Oracle Corporation (ORCL)

Updated May 18th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$46	**5 Year CAGR Estimate:**	8.8%	**Quality Percentile:**	N/A
Fair Value Price:	$46	**5 Year Growth Estimate:**	7.3%	**Momentum Percentile:**	N/A
% Fair Value:	101%	**5 Year Valuation Multiple Estimate:**	-0.1%	**Total Return Percentile:**	N/A
Dividend Yield:	1.6%	**5 Year Price Target**	$65	**Valuation Percentile:**	

Overview & Current Events

Oracle is an IT company that provides software, hardware and services. Its offerings include applications, platforms and infrastructure technologies (Cloud Software), hardware products such as servers, hardware-related software products (e.g. operating systems) and services such as consultation & education. Oracle was founded in 1977, is headquartered in Redwood City, CA, and is valued at $190 billion.

Oracle's most recent quarterly results were announced on March 19. The company reported earnings per share of $0.83, an increase of 20% year over year. The company also reported revenues of $9.7 billion, an increase of six percent over the prior year's quarter. Oracle's guidance for the current quarter shows revenue growth of 1% to 3% and earnings per share in a range of $0.92 to $0.95.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$1.30	$1.44	$1.67	$2.22	$2.46	$2.68	$2.87	$2.77	$2.61	$2.74	***$3.15***	***$4.48***
DPS	-	$0.05	$0.20	$0.20	$0.24	$0.30	$0.48	$0.51	$0.60	$0.64	***$0.76***	***$1.35***

Oracle recorded very compelling growth rates in the 2008-2014 time frame, its earnings per share grew every year, and the average year over year growth rate was 14% -- despite the financial crisis that took place during that time. Profits peaked in 2014, though, and in the following years Oracle did not manage to grow its net earnings further.

This period was when Oracle had to refocus its operations as the whole software industry was moving towards the megatrend of cloud computing, but it looks like Oracle has successfully managed to direct its operations towards the cloud, as growth has accelerated again and profits will very likely come in at a new record level this year.

During the most recent quarter Oracle recorded a 32% cloud revenue growth rate (driven primarily by Cloud SaaS growth of 33%), for the next quarter Oracle has forecasted a cloud revenue growth rate in the low 20s. Oracle isn't operating a cloud business as large as the ones of Amazon or Microsoft, but Oracle could become a key player in this market in the foreseeable future. Infrastructure as a Service as well as Platform as a Service are markets that are growing at a fast pace, and Oracle's CEO Catz has pointed out that the underlying growth rate for Oracle's IaaS and PaaS offerings was 56% during the most recent quarter.

Oracle is also positively impacted by rising margins, as the company managed to keep its expenses relatively flat recently whilst revenues continued to grow. This operating leverage is somewhat typical for software focused companies whose offerings do not come with high production costs, but where costs are primarily incurred in R&D. Despite a high amount of new shares being issued to employees and management, Oracle's share count has been declining over the last couple of years thanks to billions of dollars being spent on share repurchases. This drives EPS growth further, and thanks to strong cash flows Oracle should be able to continue to reduce its share counts in the future.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	15.8	13.1	13.7	13.0	12.0	12.0	12.5	15.1	14.8	15.0	***14.6***	***14.5***
Avg. Yld.	-	0.3%	0.9%	0.7%	0.8%	0.9%	1.3%	1.2%	1.6%	1.6%	***1.6%***	***2.1%***

Oracle has been valued at relatively inexpensively during the 2008-2014 time frame, despite its strong growth rates during those years. More recently shares got a little bit more expensive, as investors began to anticipate the positive impact of a strategic shift towards cloud computing (at a time when earnings did not yet grow as it took a couple of years for the cloud investments to pay off). Right now Oracle is valued almost exactly in line with its historic average & median earnings multiples.

Oracle's dividend yield isn't high at all, at 1.6% it is even slightly lower than the S&P 500's yield of 1.9%. Oracle has, however, grown its dividend by 20% annually over the last five years, which is a very strong dividend growth rate. If the company keeps the dividend growth rate at a high level over the next couple of years, it could turn into an income investment a couple of years down the road.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2023**
GP/A	36.8%	39.0%	34.3%	37.0%	37.2%	36.4%	34.3%	27.7%	26.4%	22.4%	***23.0%***	***24.0%***
Debt/A	51.2%	47.0%	49.4%	45.3%	43.7%	44.9%	47.4%	55.7%	57.4%	59.8%	***60.0%***	***60.0%***
Int. Cov.	20.9	24.1	14.2	18.9	25.7	26.2	22.5	17.6	13.9	13.4	***13.0***	***12.0***
Payout	-	3.5%	12.0%	9.0%	9.8%	11.2%	16.7%	18.4%	23.0%	23.4%	***24.1%***	***30.1%***
Std. Dev.	29.0%	30.4%	28.6%	30.7%	19.9%	18.1%	16.5%	14.6%	16.1%	15.3%	***19.0%***	***18.0%***

Oracle's gross profits to assets ratio has been falling relatively consistently over the last decade, which, at first sight, is not positive at all – even though the ratio is still at a respectable level. This trend is not based on falling gross profits, though, gross profits have actually almost doubled over the last ten years. Oracle's asset base has been growing even faster. This is in part due to cash building up on the company's balance sheet. Oracle couldn't access its offshore cash easily in the past, which is why the company has taken on debt to finance shareholder returns and acquisitions. This, in turn, has led to a rising debt to assets ratio, but since a lot of that debt is covered by cash holdings the company is not overleveraged at all. Oracle's interest coverage has been in the double digits throughout the last decade, which shows that debt levels are in no way at a problematic level.

In the cloud business Oracle is competing with giants such as Microsoft, but luckily this is a very high-growth industry. Demand from customers is so high that many different players can grow their revenues at an attractive pace without the need to steal market share from competitors. In its non-cloud business Oracle has a wide moat with its existing customer base, as switching to competitors is very costly and requires a lot of effort.

Final Thoughts & Recommendation

Oracle's shares are inexpensive and offer a solid growth outlook. Oracle is not the biggest cloud player, but keeps growing at an attractive pace in this segment, and has the cash flows to invest heavily for future growth. The stock is currently trading around fair value. Oracle is a solid hold at current prices. If its valuation multiple declines enough to push total returns into the double-digit range, Oracle would likely enter buy territory.

Total Return Breakdown by Year