



Oracle Corporation (ORCL)

Updated July 2nd, 2024 by Jonathan Weber

Key Metrics

| | | | | | |
|-----------------------------|-------|--|-------|----------------------------------|----------|
| Current Price: | \$143 | 5 Year CAGR Estimate: | 4.1% | Market Cap: | \$394B |
| Fair Value Price: | \$113 | 5 Year Growth Estimate: | 8.0% | Ex-Dividend Date: | 07/11/24 |
| % Fair Value: | 127% | 5 Year Valuation Multiple Estimate: | -4.7% | Dividend Payment Date: | 07/25/24 |
| Dividend Yield: | 1.1% | 5 Year Price Target | \$165 | Years Of Dividend Growth: | 13 |
| Dividend Risk Score: | A | Retirement Suitability Score: | D | Rating: | Hold |

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 fourth quarter, in June. The company announced that it generated revenues of \$14.3 billion during the quarter, which represents an increase of 3% year over year. Growth was slightly higher in currency-neutral terms, with constant currency revenue being up 4%.

Oracle generated earnings-per-share of \$1.63 during the fourth quarter, which was down 3% versus the prior year's quarter, and which missed the consensus estimate. In prior quarters, Oracle's earnings-per-share growth was uneven, as margins saw some ups and downs. With the Cerner acquisition, which resulted in a nice one-time boost to revenues, being lapped, revenue growth will be slower going forward and will depend more on Oracle's cloud computing business. For the current fiscal year, Oracle is still forecasted to earn significantly more compared to the previous fiscal year, at around \$6.25 per share, which would be up by around 12% compared to the previous year. Margin initiatives and share repurchases are seen as tailwinds for earnings-per-share growth this year and beyond.

Growth on a Per-Share Basis

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2030 |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| EPS | \$2.77 | \$2.61 | \$2.74 | \$3.05 | \$3.52 | \$3.85 | \$4.67 | \$4.90 | \$5.12 | \$5.56 | \$6.25 | \$9.18 |
| DPS | \$0.51 | \$0.60 | \$0.64 | \$0.76 | \$0.81 | \$0.96 | \$1.04 | \$1.20 | \$1.44 | \$1.60 | \$1.60 | \$2.24 |
| Shares¹ | 4.34 | 4.13 | 4.14 | 4.05 | 3.50 | 3.10 | 2.90 | 2.74 | 2.79 | 2.83 | 2.80 | 2.65 |

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 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | Now | 2030 |
|-----------|------|------|------|------|------|------|------|------|------|------|-------------|-------------|
| Avg. P/E | 15.1 | 14.8 | 15.0 | 15.4 | 14.5 | 13.8 | 16.9 | 14.7 | 20.6 | 21.0 | 22.9 | 18.0 |
| Avg. Yld. | 1.2% | 1.6% | 1.6% | 1.5% | 1.9% | 1.8% | 1.3% | 1.7% | 1.4% | 1.4% | 1.1% | 1.4% |

Oracle's share price has risen since our last update and shares are trading above our fair value estimate right here. We would deem Oracle's shares fairly valued if they traded at 18 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 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2030 |
|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------------|--------------|
| Payout | 18.4% | 23.0% | 23.4% | 24.9% | 22.8% | 24.9% | 22.3% | 24.5% | 28.1% | 28.8% | 25.6% | 24.4% |

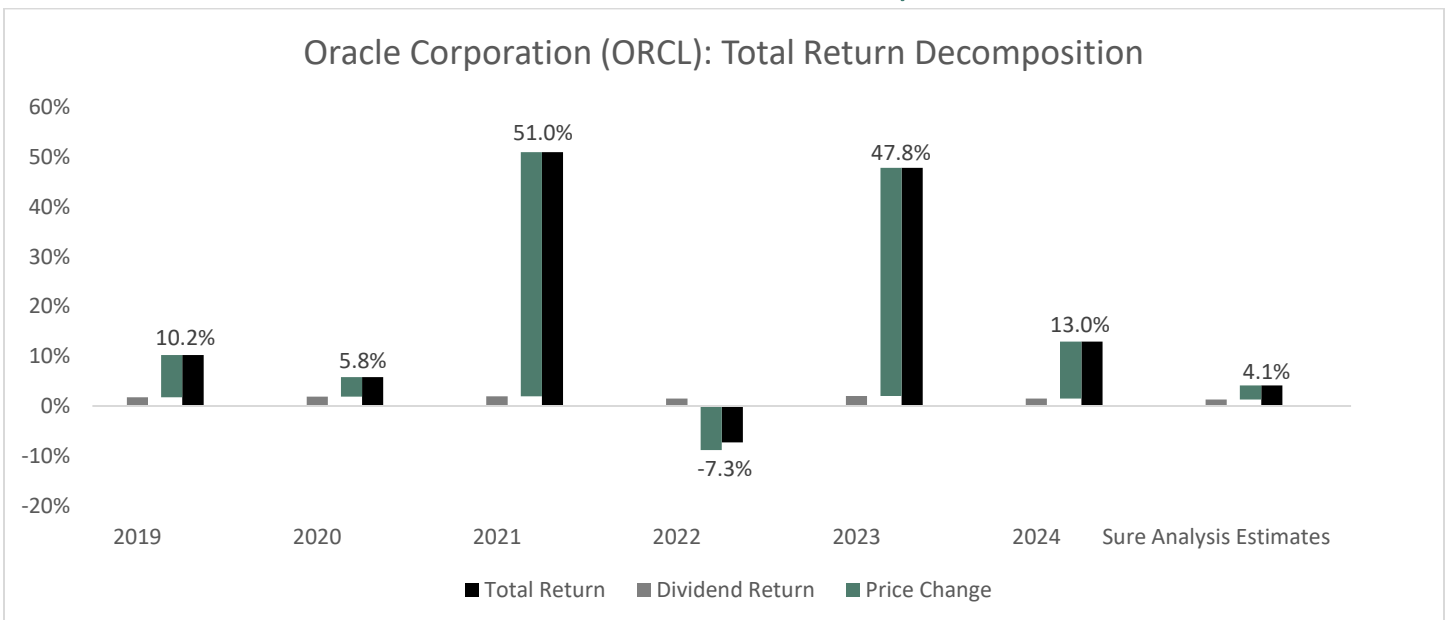
Oracle's dividend payout ratio was extremely low a decade ago, but since then the payout ratio has risen relatively consistently. At a payout ratio of less than 30%, the dividend is very manageable, and there is still a lot of room for further dividend increases. Due to the low payout ratio and the fact 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 2024, and fiscal 2025 will most likely be better as Oracle is forecasted to see its earnings-per-share improve meaningfully this year. Oracle's shares trade above our fair value estimate today and promise unconvincing total returns, which is why we rate the stock a hold at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|-------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Revenue | 38,226 | 37,047 | 37,792 | 39,383 | 39,506 | 39,068 | 40,479 | 42,440 | 49,954 | 52,961 |
| Gross Profit | 30,694 | 29,568 | 30,340 | 31,323 | 31,511 | 31,130 | 32,624 | 33,563 | 36,390 | 37,818 |
| Gross Margin | 80.3% | 79.8% | 80.3% | 79.5% | 79.8% | 79.7% | 80.6% | 79.1% | 72.8% | 71.4% |
| SG&A Exp. | 8,732 | 9,039 | 9,257 | 9,715 | 9,774 | 9,275 | 8,936 | 9,364 | 10,412 | 9,822 |
| D&A Exp. | 2,861 | 2,509 | 2,451 | 2,785 | 2,919 | 2,968 | 2,916 | 3,122 | 6,108 | 6,139 |
| Operating Profit | 14,289 | 13,104 | 13,479 | 13,904 | 14,022 | 14,202 | 15,782 | 15,830 | 13,773 | 16,071 |
| Op. Margin | 37.4% | 35.4% | 35.7% | 35.3% | 35.5% | 36.4% | 39.0% | 37.3% | 27.6% | 30.3% |
| Net Profit | 9,938 | 8,901 | 9,452 | 3,587 | 11,083 | 10,135 | 13,746 | 6,717 | 8,503 | 10,467 |
| Net Margin | 26.0% | 24.0% | 25.0% | 9.1% | 28.1% | 25.9% | 34.0% | 15.8% | 17.0% | 19.8% |
| Free Cash Flow | 13,189 | 12,496 | 12,105 | 13,650 | 12,891 | 11,575 | 13,752 | 5,028 | 8,470 | 11,807 |
| Income Tax | 2,896 | 2,541 | 2,228 | 8,837 | 1,185 | 1,928 | (747) | 932 | 623 | 1,274 |

Balance Sheet Metrics

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|----------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Total Assets | 110,903 | 112,180 | 134,991 | 137,851 | 108,709 | 115,438 | 131,107 | 109,297 | 134,384 | 140,976 |
| Cash & Equiv. | 21,716 | 20,152 | 21,784 | 21,620 | 20,514 | 37,239 | 30,098 | 21,383 | 9,765 | 10,454 |
| Acc. Receivable | 5,618 | 5,385 | 5,300 | 5,136 | 5,134 | 5,551 | 5,409 | 5,953 | 6,915 | 7,874 |
| Inventories | 314 | 212 | | | | | | | | |
| Goodwill & Int. | 40,493 | 39,533 | 50,724 | 50,425 | 49,058 | 47,507 | 46,365 | 45,251 | 72,098 | 69,120 |
| Total Liabilities | 61,805 | 64,390 | 80,745 | 90,978 | 86,346 | 102,721 | 125,155 | 115,065 | 132,828 | 131,737 |
| Accounts Pay | 806 | 504 | 599 | 529 | 580 | 637 | 745 | 1,317 | 1,204 | 2,357 |
| Long-Term Debt | 41,958 | 43,855 | 57,909 | 60,619 | 56,167 | 71,597 | 84,245 | 75,882 | 90,481 | 86,869 |
| Total Equity | 48,663 | 47,289 | 53,860 | 46,372 | 21,785 | 12,074 | 5,238 | (6,220) | 1,073 | 8,704 |
| LTD/E Ratio | 0.86 | 0.93 | 1.08 | 1.31 | 2.58 | 5.93 | 16.08 | (12.20) | 84.33 | 9.98 |

Profitability & Per Share Metrics

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|-------------------------|-------|-------|-------|------|-------|-------|--------|-------|-------|--------|
| Return on Assets | 9.9% | 8.0% | 7.6% | 2.6% | 9.0% | 9.0% | 11.2% | 5.6% | 7.0% | 7.6% |
| Return on Equity | 20.6% | 18.4% | 18.5% | 7.1% | 32.0% | 57.8% | 147.3% | 7301% | | 193.9% |
| ROIC | 12.2% | 9.7% | 9.3% | 3.3% | 11.9% | 12.4% | 15.8% | 8.4% | 10.5% | 11.1% |
| Shares Out. | 4.34 | 4.13 | 4.14 | 4.05 | 3.50 | 3.10 | 2.90 | 2.74 | 2.79 | 2.83 |
| Revenue/Share | 8.49 | 8.61 | 8.96 | 9.29 | 10.59 | 11.86 | 13.39 | 15.23 | 18.06 | 18.76 |
| FCF/Share | 2.93 | 2.90 | 2.87 | 3.22 | 3.45 | 3.51 | 4.55 | 1.80 | 3.06 | 4.18 |

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

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