Oracle Corporation (ORCL)

Updated September 19th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$49	**5 Year CAGR Estimate:**	8.9%	**Volatility Percentile:**	27.0%
Fair Value Price:	$49	**5 Year Growth Estimate:**	7.3%	**Momentum Percentile:**	34.3%
% Fair Value:	100%	**5 Year Valuation Multiple Estimate:**	0.0%	**Valuation Percentile:**	60.6%
Dividend Yield:	1.6%	**5 Year Price Target**	$70	**Total Return Percentile:**	57.9%

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 $194 billion.

Oracle has reported its first quarter (fiscal 2019) earnings results on September 17. The company earned $0.71 per share during Q1, an increase of 19% in constant currency. Revenues were up by 1% year over year, driven by cloud services growth. The company has announced a new $12 billion share repurchase authorization during the earnings call.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$1.44	$1.67	$2.22	$2.46	$2.68	$2.87	$2.77	$2.61	$2.74	$3.05	***$3.38***	***$4.81***
DPS	$0.05	$0.20	$0.20	$0.24	$0.30	$0.48	$0.51	$0.60	$0.64	$0.76	***$0.84***	***$1.35***
Shares	5.01B	5.03B	5.07B	4.91B	4.65B	4.46B	4.34B	4.13B	4.14B	4.00B	***3.90B***	***3.65B***

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.

Oracle is not 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 has been around 50% in recent quarters. Oracle Fusion ERP and Oracle's Autonomous Database are touted by management has future growth drivers due to compelling pricing and top-tier technology.

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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	13.1	13.7	13.0	12.0	12.0	12.5	15.1	14.8	15.0	15.4	***14.5***	***14.5***
Avg. Yld.	0.3%	0.9%	0.7%	0.8%	0.9%	1.3%	1.2%	1.6%	1.6%	1.5%	***1.6%***	***2.1%***

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

Oracle has been valued 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. Right now Oracle is valued almost exactly in line with its historic median. Oracle's dividend yield of just 1.6% is not attractive, Oracle does not look like a compelling pick for income investors.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
GP/A	39.0%	34.3%	37.0%	37.2%	36.4%	34.3%	27.7%	26.4%	22.4%	23.1%	***23.3%***	***24.0%***
Debt/A	47.0%	49.4%	45.3%	43.7%	44.9%	47.4%	55.7%	57.4%	59.8%	66.4%	***64.0%***	***60.0%***
Int. Cov.	24.1	14.2	18.9	25.7	26.2	22.5	17.6	13.9	13.4	18.1	***17.5***	***16.0***
Payout	3.5%	12.0%	9.0%	9.8%	11.2%	16.7%	18.4%	23.0%	23.4%	24.9%	***24.9%***	***28.1%***
Std. Dev.	30.4%	28.6%	30.7%	19.9%	18.1%	16.5%	14.6%	16.1%	15.3%	20.4%	***19.0%***	***18.0%***

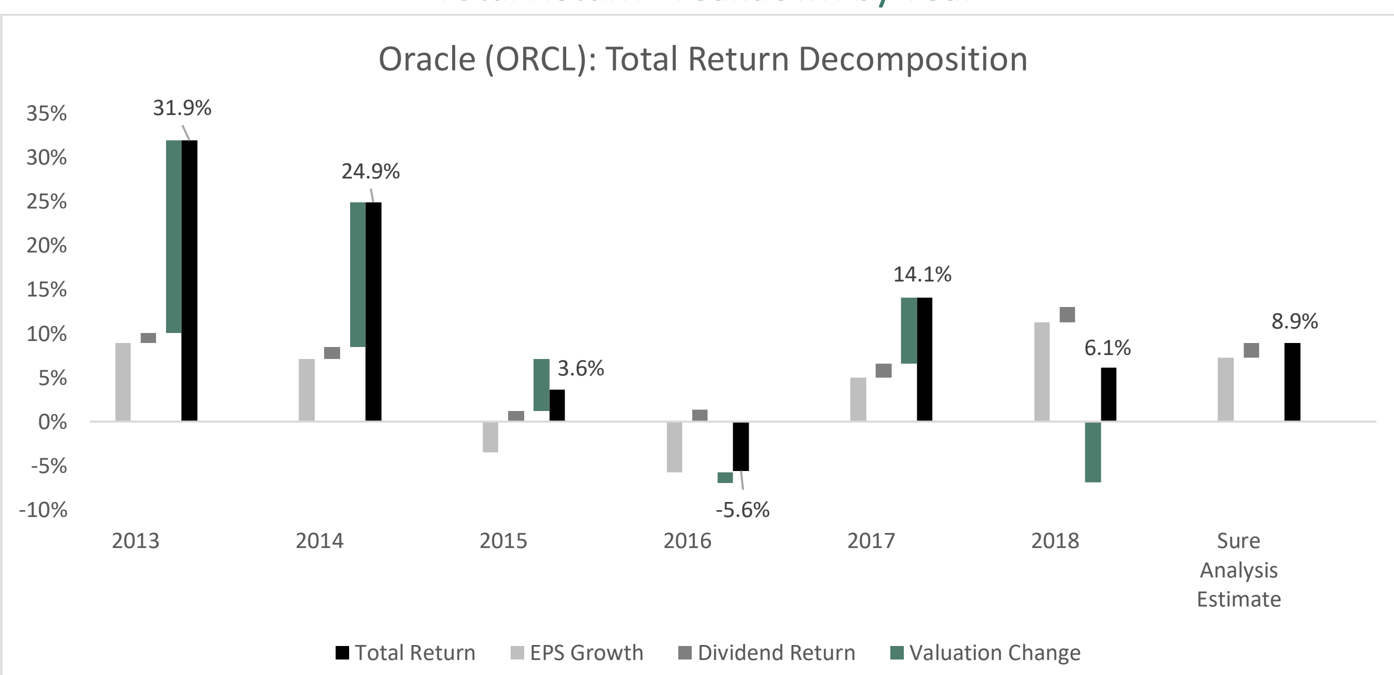
Oracle's gross profits to assets ratio has been falling relatively consistently over the last decade. This trend is not based on falling gross profits, though, as gross profits have actually almost doubled over the last ten years. Oracle's asset base has just been growing even faster, due to cash building up on the company's balance sheet. Oracle could not access its offshore cash in the past, which is why the company has taken on debt to finance shareholder returns. This, has led to a rising debt to assets ratio, but since a lot of that debt is covered by cash the company is not overleveraged at all.

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 is an IT giant that has produced solid earnings growth in recent quarters. This will likely remain the case going forward, partially driven by a strong pace of share repurchases. Its cloud outlook is not bad, and Oracle keeps generating ample cash flows. Its dividend yield is not attractive, though, and shares are not looking undervalued. We therefore rate Oracle a hold right here. Shares would be a potential buy at a lower valuation.

Total Return Breakdown by Year



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