Oracle Corporation (ORCL)

Updated December 20th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$46	**5 Year CAGR Estimate:**	9.9%	**Volatility Percentile:**	23.5%
Fair Value Price:	$48	**5 Year Growth Estimate:**	7.3%	**Momentum Percentile:**	59.6%
% Fair Value:	95%	**5 Year Valuation Multiple Estimate:**	1.0%	**Growth Percentile:**	70.7%
Dividend Yield:	1.6%	**5 Year Price Target**	$70	**Valuation Percentile:**	47.8%
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Total Return Percentile:**	43.8%

Overview & Current Events

Oracle is an information technology 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 currently trades with a market capitalization of $176 billion.

Oracle reported its second quarter (fiscal 2019) earnings results on December 17. The company was able to generate revenues of $9.56 billion during the second quarter, which represents a marginal 0.3% decline versus the prior year's quarter. Oracle's management explained that the revenue miss was based on adverse currency movements. At constant currency rates, Oracle would have been able to grow its top line by 2% compared to the prior year's quarter. Oracle reported earnings-per-share of $0.80 for the second quarter, which was 14% more than Oracle's earnings-per-share during the second quarter of fiscal 2018. Oracle grew its profits meaningfully despite generating no revenue growth. A lower tax rate and a substantial decrease in Oracle's share count due to share repurchases over the last year were the most important growth driver for its net earnings.

Oracle's guidance for its fiscal third quarter and the remainder of fiscal 2019 was positive. The company sees some revenue acceleration during H2. Management sees organic revenue growth of 2% to 4% during Q3, although forex rates will likely impact results negatively again. Oracle nevertheless sees further profit growth. The company forecasts earnings-per-share of $0.86 to $0.88 for the current quarter, which is above the analyst consensus of $0.84.

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	5.01	5.03	5.07	4.91	4.65	4.46	4.34	4.13	4.14	4.00	***3.82***	***3.65***

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 earnings-per-share further. This period was when Oracle had to refocus its operations, as the whole software industry was moving towards the megatrend of cloud computing. It looks like Oracle has successfully managed to direct its operations towards the cloud, as earnings 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 its peers Amazon or Microsoft, but Oracle could become a key player in this market in the foreseeable future nevertheless. 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 as 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 while organic/currency-neutral revenues continue to grow. Despite a high amount of new shares being issued to

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employees and management, Oracle's share count has been declining over the last couple of years, thanks to billions of dollars that Oracle spends on share repurchases. This drives the company's earnings-per-share growth further, and thanks to strong cash flows Oracle should be able to continue to reduce its share count 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	***13.8***	***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%***	***1.9%***

Oracle trades at a relatively inexpensive valuation of slightly below 14 times this year's earnings. We believe that shares are fairly valued at a slightly higher earnings multiple. Expansion towards our fair value estimate of a 14.5 times earnings multiple would result in a small tailwind for Oracle's total returns. Investors get a below-average dividend yield of 1.6% from Oracle at current prices.

Safety, Quality, Competitive Advantage, & Recession Resiliency

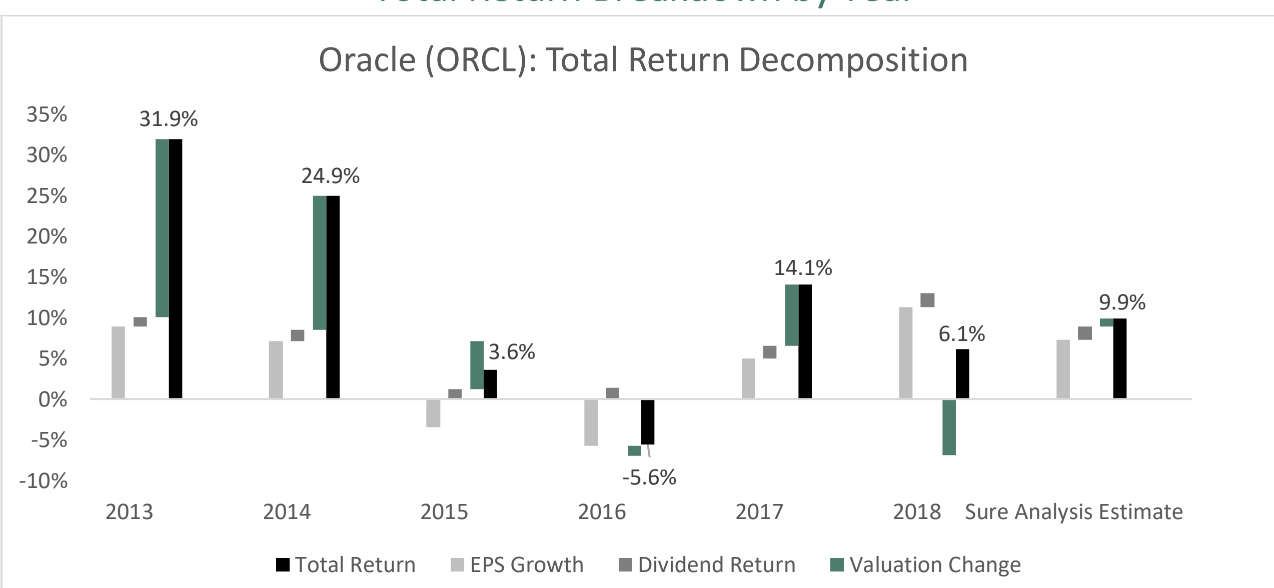
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	3.5%	12.0%	9.0%	9.8%	11.2%	16.7%	18.4%	23.0%	23.4%	24.9%	***24.9%***	***28.1%***

Oracle has a relatively high liabilities to assets ratio of 74%, but its balance sheet is nevertheless not leveraged too much. Less than half of its liabilities consist of long-term debt, the remainder is made up by items such as deferred revenues or deferred taxes, and Oracle's cash position is still quite large, at $50 billion at the end of the second quarter.
Oracle's dividend payout ratio has risen over the last decade, but it is still very low. The dividend looks safe, especially as Oracle has strong recession performance – even during a downturn its profits would likely not decline overly much.

Final Thoughts & Recommendation

Oracle is a large IT company that is moving into the cloud business. It will likely not become a player that is as large as Microsoft or Amazon in this space, but due to a large addressable market Oracle will nevertheless be able to generate significant profits. Shares look marginally undervalued at the current valuation, we rate Oracle a buy at current prices.

Total Return Breakdown by Year



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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.

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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	23252	26820	35622	37121	37180	38275	38226	37047	37728	39831
Gross Profit	18458	21056	27224	29126	29801	31039	30694	29568	30259	31750
Gross Margin	79.4%	78.5%	76.4%	78.5%	80.2%	81.1%	80.3%	79.8%	80.2%	79.7%
SG&A Exp.	5423	5991	7549	8116	8134	8605	8732	9039	9373	9720
D&A Exp.	1976	2271	2796	2916	2931	2908	2861	2509	2451	2785
Operating Profit	8555	9838	12728	14057	14432	14983	14289	13104	13276	14319
Op. Margin	36.8%	36.7%	35.7%	37.9%	38.8%	39.1%	37.4%	35.4%	35.2%	35.9%
Net Profit	5593	6135	8547	9981	10925	10955	9938	8901	9335	3825
Net Margin	24.1%	22.9%	24.0%	26.9%	29.4%	28.6%	26.0%	24.0%	24.7%	9.6%
Free Cash Flow	7726	8451	10764	13095	13574	14341	13189	12496	12105	13650
Income Tax	2241	2108	2864	2981	2973	2749	2896	2541	2182	9066

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets ($B)	47.42	61.58	73.54	78.33	81.81	90.27	110.90	112.18	134.99	137.26
Cash & Equivalents	8995	9914	16163	14955	14613	17769	21716	20152	21784	21620
Acc. Receivable	4430	5585	6628	6377	6049	6087	5618	5385	5300	5279
Inventories	N/A	259	303	158	240	189	314	212	N/A	N/A
Goodwill & Int.	26111	29746	29413	33018	33983	35789	40493	39533	50724	50425
Total Liabilities	22326	30379	33290	34240	36667	42819	61805	64390	80745	91040
Accounts Payable	271	775	494	438	419	471	806	504	599	529
Long-Term Debt	10238	14655	15922	16474	18494	24097	41958	43855	57909	60619
Total Equity	25090	30798	39776	43688	44648	46878	48663	47289	53860	45726
D/E Ratio	0.41	0.48	0.40	0.38	0.41	0.51	0.86	0.93	1.08	1.33

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	11.8%	11.3%	12.7%	13.1%	13.6%	12.7%	9.9%	8.0%	7.6%	2.8%
Return on Equity	23.2%	22.0%	24.2%	23.9%	24.7%	23.9%	20.8%	18.6%	18.5%	7.7%
ROIC	16.1%	15.1%	16.8%	17.1%	17.6%	16.2%	12.2%	9.7%	9.2%	3.5%
Shares Out.	5.01	5.03	5.07	4.91	4.65	4.46	4.34	4.13	4.14	4.00
Revenue/Share	4.53	5.29	6.95	7.29	7.68	8.31	8.49	8.61	8.95	9.40
FCF/Share	1.51	1.67	2.10	2.57	2.80	3.11	2.93	2.90	2.87	3.22

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.