# Oracle Corporation (ORCL)

*Updated March 19th, 2019 by Jonathan Weber*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $53 | **5 Year CAGR Estimate:** | 7.5% | **Volatility Percentile:** | 23.1% |
| **Fair Value Price:** | $50 | **5 Year Growth Estimate:** | 7.0% | **Momentum Percentile:** | 49.4% |
| **% Fair Value:** | 107% | **5 Year Valuation Multiple Estimate:** | -1.3% | **Growth Percentile:** | 66.0% |
| **Dividend Yield:** | 1.8% | **5 Year Price Target** | $70 | **Valuation Percentile:** | 39.8% |
| **Dividend Risk Score:** | B | **Retirement Suitability Score:** | C | **Total Return Percentile:** | 39.0% |

## 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 $192 billion.

Oracle reported its most recent quarterly results, for fiscal Q3, on March 14. The company announced that it generated revenues of $9.61 billion during the quarter, which represents a decline of 0.7% versus the prior year's quarter. This was still more than what the analyst community forecasted, however, as the analyst consensus called for an even bigger decline in Oracle's revenues. The majority of Oracle's revenues were generated in the Cloud segment, which contributed $6.7 billion to the company's top line, whereas hardware sales and services revenues totaled $920 million and $790 million, respectively. Oracle generated earnings-per-share of $0.87 during the quarter, which was ahead of analyst estimates, and which represents a growth rate of 4.8% versus the prior year's Q3 earnings-per-share of $0.83. Oracle guides for earnings-per-share of $1.05 to $1.09 during the fourth quarter.

Oracle raised its dividend to $0.24 per quarter in March, which was a 26% dividend increase versus the prior level.

## 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 | ***$3.43*** | ***$4.81*** |
| **DPS** | $0.05 | $0.20 | $0.20 | $0.24 | $0.30 | $0.48 | $0.51 | $0.60 | $0.64 | $0.76 | ***$0.96*** | ***$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 2009-2014 time frame. Its earnings-per-share grew every year, and the average year-over-year growth rate was 14.8%, 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 it 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 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 number 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 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.

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## 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 | ***15.5*** | ***14.5*** |
| **Avg. Yld.** | 0.3% | 0.9% | 0.7% | 0.8% | 0.9% | 1.3% | 1.2% | 1.6% | 1.6% | 1.5% | ***1.8%*** | ***1.9%*** |

Oracle's share price has risen from the $40s, where shares traded throughout most of the last year, to above $50, which has made its valuation rise considerably. As a result, shares do not look overly expensive on an absolute basis, but they trade above the median valuation and our fair value estimate. We believe that multiple compression will be a bit of a headwind over the coming years, mostly offset by the dividend yield of 1.8%.

## 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% | ***28.0%*** | ***28.1%*** |

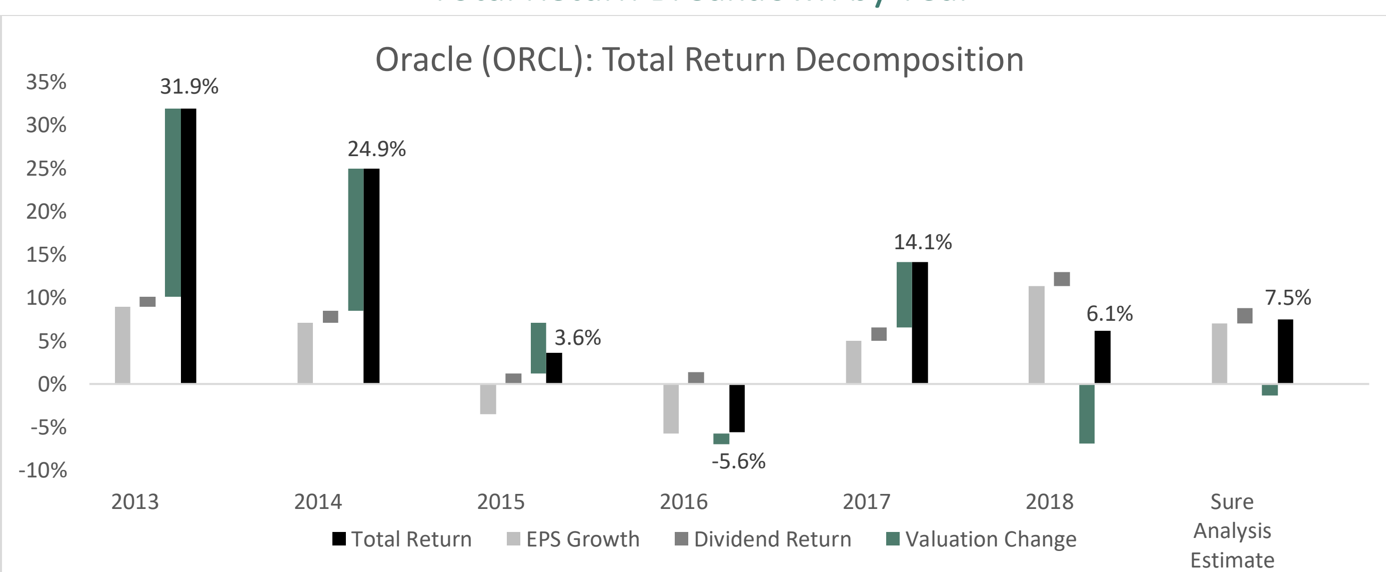
Oracle's dividend payout ratio was extremely low a decade ago, but since then the payout ratio has risen relatively consistently. At roughly 28%, the payout ratio is quite manageable, though, and there is still a lot of room for further dividend increases. Due to the low payout ratio and the fact that the company was not overly impacted during the last financial crisis, Oracle's dividend is rated very safe.

Oracle was not hurt during the last recession, and it is likely that future economic downturns will not have an overly negative impact on the company, either. Oracle has some size and scale advantages over smaller peers, although it is itself a smaller player versus peers such as Microsoft in the cloud computing industry. Thanks to strong market-wide growth rates, all companies in this field can grow at the same time.

## Final Thoughts & Recommendation

Oracle keeps moving towards the cloud, and thanks to strong cost controls, its profits continue to rise even though revenues are not growing, which, in turn, can mostly be explained by adverse currency movements. Oracle should produce record profits during 2019, while shareholder returns remain at a high level. Right now, shares trade above our fair value estimate, which is why we rate Oracle a hold.

## 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 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|---|
| 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 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|---|
| 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 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|---|
| 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.*