Oracle Corporation (ORCL)

Updated March 17th, 2021 by Jonathan Weber

Key Metrics

Current Price:	$66	**5 Year CAGR Estimate:**	10.2%	**Market Cap:**	$195B
Fair Value Price:	$68	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	04/07/21
% Fair Value:	98%	**5 Year Valuation Multiple Estimate:**	0.5 %	**Dividend Payment Date:**	04/22/21
Dividend Yield:	1.9%	**5 Year Price Target**	$99	**Years Of Dividend Growth:**	12
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	33.3%

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.

Oracle reported its most recent quarterly results, for its fiscal third quarter, on March 10. The company announced that it generated revenues of $10.1 billion during the quarter, which represents an increase of 3% versus the prior year's quarter. This was more than what the analyst community forecasted, as the consensus estimate was beaten by $20 million. Most of Oracle's revenues were generated in the Cloud segment, which contributed roughly three-quarters to Oracle's top line during the quarter. As expected, customer purchases that were pushed back a couple of quarters ago showed up in the current quarter, a trend that will likely remain in place.

Oracle generated earnings-per-share of $1.16 during the third quarter, which represents an attractive growth rate of 20% versus the prior year's quarter, which beat the consensus estimate easily. Oracle has managed to grow its profits at an attractive pace in recent quarters, despite the fact that the company did not generate a lot of revenue growth. This was possible thanks to a combination of cost savings and share repurchases. In March, Oracle has also announced that the company will purchase an additional $20 billion worth of stock over the coming years, and the dividend has been increased by a highly attractive 33.3%, from $0.24 per share to $0.32 per share.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$2.22	$2.46	$2.68	$2.87	$2.77	$2.61	$2.74	$3.05	$3.52	$3.85	***$4.50***	***$6.61***
DPS	$0.20	$0.24	$0.30	$0.48	$0.51	$0.60	$0.64	$0.76	$0.81	$0.96	***$1.28***	***$1.80***
Shares[1]	5.07	4.91	4.65	4.46	4.34	4.13	4.14	4.05	3.50	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 starting in 2018, while earnings-per-share hit a new record level during fiscal 2020.

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 highly attractive, at 30%+, in the recent past. 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 reduce its cost basis relative to the revenues that the

[1] In Billions

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.

company generates. Despite a high number of new shares being issued to employees and management, Oracle's share count has been declining in the past thanks to many billions of dollars that Oracle spends on share repurchases.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	13.0	12.0	12.0	12.5	15.1	14.8	15.0	15.4	14.5	13.8	***14.7***	***15.0***
Avg. Yld.	0.7%	0.8%	0.9%	1.3%	1.2%	1.6%	1.6%	1.5%	1.9%	1.8%	***1.9%***	***1.8%***

Oracle's share price is up quite a lot over the last year, but shares are not looking overly expensive. Shares are trading at an earnings multiple that is quite in line with our fair value estimate, as we would deem Oracle's shares fairly valued when they traded at 15 times net profits. We believe that multiple changes will not have a large impact going forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	9.0%	9.8%	11.2%	16.7%	18.4%	23.0%	23.4%	24.9%	22.8%	24.9%	***28.4%***	***27.2%***

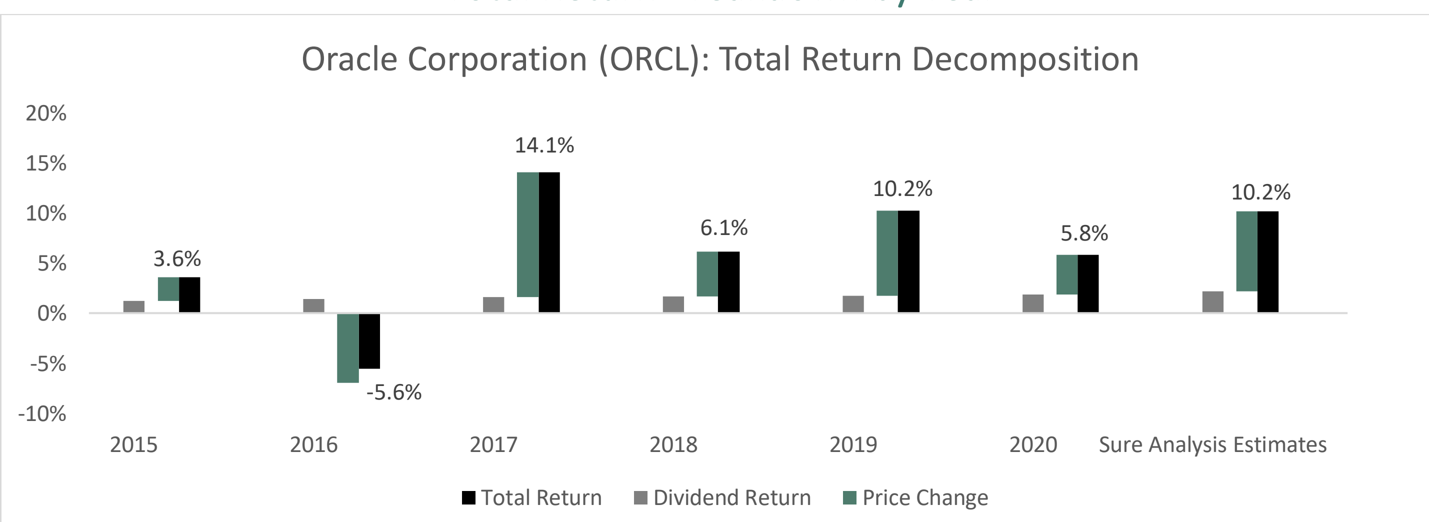
Oracle's dividend payout ratio was extremely low a decade ago, but since then the payout ratio has risen relatively consistently. At a payout ratio of less than 30%, the dividend is very manageable, and there is still a lot of room for further dividend increases. Due to the low payout ratio and the fact that the company was not impacted to a large degree during the last financial crisis, Oracle's dividend is rated very safe.

Oracle was not hurt during the last recession, and the coronavirus pandemic does not have a large impact on Oracle's business, 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, which eases competitive pressures.

Final Thoughts & Recommendation

Oracle's shift towards cloud computing continues. Revenues have not been much of a growth tailwind in recent quarters, but thanks to strong cost controls and buybacks Oracle's earnings-per-share continue to rise at a compelling pace. Oracle will most likely generate a new record profit in 2021, showcasing that the pandemic is not a threat for the company. Right now, shares trade around our fair value estimate, and we rate the stock a buy for now.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	35622	37121	37180	38275	38226	37047	37792	39383	39506	39068
Gross Profit	27224	29126	29801	31039	30694	29568	30340	31323	31511	31130
Gross Margin	76.4%	78.5%	80.2%	81.1%	80.3%	79.8%	80.3%	79.5%	79.8%	79.7%
SG&A Exp.	7549	8116	8134	8605	8732	9039	9257	9715	9774	9275
D&A Exp.	2796	2916	2931	2908	2861	2509	2451	2785	2919	2968
Operating Profit	12728	14057	14432	14983	14289	13104	13479	13904	14022	14202
Op. Margin	35.7%	37.9%	38.8%	39.1%	37.4%	35.4%	35.7%	35.3%	35.5%	36.4%
Net Profit	8547	9981	10925	10955	9938	8901	9452	3587	11083	10135
Net Margin	24.0%	26.9%	29.4%	28.6%	26.0%	24.0%	25.0%	9.1%	28.1%	25.9%
Free Cash Flow	10764	13095	13574	14341	13189	12496	12105	13650	12891	11575
Income Tax	2864	2981	2973	2749	2896	2541	2228	8837	1185	1928

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets ($B)	73535	78327	81812	90266	110903	112180	134991	137851	108709	115438
Cash & Equivalents	16163	14955	14613	17769	21716	20152	21784	21620	20514	37239
Acc. Receivable	6628	6377	6049	6087	5618	5385	5300	5136	5134	5551
Inventories	303	158	240	189	314	212				
Goodwill & Int.	29413	33018	33983	35789	40493	39533	50724	50425	49058	47507
Total Liabilities	33290	34240	36667	42819	61805	64390	80745	90978	86346	102721
Accounts Payable	494	438	419	471	806	504	599	529	580	637
Long-Term Debt	15922	16474	18494	24097	41958	43855	57909	60619	56167	71597
Total Equity	39776	43688	44648	46878	48663	47289	53860	46372	21785	12717
D/E Ratio	0.40	0.38	0.41	0.51	0.86	0.93	1.08	1.31	2.58	5.63

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	12.7%	13.1%	13.6%	12.7%	9.9%	8.0%	7.6%	2.6%	9.0%	9.0%
Return on Equity	24.2%	23.9%	24.7%	23.9%	20.8%	18.6%	18.7%	7.2%	32.5%	58.8%
ROIC	16.8%	17.1%	17.6%	16.2%	12.2%	9.7%	9.3%	3.3%	11.9%	12.4%
Shares Out.	5.07	4.91	4.65	4.46	4.34	4.13	4.14	4.05	3.50	3.50
Revenue/Share	6.95	7.29	7.68	8.31	8.49	8.61	8.96	9.29	10.59	11.86
FCF/Share	2.10	2.57	2.80	3.11	2.93	2.90	2.87	3.22	3.45	3.51

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