Oracle Corporation (ORCL)

Updated June 30th, 2019 by Jonathan Weber

Key Metrics

Current Price:	$57	**5 Year CAGR Estimate:**	8.4%	**Volatility Percentile:**	23.5%
Fair Value Price:	$56	**5 Year Growth Estimate:**	7.0%	**Momentum Percentile:**	89.5%
% Fair Value:	102%	**5 Year Valuation Multiple Estimate:**	-0.3%	**Growth Percentile:**	66.6%
Dividend Yield:	1.7%	**5 Year Price Target**	$79	**Valuation Percentile:**	48.8%
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Total Return Percentile:**	42.2%

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 $190 billion.

Oracle reported its most recent quarterly results, for its fiscal fourth quarter, on June 19. The company announced that it generated revenues of $11.1 billion during the quarter, which represents an increase of 1.2% versus the prior year's quarter. This was more than what the analyst community forecasted, as the analyst community expected a decline in Oracle's top line. The majority of Oracle's revenues were generated in the Cloud segment, which contributed roughly two thirds to Oracle's top line during fiscal 2019, or $26.7 billion in total.

Oracle generated earnings-per-share of $1.16 during the fourth quarter, which was easily ahead of analyst estimates, and which represents a growth rate of 17% versus the prior year's fourth quarter earnings-per-share of $0.99. Oracle also easily beat its own guidance for the fourth quarter, as management had expected earnings-per-share of ~$1.07.

Oracle continues to generate strong cash flows, cash from operations totaled $14.6 billion during fiscal 2019.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$1.67	$2.22	$2.46	$2.68	$2.87	$2.77	$2.61	$2.74	$3.05	$3.52	***$3.88***	***$5.44***
DPS	$0.20	$0.20	$0.24	$0.30	$0.48	$0.51	$0.60	$0.64	$0.76	$0.81	***$0.96***	***$1.35***
Shares	5.03	5.07	4.91	4.65	4.46	4.34	4.13	4.14	4.05	3.50	***3.40***	***3.10***

Oracle recorded very compelling growth rates in the 2010-2014 time frame. Its earnings-per-share grew every year, and the average year-over-year growth rate was 14.5% during that time frame. 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, while earnings-per-share hit a new record level during fiscal 2019.

Oracle is not operating a cloud business as large as its peers Amazon or Microsoft, but it could still 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 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	13.7	13.0	12.0	12.0	12.5	15.1	14.8	15.0	15.4	14.5	***14.7***	***14.5***
Avg. Yld.	0.9%	0.7%	0.8%	0.9%	1.3%	1.2%	1.6%	1.6%	1.5%	1.9%	***1.7%***	***1.7%***

Oracle's share price has risen from the $40s, where shares traded throughout parts of the last year, to the high $50s, but at the same time its earnings grew meaningfully as well. Shares are trading at a mid-teens earnings multiple that is relatively in line with our fair value estimate. We believe that multiple compression will not be a major headwind over the coming years. The dividend yield of 1.7% is roughly as high as that of the broad market.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	12.0%	9.0%	9.8%	11.2%	16.7%	18.4%	23.0%	23.4%	24.9%	22.8%	***24.7%***	***24.8%***

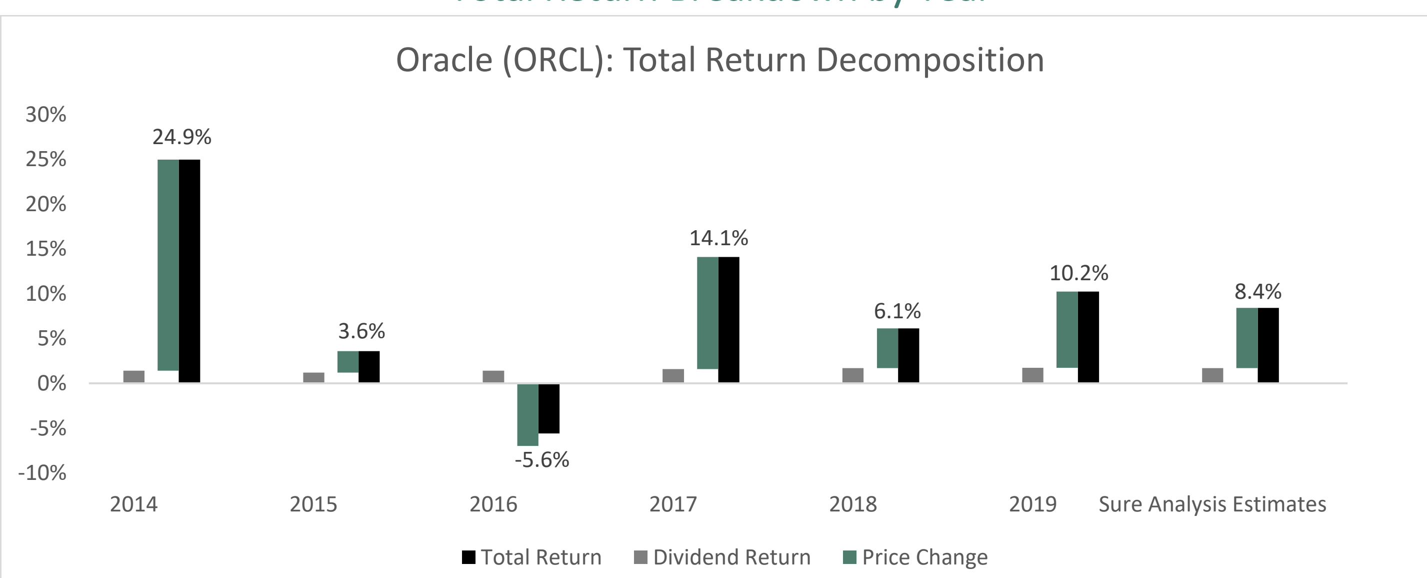
Oracle's dividend payout ratio was extremely low a decade ago, but since then the payout ratio has risen relatively consistently. At roughly 25%, the payout ratio is quite manageable, though, and there is still a lot of room for further dividend increases. Due to the low payout ratio and the fact that 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 large 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's shift towards cloud computing continues. The company does not grow its revenues at a fast pace, but thanks to strong cost controls, its profits continue to rise at a highly compelling pace. Oracle generated record profits during 2019, and shareholder returns remain at a high level, although the focus is on buybacks, not dividends. Right now, shares trade marginally 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	26820	35622	37121	37180	38275	38226	37047	37792	39383	39506
Gross Profit	21056	27224	29126	29801	31039	30694	29568	30340	31323	31511
Gross Margin	78.5%	76.4%	78.5%	80.2%	81.1%	80.3%	79.8%	80.3%	79.5%	79.8%
SG&A Exp.	5991	7549	8116	8134	8605	8732	9039	9257	9715	9774
D&A Exp.	2271	2796	2916	2931	2908	2861	2509	2451	2785	2919
Operating Profit	9838	12728	14057	14432	14983	14289	13104	13479	13904	14022
Op. Margin	36.7%	35.7%	37.9%	38.8%	39.1%	37.4%	35.4%	35.7%	35.3%	35.5%
Net Profit	6135	8547	9981	10925	10955	9938	8901	9452	3587	11083
Net Margin	22.9%	24.0%	26.9%	29.4%	28.6%	26.0%	24.0%	25.0%	9.1%	28.1%
Free Cash Flow	8451	10764	13095	13574	14341	13189	12496	12105	13650	12891
Income Tax	2108	2864	2981	2973	2749	2896	2541	2228	8837	1185

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets ($B)	62	74	78	82	90	111	112	135	138	109
Cash & Equivalents	9914	16163	14955	14613	17769	21716	20152	21784	21620	20514
Acc. Receivable	5585	6628	6377	6049	6087	5618	5385	5300	5136	5134
Inventories	259	303	158	240	189	314	212			
Goodwill & Int.	29746	29413	33018	33983	35789	40493	39533	50724	50425	49058
Total Liabilities	30379	33290	34240	36667	42819	61805	64390	80745	90978	86346
Accounts Payable	775	494	438	419	471	806	504	599	529	580
Long-Term Debt	14655	15922	16474	18494	24097	41958	43855	57909	60619	56167
Total Equity	30798	39776	43688	44648	46878	48663	47289	53860	46372	21785
D/E Ratio	0.48	0.40	0.38	0.41	0.51	0.86	0.93	1.08	1.31	2.58

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	11.3%	12.7%	13.1%	13.6%	12.7%	9.9%	8.0%	7.6%	2.6%	9.0%
Return on Equity	22.0%	24.2%	23.9%	24.7%	23.9%	20.8%	18.6%	18.7%	7.2%	32.5%
ROIC	15.1%	16.8%	17.1%	17.6%	16.2%	12.2%	9.7%	9.3%	3.3%	11.9%
Shares Out.	5.03	5.07	4.91	4.65	4.46	4.34	4.13	4.14	4.05	3.50
Revenue/Share	5.29	6.95	7.29	7.68	8.31	8.49	8.61	8.96	9.29	10.59
FCF/Share	1.67	2.10	2.57	2.80	3.11	2.93	2.90	2.87	3.22	3.45

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