Oracle Corporation (ORCL)

Updated January 11th, 2022 by Jonathan Weber

Key Metrics

Current Price:	$88	**5 Year CAGR Estimate:**	6.5%	**Market Cap:**	$238B
Fair Value Price:	$77	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	01/06/22
% Fair Value:	115%	**5 Year Valuation Multiple Estimate:**	-2.7%	**Dividend Payment Date:**	01/19/22
Dividend Yield:	1.5%	**5 Year Price Target**	$113	**Years Of Dividend Growth:**	12
Dividend Risk Score:	A	**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 second quarter, on December 9. The company announced that it generated revenues of $10.4 billion during the quarter, which represents an increase of 6% year over year. Most of Oracle's revenue was generated by its cloud computing offerings, which continue to gain revenue share.

Oracle generated earnings-per-share of $1.21 during the second quarter, which represents an attractive growth rate of 14% versus the prior year's quarter, and which beat the consensus estimate easily. Oracle has managed to grow its profits at an attractive pace in recent quarters, even without a lot of revenue growth, thanks to a combination of cost savings and share repurchases. In December 2021, Oracle announced that it would acquire healthcare technology company Cerner in a deal that values the target at $28 billion. This will be an all-cash transaction, thus not be dilutive to current shareholders. The closing date of this transaction is not yet known, but Oracle's management touts that this deal will improve its position in the vast healthcare market where it sees a lot of growth potential.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$2.46	$2.68	$2.87	$2.77	$2.61	$2.74	$3.05	$3.52	$3.85	$4.67	***$4.80***	***$7.05***
DPS	$0.24	$0.30	$0.48	$0.51	$0.60	$0.64	$0.76	$0.81	$0.96	$1.04	***$1.28***	***$1.80***
Shares[1]	4.91	4.65	4.46	4.34	4.13	4.14	4.05	3.50	3.10	2.90	***2.70***	***2.20***

Oracle recorded very compelling growth rates in the 2010-2014 time frame, but profits peaked in that year, 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 accelerated again starting in 2018, while earnings-per-share hit a new record level during fiscal 2020, before the pandemic, while fiscal 2021 was even better, as Oracle did not feel any meaningful impact from the pandemic.

Oracle is not operating a cloud business as large as its peers Amazon or Microsoft, but it still is generating attractive growth in the markets it addresses. Infrastructure-as-a-Service, as well as Platform-as-a-Service, are markets that are growing at a fast pace, and should allow Oracle to maintain an attractive cloud computing growth rate going forward. 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 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.

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[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.

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	12.0	12.0	12.5	15.1	14.8	15.0	15.4	14.5	13.8	16.9	***18.3***	***16.0***
Avg. Yld.	0.8%	0.9%	1.3%	1.2%	1.6%	1.6%	1.5%	1.9%	1.8%	1.3%	***1.5%***	***1.6%***

Oracle's share price has declined slightly since our last update, but shares are still trading above our fair value estimate. We would deem Oracle's shares fairly valued if they traded at 16 times net profits, but shares are roughly 15% above that level today. We believe that multiple changes will result in a headwind to total returns going forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	9.8%	11.2%	16.7%	18.4%	23.0%	23.4%	24.9%	22.8%	24.9%	22.3%	***26.7%***	***25.5%***

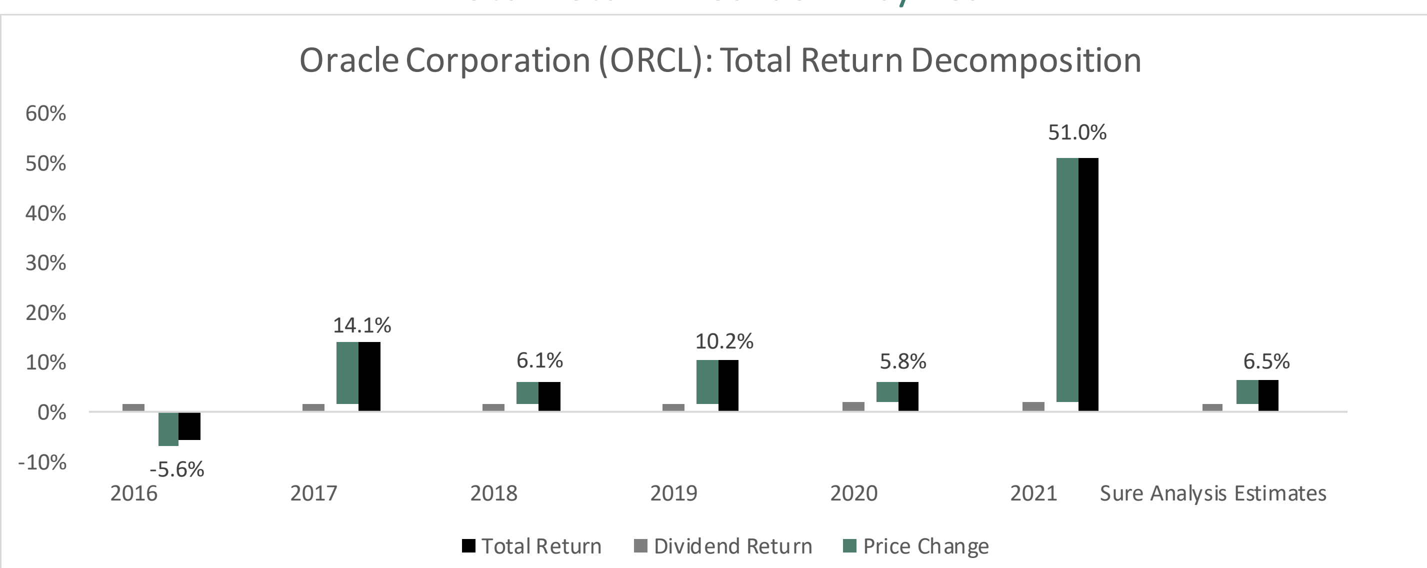
Oracle's dividend payout ratio was extremely low a decade ago, but since then the payout ratio has risen relatively consistently. At a payout ratio of less than 30%, the dividend is very manageable, and there is still a lot of room for further dividend increases. Due to the low payout ratio and the fact 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 hit a new record profit in 2021, and 2022 will likely be even better. The Cerner acquisition provides for attractive potential in the healthcare space, but shares trade above our fair value, which is why we rate the stock a hold at current prices, although we would like the stock at or below fair value.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	37121	37180	38275	38226	37047	37792	39383	39506	39068	40479
Gross Profit	29126	29801	31039	30694	29568	30340	31323	31511	31130	32624
Gross Margin	78.5%	80.2%	81.1%	80.3%	79.8%	80.3%	79.5%	79.8%	79.7%	80.6%
SG&A Exp.	8116	8134	8605	8732	9039	9257	9715	9774	9275	8936
D&A Exp.	2916	2931	2908	2861	2509	2451	2785	2919	2968	2916
Operating Profit	14057	14432	14983	14289	13104	13479	13904	14022	14202	15782
Op. Margin	37.9%	38.8%	39.1%	37.4%	35.4%	35.7%	35.3%	35.5%	36.4%	39.0%
Net Profit	9981	10925	10955	9938	8901	9452	3587	11083	10135	13746
Net Margin	26.9%	29.4%	28.6%	26.0%	24.0%	25.0%	9.1%	28.1%	25.9%	34.0%
Free Cash Flow	13095	13574	14341	13189	12496	12105	13650	12891	11575	13752
Income Tax	2981	2973	2749	2896	2541	2228	8837	1185	1928	-747

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	78327	81812	90266	110903	112180	134991	137851	108709	115438	131107
Cash & Equiv.	14955	14613	17769	21716	20152	21784	21620	20514	37239	30098
Acc. Receivable	6377	6049	6087	5618	5385	5300	5136	5134	5551	5409
Inventories	158	240	189	314	212	---	---	---	---	---
Goodwill & Int.	33018	33983	35789	40493	39533	50724	50425	49058	47507	46365
Total Liabilities	34240	36667	42819	61805	64390	80745	90978	86346	102721	125155
Accounts Pay	438	419	471	806	504	599	529	580	637	745
Long-Term Debt	16474	18494	24097	41958	43855	57909	60619	56167	71597	84245
Total Equity	43688	44648	46878	48663	47289	53860	46372	21785	12717	5952
LTD/E Ratio	0.38	0.41	0.51	0.86	0.93	1.08	1.31	2.58	5.63	14.2

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	13.1%	13.6%	12.7%	9.9%	8.0%	7.6%	2.6%	9.0%	9.0%	11.2%
Return on Equity	23.9%	24.7%	23.9%	20.8%	18.6%	18.7%	7.2%	32.5%	58.8%	152.5%
ROIC	17.1%	17.6%	16.2%	12.2%	9.7%	9.3%	3.3%	11.9%	12.4%	15.8%
Shares Out.	5.10	4.84	4.60	4.50	4.31	4.22	4.24	3.73	3.29	3.02
Revenue/Share	7.29	7.68	8.31	8.49	8.61	8.96	9.29	10.59	11.86	13.39
FCF/Share	2.57	2.80	3.11	2.93	2.90	2.87	3.22	3.45	3.51	4.55

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