

ORACLE CORP (New York: ORCL, Currency: USD) 77.08 / -5.59% / -4.56
 Bloomberg Rating: IG2 Sector: Information Technology Industry: Software Sub-Industry: Systems Software FY End: May 2021 EPS Due: 9/10/2021

Description
 Oracle Corporation supplies software for enterprise information management. The Company offers databases and relational servers, application development and decision support tools, and enterprise business applications. Oracle's software runs on network computers, personal digital assistants, set-top devices, PCs, workstations, minicomputers, mainframes, and massively parallel computers.

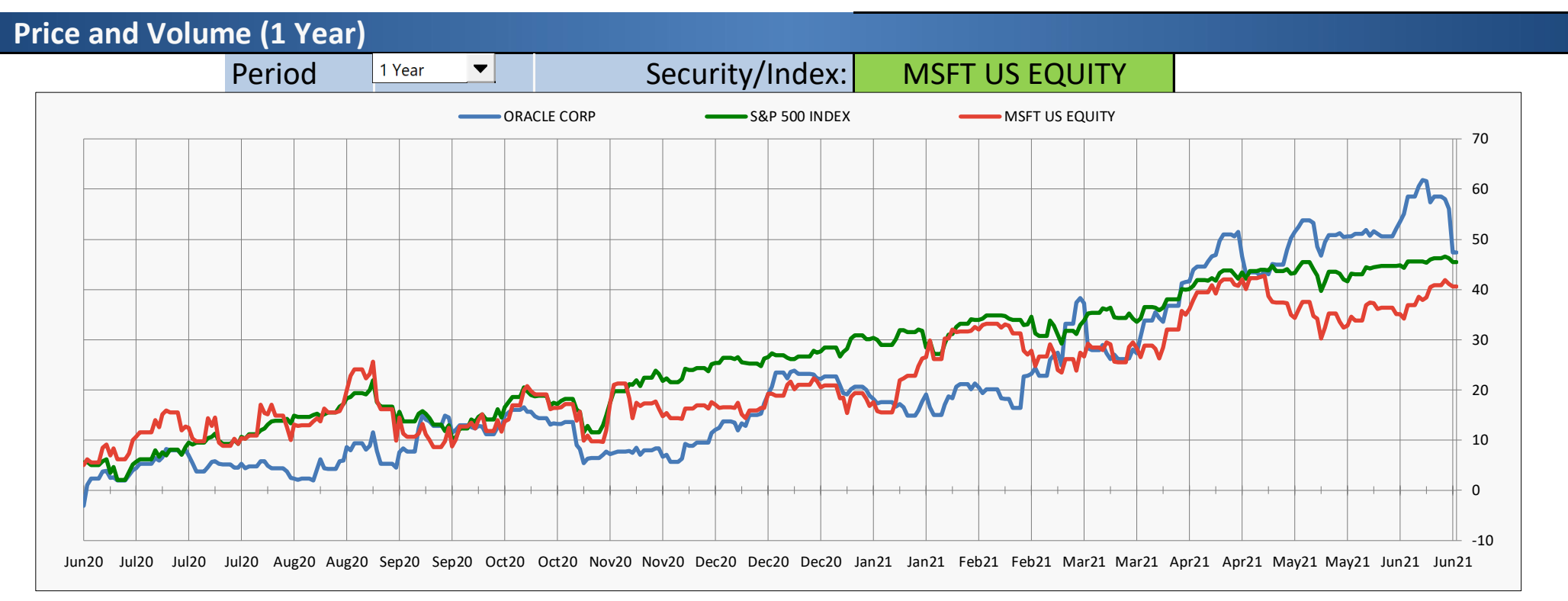
Business Segments (FY: May-21)	Revenue
Software	34,099.00
Hardware System Business	3,359.00
Services	3,021.00

Key Statistics	
52-Week Range	51.32 - 85.03
Avg Daily Vol (3 Mo)	12,864,699
Market Value	222,262.9
Current Enterprise Val	259,953.88
Shares Outstanding (B)	2,883.54 M
Dividend Yield	1.7%
Float %	60.3%
Institutional %	50.2%
Analyst Coverage	28 Analysts
Target Price	78.16
LT Growth Rate	703.3%
Consensus Rating	3.07
Return on Equity	152.5%

Actual and Estimate Data			
	LTM	05/2022	05/2023
Revenue	40,479.00	42,198.19	43,846.75
% change y/y		4.2%	3.9%
EBITDA	18,129.00	20,762.67	22,053.50
% Margin		1.1%	6.2%
EPS	3.932203	4.602	5.077
% change y/y		-1.5%	10.3%
EV/Sales	6.5x	6.2x	6.1x
EV/EBITDA	14.6x	12.5x	11.8x
P/Sales	5.6x	5.3x	5.1x
P/Earnings	19.6x	16.7x	15.2x
P/Book	37.3x	47.4x	58.4x

Relative Comps	Mkt Cap	PE (NTM)
Oracle Corp	222.26 B	16.7x
ServiceNow Inc	100.71 B	89.9x
Splunk Inc	20.22 B	
VMware Inc	65.92 B	23.1x
Citrix Systems Inc	14.60 B	20.3x
Box Inc	4.09 B	31.6x
Microsoft Corp	1938.48 B	31.8x
Check Point Software Techn	16.12 B	17.5x
Fortinet Inc	37.61 B	60.0x
Palo Alto Networks Inc	35.40 B	55.1x
NortonLifeLock Inc	16.10 B	16.6x
Proofpoint Inc	10.01 B	81.2x
FireEye Inc	5.12 B	52.7x
Trend Micro Inc/Japan	806.24 B	24.9x

Measure:	Sales/Revenue/Turnover			
	2020	2021	2022	2023
Q1 Aug	9218.00	9367.00	9753.85	10180.88
Q2 Nov	9614.00	9800.00	10214.05	10593.80
Q3 Feb	9796.00	10085.00	10519.15	10899.38
Q4 May	10440.00	11227.00	11656.70	12015.56
Year	39068.00	40479.00	42198.19	43846.75
Cal Yr	39501.33	41425.28	43077.27	44207.58
Revision	1 Week	4 Weeks	3 Months	6 Months
Qtr End 08/21	0.9%	0.9%	0.7%	1.3%
Qtr End 11/21	1.4%	1.4%	1.3%	1.4%
FY End 05/22	2.0%	2.0%	1.9%	2.4%
FY End 05/23	3.3%	3.3%	2.9%	2.8%



Prices/Volume	
YTD Change	19.15%
6 Month Change	29.11%
3 Month Change	21.1%
1 Year Change	40.5%
Daily Volume	36,560,609
Average Volume 30 Day	12,034,600
Average Volume 3 Month	12,864,699
Average Volume 6 Month	12,581,708
Dividend Yld	1.5%
52 Week Beta	0.55

Measure:	Diluted EPS Bef XO Items			
	2020	2021	2022	2023
Q1 Aug	0.63	0.72	0.75	0.87
Q2 Nov	0.69	0.80	0.85	0.95
Q3 Feb	0.79	1.68	0.91	1.18
Q4 May	0.99	1.37	1.14	1.24
Year	3.08	4.55	3.71	4.26
Cal Yr	3.60	4.40	3.96	4.39
Revision	1 Week	4 Weeks	3 Months	6 Months
Qtr End 08/21	-3.8%	-3.8%	-4.7%	-
Qtr End 11/21	-2.6%	-2.6%	-3.5%	-
FY End 05/22	-3.1%	-3.1%	-3.8%	-
FY End 05/23	1.0%	1.0%	-0.4%	-

Performance	2013	2014	2015	2016	2017	2018	2019	2020	2021	5 Yr Avg
Price Change	27.6%	24.4%	3.5%	-7.6%	12.9%	2.9%	8.3%	6.3%	46.4%	15.4%
S&P 500 INDEX	13.4%	29.6%	11.4%	-0.7%	9.5%	19.4%	-6.2%	28.9%	16.3%	13.6%
Industry (INDU Index)	7.3%	26.5%	7.5%	-2.2%	13.4%	25.1%	-5.6%	22.3%	7.2%	12.5%
Div Yield	0.9%	1.3%	1.1%	1.6%	1.7%	1.6%	1.8%	1.8%	1.7%	1.7%
Financials	05/13 Y	05/14 Y	05/15 Y	05/16 Y	05/17 Y	05/18 Y	05/19 Y	05/20 Y	05/21 Y	5 Yr CAGR
Sales	37,180.0	38,275.0	38,226.0	37,047.0	37,728.0	39,383.0	39,506.0	39,068.0	40,479.0	1.8%
EBITDA	17,615.0	17,667.0	16,732.0	15,113.0	15,161.0	16,049.0	16,454.0	17,447.0	18,129.0	3.7%
EBIT	14,684.0	14,759.0	13,871.0	12,604.0	12,710.0	13,264.0	13,535.0	13,896.0	15,213.0	3.8%
Net Income	10,925.0	10,955.0	9,938.0	8,901.0	9,335.0	3,587.0	11,083.0	10,135.0	13,746.0	9.1%
EPS (Diluted)	2.26	2.38	2.21	2.07	2.21	0.85	2.97	3.08	4.55	17.1%
Dividends per Share	0.30	0.48	0.51	0.60	0.64	0.76	0.81	0.96	1.12	13.3%
Shares for Fully Diluted EP	4,844.0	4,604.0	4,503.0	4,305.0	4,217.0	4,238.0	3,732.0	3,294.0	3,022.0	-6.8%
Book Value per Share	9.61	10.50	11.20	11.45	13.02	11.60	6.49	3.94	2.06	-29.0%
Cash & Near Cash	14,613.0	17,769.0	21,716.0	20,152.0	21,784.0	21,620.0	20,514.0	37,239.0	30,098.0	8.4%
Total Assets	81,812.0	90,266.0	110,903.0	112,180.0	134,991.0	137,851.0	108,709.0	115,438.0	131,107.0	3.2%
Working Cap	28,820.0	33,739.0	47,314.0	47,105.0	50,337.0	57,035.0	27,756.0	34,940.0	31,403.0	-7.8%
LT Debt	18,494.0	22,589.0	39,959.0	40,105.0	48,112.0	56,128.0	51,673.0	70,726.0	75,995.0	13.6%
Cash Flow-Oper Activities	14,224.0	14,921.0	14,580.0	13,685.0	14,126.0	15,386.0	14,551.0	13,139.0	15,887.0	3.0%
Capital Expenditures	650.0	580.0	1,391.0	1,189.0	2,021.0	1,736.0	1,660.0	1,564.0	2,135.0	12.4%
Free Cash Flow	13,574.0	14,341.0	13,189.0	12,496.0	12,105.0	13,650.0	12,891.0	11,575.0	13,752.0	1.9%
Ratios	05/13 Y	05/14 Y	05/15 Y	05/16 Y	05/17 Y	05/18 Y	05/19 Y	05/20 Y	05/21 Y	5 Yr Avg
Gross Margin	80.9%	81.1%	80.3%	79.8%	80.2%	79.5%	79.8%	79.7%	80.6%	80.0%
EBITDA Margin	47.4%	46.2%	43.8%	40.8%	40.2%	40.8%	41.6%	44.7%	44.8%	42.4%
EBIT Margin	39.5%	38.6%	36.3%	34.0%	33.7%	33.7%	34.3%	35.6%	37.6%	35.0%
Profit Margin	29.4%	28.6%	26.0%	24.0%	24.7%	9.1%	28.1%	25.9%	34.0%	24.4%
Return on Assets	13.6	12.7	9.9	8.0	7.6	2.6	9.0	9.0	11.2	7.9
Return on Com Eqty	24.7	23.9	20.8	18.6	18.5	7.2	32.5	59.9	152.5	54.1
Asset Turnover	0.5	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Assets/Equity	1.8	1.9	2.3	2.3	2.5	2.9	4.9	9.1	22.0	8.3
Net Inc per 1000 Employee	91.0	89.8	75.1	65.3	67.6	26.2	81.5	75.1	-	62.6
Days Sales Out (DSO)	61.0	57.9	55.9	54.4	51.7	48.4	47.4	50.1	49.4	49.4
Acc Pay Turn Days (DPO)	21.7	22.6	30.4	32.5	26.6	25.2	25.6	28.4	33.0	27.8
Current Ratio	3.2	3.3	4.1	3.7	3.1	4.0	2.5	3.0	2.3	3.0
Quick Ratio	3.0	3.1	3.9	3.6	3.0	3.8	2.3	2.8	2.2	2.8
Total Debts/Total Capital	29.1	33.7	46.1	47.9	51.6	56.4	71.5	85.3	93.4	71.6
Total Debt/Total Equity	41.0	50.8	85.5	91.8	106.8	129.3	251.2	579.3	1415.4	496.4

Growth Rate (CAGR) Summary				
	1Yr	3Yr	5Yr	10Yr
Sales	3.6%	0.9%	1.8%	1.3%
EBIT	9.5%	4.7%	3.8%	2.4%
EBITDA	3.9%	4.1%	3.7%	2.0%
Net Income	35.6%	56.5%	9.1%	4.9%
EPS (Diluted)	47.7%	74.9%	17.1%	10.5%
Dividends	16.7%	13.8%	13.3%	18.2%
BVPS	-47.6%	-43.8%	-29.0%	-12.5%
Free Cash Flow	29.5%	12.1%	9.5%	8.2%

Valuation Summary				
Latest FY	Est FQ	5 Year Periodicity: Yearly		
	5/31/2021	High	Low	Avg
P/E (LTM)	17.2x	20.6x	16.9x	18.4x
P/E (NTM)	16.7x	16.6x	12.7x	14.4x
PEG (NTM)	2.4x	2.4x	1.6x	1.9x
P/Bk	38.1x	37.3x	3.4x	12.1x
P/CF	14.6x	15.8x	11.9x	13.5x
P/Sales	5.7x	5.6x	4.4x	5.0x
EV/EBITDA	14.6x	14.6x	11.2x	12.1x
EV/Sales	6.5x	6.5x	4.6x	5.1x
Div Yield	1.4%	1.7%	1.4%	1.5%

Recommendation
 Following a 25% rise in the shares year-to-date, we currently see a balanced risk / reward scenario in Oracle's stock and therefore recommend a hold. We like Oracle's long term cloud transition story and its compelling relative valuation discount to industry peers but also see some near-term challenges ahead.

Earnings Drivers/ Catalysts
 On June 15th, Oracle posted its best revenue growth since 2012, driven by a cyclical rebound in enterprise spending as business customers resumed activity following Covid lockdowns, as well as continued secular growth in Cloud. On its earnings conference call, ORCL raised its outlook for revenue growth in Fiscal 2022 to the mid-single-digit range, representing the highest rate of growth in well over a decade. The company has mentioned that sales could have been stronger, if not for capacity constraints in its cloud product offerings. ORCL is also noticeably confident in its ability to gain further market share from its closest competitor, SAP, in its traditional enterprise software business. However, ORCL was cautious on near term profit margins due to anticipated increased investment in Cloud infrastructure. We believe ORCL is likely being overly conservative on margin and earnings guidance, as the company exceeded its original earnings guidance by 17% in the just reported quarter.

Balance Sheet / Cash Flow
 ORCL has a strong balance sheet, with a debt/capital ratio of less than 15%. Free Cash Flow generation has been robust in recent years and has outstripped reported Net Income, indicative of high-quality earnings. Cash Flow has been deployed towards massive share repurchases (average \$20b/yr past 4 years) and a 33% hike in dividend this year. Free Cash Flow will take a step down in the coming year as ORCL ramps up Capital Spending to fund accelerating investment in the all-important Cloud segment.

Valuation
 Oracle trades at 17x estimated earnings, which represents a compelling discount to both the overall market (S&P 23x) and its peers in the enterprise software / cloud industry (SAP 23x, MSFT 33x). Valuation is also attractive on other metrics such as EV/ Sales, EV/Ebitda, and Free Cash Flow Yield. We believe that ORCL shares possess a meaningful valuation multiple expansion opportunity IF the company can continue to successfully transition its legacy business towards the Cloud.

Risks
 The main risk surrounding Oracle, is their potential inability to successfully transition it business over time to the cloud. The real debate in the market, is ORCL more like Microsoft (33x P/E) which engineered a successful cloud transition OR more like IBM (13x PE) which has not been able to do so. Additionally, ORCL is several years behind bigger players like Microsoft (Azure) and Amazon (AWS) which have much deeper pockets.