, CFA
+1(212)902-7839 |
gabriela.borges@gs.com
Goldman Sachs & Co. LLC

Callie Valenti
+1(212)357-2790 |
callie.valenti@gs.com
Goldman Sachs & Co. LLC

Selina Zhang
+1(212)357-9979 |
selina.zhang@gs.com
Goldman Sachs & Co. LLC

Before market open on 10/20, Salesforce announced its plans to acquire Braze (BRZE, covered by Callie Valenti) for $5.66B in EV. Salesforce will pay $47.50 in cash per share (~58% premium vs. 10/19 closing price, 5.3x FY28 EV/Sales and 42x FY28 EV/FCF based on consensus data), with the transaction expected to close in FY28. Braze serves ~2,770 customers and uses real-time data to power personalized interactions between consumers and brands, and its technology will be integrated into Salesforce's key marketing modules and front office SKUs (Data 360, Customer 360, Agentforce, and SIForce). We have covered Braze since the IPO in 2021: we think it is a truly differentiated technology asset because of its focus on real-time datapoint feedback loops and its flagship mobile app tools (e.g. for push notifications), and these building blocks likely become more important with agents. There are two key risks: not compromising Braze's real-time performance by introducing bottlenecks in dataflow in the process of integrating and de-duplicating functionality; and expanding Braze's TAM beyond premium, sophisticated brands. Recall our 3 step playbook to evolve from a SaaS leader to an AI leader: clean up tech debt, accelerate product innovation (organic and inorganic), and figure out monetization. We are constructive on the speed at which Salesforce is moving through this playbook and the quality of most of its acquisition targets (Fin, Qualified, and Braze stand out in our view), and look to a potential inflection in Marketing cloud ~12 months following Braze integration. In the meanwhile, datapoints in SIForce and customer upgrades will be key.

Our View

- **Braze's differentiation lies in its real-time architecture.** We have covered Braze since the IPO in 2021. Recall that Braze's founding team had prior experience in high frequency trading systems at Bridgewater, and built Braze's back end architecture with a focus on throughput. This enables Braze to process an extremely high number of datapoints real time, in order to drive hyper personalized marketing (such as a push notification for a $1 burger when within a 100 ft radius of a burger joint). Based on our industry conversations, it has been very hard for competitors to replicate Braze's core tech functionality, in part because trying to layer on real-time functionality on database technology that is built for completeness (not speed) drives bottlenecks on data flow. To us, this is the key question on technology integration: how can Salesforce integrate Braze's

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real-time stack into its stack (which is already a combination of organic and acquired technology) without compromising Braze's performance? In general, we think executing on integration will be important: customers must ultimately be pitched and receive a seamless marketing technology experience, which is we think is particularly hard when there is some degree of duplication in the functionality that each of the two companies provide.

- **The longstanding debate around Braze has been whether the TAM is too narrow – can Salesforce broaden the TAM?** Braze is a premium solution: while the company has built out its platform, its flagship product is for mobile apps; and there are only so many brands in the world that are strong enough to take up real estate on a consumer's phone, let alone be permitted to send push notifications. Feedback from SIs post COVID also suggested that the technology was sometimes too sophisticated for customers to use and engage with fully; Braze has been investing in training and enablement and user engagement features for several years to address this. More recently, investors have debated whether personal agents could limit the marketing campaign opportunity by enabling consumers to mass unsubscribe from marketing communications. We view Braze as well positioned in this debate given its diversified engagement channels and MAU based pricing model, which reduce reliance on any single communication channel.
- **We view Braze as part of Salesforce's broader effort to reinvigorate Marketing Cloud and are constructive on the strategic rationale, though it is too early to underwrite an inflection.** We think speed of innovation is important in 2026: SaaS leaders for many years faced limited disruption potential, and as such, pace of innovation slowed for many. Today, we think both organic R&D and acquisitions are levers to drive change: rather than incubate next-gen technology in house, we think it makes sense to have the VC community fund next-gen startups, and that leaders like Salesforce can then evaluate which of these start ups have good product-market-fit. Recent examples of these include the Qualified, Fin, and Contentful acquisitions. Now, with Braze, we believe Salesforce may be closer to presenting a truly next-gen stack to customers (our expected time line is ~12 months post the Braze close, to give Salesforce time to integrate fully), provided it can execute on the dynamics we outline above (no performance degradation, seamless integration, broadening of TAM).

Valuation and Key Risks

We maintain our Buy rating and 12-month price target of $271 on CRM, based on a 24x P/E multiple to Salesforce's SNTM GAAP net income.

Key downside risks include: 1) Changes in the competitive environment, 2) Lower or slower adoption of Agentforce vs. expectations, 3) M&A that could cause near-term business disruption, and 4) Greater than expected investments that cou
margins.

We are Not Rated on Braze.

