



Oracle Corporation (ORCL)

Updated March 20th, 2024 by Jonathan Weber

Key Metrics

Current Price:	\$129	5 Year CAGR Estimate:	1.9%	Market Cap:	\$355B
Fair Value Price:	\$90	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	04/10/24
% Fair Value:	144%	5 Year Valuation Multiple Estimate:	-7.0%	Dividend Payment Date:	04/25/24
Dividend Yield:	1.2%	5 Year Price Target	\$132	Years Of Dividend Growth:	13
Dividend Risk Score:	B	Retirement Suitability Score:	C	Rating:	Sell

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 11. The company announced that it generated revenues of \$13.3 billion during the quarter, which represents an increase of 7% year over year. Growth was comparable in currency-neutral terms, unlike the previous quarter, when forex rates were a revenue tailwind.

Oracle generated earnings-per-share of \$1.41 during the third quarter, which was up by a nice 16% versus the prior year's quarter, and which beat the consensus estimate. In prior quarters, Oracle's earnings-per-share growth was uneven, as margins saw some ups and downs. As the Cerner acquisition has been lapped, revenue growth in the upcoming quarters will be dependent on Oracle's operational growth while the M&A impact will not be as significant unless the company pursues another takeover in the coming quarters. For the current fiscal year, Oracle is forecasted to earn significantly more compared to the previous fiscal year, at around \$5.60 per share, which is mainly attributable to strength in Oracle's cloud computing business.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$2.87	\$2.77	\$2.61	\$2.74	\$3.05	\$3.52	\$3.85	\$4.67	\$4.90	\$5.12	\$5.60	\$8.23
DPS	\$0.48	\$0.51	\$0.60	\$0.64	\$0.76	\$0.81	\$0.96	\$1.04	\$1.20	\$1.44	\$1.60	\$2.24
Shares¹	4.46	4.34	4.13	4.14	4.05	3.50	3.10	2.90	2.74	2.79	2.76	2.50

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.

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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	12.5	15.1	14.8	15.0	15.4	14.5	13.8	16.9	14.7	20.6	23.0	16.0
Avg. Yld.	1.3%	1.2%	1.6%	1.6%	1.5%	1.9%	1.8%	1.3%	1.7%	1.4%	1.2%	1.7%

Oracle's share price has risen since our last update and shares are trading above our fair value estimate. We would deem Oracle's shares fairly valued if they traded at 16 times net profits, whereas they trade for around 23x net profits today. We believe that multiple changes will result in a headwind to total returns going forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	16.7%	18.4%	23.0%	23.4%	24.9%	22.8%	24.9%	22.3%	24.5%	28.1%	28.6%	27.3%

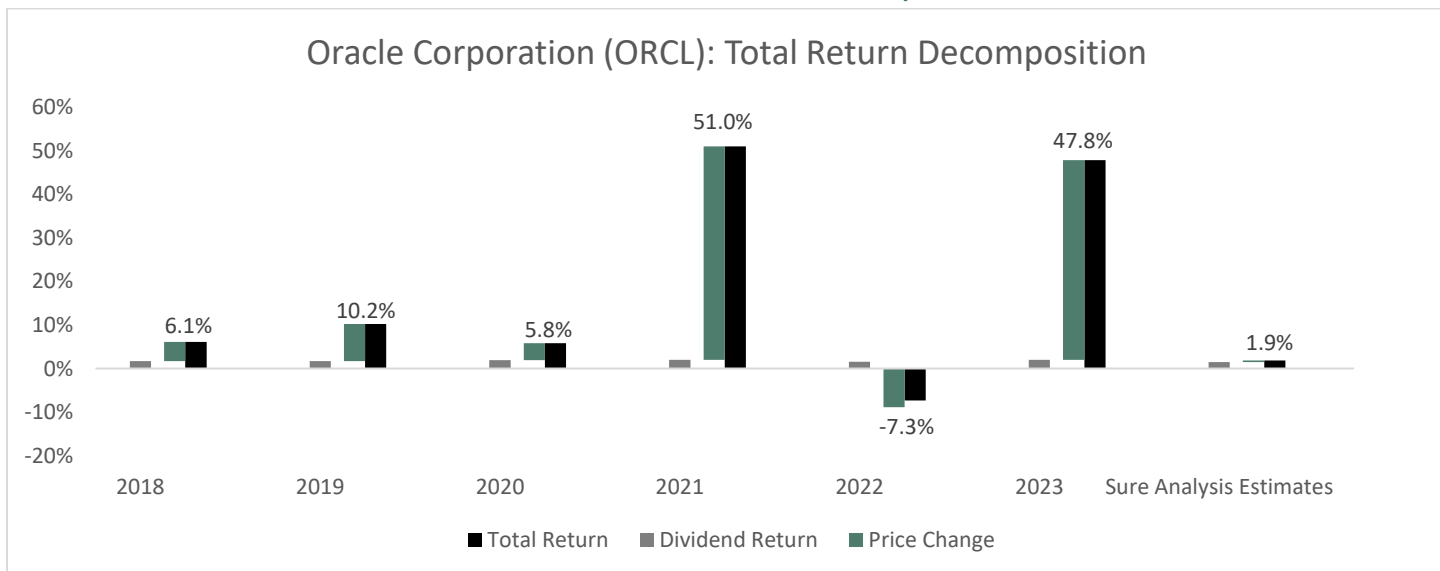
Oracle's dividend payout ratio was extremely low a decade ago, but since then the payout ratio has risen relatively consistently. At a payout ratio of less than 30%, the dividend is very manageable, and there is still a lot of room for further dividend increases. Due to the low payout ratio and the fact 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 did 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. Between some revenue growth, strong cost controls, and buybacks, Oracle's earnings-per-share continued to climb reliably in recent years, even though Oracle is not a high-growth tech company. Oracle hit a new record profit in fiscal 2023, and fiscal 2024 will most likely be better. The Cerner acquisition provides for attractive potential in the healthcare space. Oracle's shares trade well above our fair value estimate today and promise unconvincing total returns, which is why we rate the stock a sell at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	38,275	38,226	37,047	37,792	39,383	39,506	39,068	40,479	42,440	49,954
Gross Profit	31,039	30,694	29,568	30,340	31,323	31,511	31,130	32,624	33,563	36,390
Gross Margin	81.1%	80.3%	79.8%	80.3%	79.5%	79.8%	79.7%	80.6%	79.1%	72.8%
SG&A Exp.	8,605	8,732	9,039	9,257	9,715	9,774	9,275	8,936	9,364	10,412
D&A Exp.	2,908	2,861	2,509	2,451	2,785	2,919	2,968	2,916	3,122	6,108
Operating Profit	14,983	14,289	13,104	13,479	13,904	14,006	14,151	15,653	11,136	13,670
Op. Margin	39.1%	37.4%	35.4%	35.7%	35.3%	35.5%	36.2%	38.7%	26.2%	27.4%
Net Profit	10,955	9,938	8,901	9,452	3,587	11,083	10,135	13,746	6,717	8,503
Net Margin	28.6%	26.0%	24.0%	25.0%	9.1%	28.1%	25.9%	34.0%	15.8%	17.0%
Free Cash Flow	14,341	13,189	12,496	12,105	13,650	12,891	11,575	13,752	5,028	8,470
Income Tax	2,749	2,896	2,541	2,228	8,837	1,185	1,928	(747)	932	623

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	90,266	110,903	112,180	134,991	137,851	108,709	115,438	131,107	109,297	134,384
Cash & Equiv.	17,769	21,716	20,152	21,784	21,620	20,514	37,239	30,098	21,383	9,765
Acc. Receivable	6,087	5,618	5,385	5,300	5,136	5,134	5,551	5,409	5,953	6,915
Inventories	189	314	212							
Goodwill & Int.	35,789	40,493	39,533	50,724	50,425	49,058	47,507	46,365	45,251	72,098
Total Liabilities	42,819	61,805	64,390	80,745	90,978	86,346	102,721	125,155	115,065	132,828
Accounts Pay	471	806	504	599	529	580	637	745	1,317	1,204
Long-Term Debt	24,097	41,958	43,855	57,909	60,619	56,167	71,597	84,245	75,859	90,481
Total Equity	46,878	48,663	47,289	53,860	46,372	21,785	12,074	5,238	(6,220)	1,073
LTD/E Ratio	0.51	0.86	0.93	1.08	1.31	2.58	5.93	16.08	(12.20)	84.33

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	12.7%	9.9%	8.0%	7.6%	2.6%	9.0%	9.0%	11.2%	5.6%	7.0%
Return on Equity	23.9%	20.8%	18.6%	18.7%	7.2%	32.5%	59.9%	158.8%		
ROIC	16.2%	12.2%	9.7%	9.3%	3.3%	11.9%	12.4%	15.8%	8.4%	10.5%
Shares Out.	4.46	4.34	4.13	4.14	4.05	3.50	3.10	2.90	2.74	2.79
Revenue/Share	8.31	8.49	8.61	8.96	9.29	10.59	11.86	13.39	15.23	18.06
FCF/Share	3.11	2.93	2.90	2.87	3.22	3.45	3.51	4.55	1.80	3.06

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

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