

Oracle Corporation

Cloud growth rebounds; however growth and margin still lagging targets

Reiterate Rating: NEUTRAL | PO: 144.00 USD | Price: 114.13 USD

OCI growth sustains 50%+ in a challenging environment

Oracle reported solid cloud growth metrics this quarter relative to low expectations, following two disappointing quarters and weak lateral indicators from other cloud consumption vendors in the Q4 earnings cycle. Oracle Cloud Infrastructure (OCI) growth of 49% cc stands out to us, decelerating only slightly from a strong 50% cc in Q2 on sustained demand and execution. It is encouraging that strength is coming from newer solutions such as OracleDB on Azure and the high performance Alloy offering. This bodes well for future growth.

Q4 cloud outlook suggests some sustained strength

Guidance for total Q4 revenue growth of 4% to 6% is below our 7% forecast, due to a greater headwind from Cerner, which continues to lag. The outlook for Q4 cloud growth of 22% to 24% is solid, though below Street expectations for 24% to 25%, suggesting Cerner is likely to continue weighing on cloud growth. Commentary suggests that a still challenging ERP demand environment is also weighing on the outlook. This is not inconsistent with laterals from competitors Workday and Microsoft Dynamics.

Though FY26 topline and margin could land below targets

The expectation to exceed the FY26 revenue target of \$65bn is an incremental positive and backed by bullish commentary on solid pipelines for OCI migration deals, particularly joint Microsoft Azure deals. However, cRPO growth (leading indicator for rev growth) is materially lagging the implied 11% CAGR to achieve that target (10% for the nine months ended Feb, or 8% adjusting for 2% decline in Hardware and License in our model).

Raising PO to \$144, though reiterate Neutral

Also, the leading indicator for margin expansion is trending in the wrong direction, such that the FY26 margin target of 45% is also at risk. Guidance for FY25 capex of \$10 billion represents 40.5% of cloud revenue, up 400 basis points in our model. We are raising our PO to \$144 (23x EPS) from \$122 (was 18x) for better cloud growth. However, we reiterate our Neutral view. With the stock now trading at a premium PE (21x our C25E EPS, representing a PEG of 2.2x), we believe the stock is pricing in growth and margin that could disappoint.

Estimates (May) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	4.90	5.13	5.58	6.05	6.62
GAAP EPS	2.41	3.07	3.68	3.82	4.46
EPS Change (YoY)	4.7%	4.7%	8.8%	8.4%	9.4%
Consensus EPS (Bloomberg)			5.58	6.20	7.10
DPS	1.28	1.28	1.28	1.36	1.36
Valuation (May)					
P/E	23.3x	22.2x	20.5x	18.9x	17.2x
GAAP P/E	47.4x	37.2x	31.0x	29.9x	25.6x
Dividend Yield	1.1%	1.1%	1.1%	1.2%	1.2%
EV / EBITDA*	16.7x	14.0x	13.0x	12.1x	11.1x
Free Cash Flow Yield*	1.6%	2.7%	3.9%	3.4%	3.9%

* For full definitions of *IQmethod*SM measures, see page 8.

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Timestamp: 11 March 2024 10:53PM EDT

11 March 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	122.00	144.00
2024E Rev (m)	53,392.7	53,205.6
2025E Rev (m)	57,506.5	57,383.9
2026E Rev (m)	62,705.7	62,727.2
2024E EPS	5.55	5.58
2025E EPS	6.21	6.05
2026E EPS	7.09	6.62

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Stock Data

Price	114.13 USD
Price Objective	144.00 USD
Date Established	11-Mar-2024
Investment Opinion	B-2-7
52-Week Range	82.04 USD - 127.54 USD
Mkt Val (mn) / Shares Out (mn)	312,944 USD / 2,742.0
Free Float	58.1%
Average Daily Value (mn)	840.76 USD
BofA Ticker / Exchange	ORCL / NYS
Bloomberg / Reuters	ORCL US / ORCLN
ROE (2024E)	350.7%
Net Dbt to Eqty (May-2023A)	NA
ESGMeter TM	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

cc = constant currency

DB = database

ERP = enterprise resource planning

cRPO = current remaining performance obligation

iQprofileSM Oracle Corporation

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	15.7%	16.8%	15.9%	16.7%	17.4%
Return on Equity	14,848.6%	NM	350.7%	168.5%	107.4%
Operating Margin	34.4%	27.2%	27.0%	27.4%	27.9%
Free Cash Flow	5,028	8,470	12,071	10,718	12,218

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.7x	1.2x	1.2x	1.2x	1.2x
Asset Replacement Ratio	1.4x	1.4x	1.2x	1.6x	1.7x
Tax Rate	16.3%	16.3%	18.9%	19.0%	19.0%
Net Debt-to-Equity Ratio	NM	NM	NM	468.0%	209.6%
Interest Cover	7.1x	6.0x	6.6x	7.2x	8.0x

Income Statement Data (May)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	42,441	49,955	53,206	57,384	62,727
% Change	4.8%	17.7%	6.5%	7.9%	9.3%
Gross Profit	28,844	29,654	30,334	32,751	36,053
% Change	0.8%	2.8%	2.3%	8.0%	10.1%
EBITDA	22,715	27,012	29,149	31,356	34,119
% Change	3.7%	18.9%	7.9%	7.6%	8.8%
Net Interest & Other Income	(3,279)	(3,967)	(3,593)	(3,540)	(3,540)
Net Income (Adjusted)	13,661	14,177	15,757	17,519	19,756
% Change	-3.5%	3.8%	11.1%	11.2%	12.8%

Free Cash Flow Data (May)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	6,717	8,503	10,397	11,071	13,309
Depreciation & Amortization	3,122	6,108	6,132	6,188	6,188
Change in Working Capital	(1,987)	513	870	1,978	1,862
Deferred Taxation Charge	(1,146)	(2,167)	(2,669)	(2,669)	(2,669)
Other Adjustments, Net	2,833	4,208	4,606	4,192	4,192
Capital Expenditure	(4,511)	(8,695)	(7,265)	(10,042)	(10,664)
Free Cash Flow	5,028	8,470	12,071	10,718	12,218
% Change	-63.4%	68.5%	42.5%	-11.2%	14.0%
Share / Issue Repurchase	(16,859)	(1,311)	715	5,244	5,244
Cost of Dividends Paid	(3,457)	(3,668)	(4,198)	(3,939)	(4,060)
Change in Debt	(8,250)	12,944	(2,564)	0	0

Balance Sheet Data (May)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	21,383	9,765	13,430	25,453	38,856
Trade Receivables	5,953	6,915	5,373	3,832	2,463
Other Current Assets	4,297	4,324	4,213	4,236	4,235
Property, Plant & Equipment	9,716	17,069	21,516	28,366	35,838
Other Non-Current Assets	67,948	96,311	93,791	82,826	73,895
Total Assets	109,297	134,384	138,323	144,712	155,287
Short-Term Debt	3,749	4,061	5,510	5,510	5,510
Other Current Liabilities	15,762	19,029	19,368	19,826	20,320
Long-Term Debt	72,110	86,420	82,470	82,470	82,470
Other Non-Current Liabilities	23,444	23,318	23,545	23,545	23,545
Total Liabilities	115,065	132,828	130,893	131,351	131,845
Total Equity	(5,768)	1,556	7,430	13,361	23,442
Total Equity & Liabilities	109,297	134,384	138,323	144,712	155,287

* For full definitions of iQmethodSM measures, see page 8.

Company Sector

Server & Enterprise Software

Company Description

Oracle develops, manufactures, hosts, distributes and services database, middleware, and applications software as well as hardware. The software business is now reported in two segments - Cloud services and license support and Cloud license and on-premise license. Services consists of consulting, education and assistance so customers and partners maximize the performance of Oracle products. The hardware business consists of Oracle Engineered Systems (incl Exadata), servers, storage, and more.

Investment Rationale

While Oracle is showing signs of higher growth with its SaaS applications and Cloud Infrastructure through the Generation 2 release, the cloud transition is taking longer than expected to impact the numbers and is more than offset with larger legacy and low growth revenue segments, such as on-premise license, hardware, and more.

Stock Data

Average Daily Volume 7,863,237

Quarterly Earnings Estimates

	2023	2024
Q1	1.03A	1.19A
Q2	1.21A	1.34A
Q3	1.22A	1.41A
Q4	1.67A	1.64E

Models/Exhibits

Exhibit 1: Reported versus BofA estimates

Oracle cloud revenue came in just shy of our estimate

\$mn (except per share)	BofA Estimates	Actuals 3Q24	Variance
Cloud license and on-premise license	\$1,224	\$1,256	2.6%
Cloud Services and License Support	\$9,948	\$9,963	0.1%
Cloud revenues (BofA ests)	\$5,128	\$5,054	(1.4%)
Total Revs (non-GAAP)	\$13,305	\$13,280	(0.2%)
Gross Profit (total)	\$9,885	\$9,600	(2.9%)
Cloud gross profit	\$3,409	\$3,430	0.6%
Operating Exp			
R&D	\$1,781	\$1,664	(6.6%)
Sales & Mktg	\$2,138	\$1,863	(12.8%)
G&A	\$334	\$281	(15.8%)
Total Op Exp	\$4,253	\$3,808	(10.5%)
Op Income	\$5,633	\$5,792	2.8%
Interest Income, net	(\$880)	(\$876)	(0.5%)
NI - Pro forma	\$3,858	\$3,982	3.2%
EPS - Pro forma	\$1.37	\$1.41	3.0%
EPS - GAAP	\$0.92	\$0.85	(7.8%)
Gross Margin	74.3%	72.3%	(2.7%)
Oper. Margin	42.3%	43.6%	3.0%
Tax	18.8%	18.9%	0.2%

Bal.Sheet/Cash Flow			
Deferred Revs	\$8,769	\$8,931	1.8%
Cash Flow from Ops	\$5,402	\$5,475	1.4%
Free Cash Flow	\$2,741	\$3,801	38.7%

Source: BofA Global Research estimates, company report

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Exhibit 2: Estimate Changes

We are now estimating for 6.5% y/y revenue growth in FY24E

\$ Millions (except per share)	4Q24E				FY24E				FY25E			
	Previous Estimate	Previous Y/Y Growth	New Estimate	New Y/Y Growth	Previous Estimate	Previous Y/Y Growth	New Estimate	New Y/Y Growth	Previous Estimate	Previous Y/Y Growth	New Estimate	New Y/Y Growth
Cloud revenue	\$5,353	20.6%	\$5,314	19.8%	\$19,895	26.3%	\$19,829	25.0%	\$24,973	25.5%	\$24,692	24.5%
Cloud/On-premise Revenues	\$12,390	7.5%	\$12,364	7.3%	\$44,735	8.9%	\$44,756	8.9%	\$48,829	9.2%	\$48,916	9.3%
Hardware Revenues	\$825	-3.0%	\$791	-7.0%	\$3,065	-6.4%	\$3,015	-7.9%	\$2,973	-3.0%	\$2,924	-3.0%
Services Revenues	\$1,480	1.0%	\$1,377	-6.0%	\$5,593	0.0%	\$5,435	-2.8%	\$5,705	2.0%	\$5,544	2.0%
Total Revenue	\$14,694	6.2%	\$14,532	5.0%	\$53,393	6.9%	\$53,206	6.5%	\$57,507	7.7%	\$57,384	7.9%
PF Gross Margin	74.8%	...	75.6%	...	73.5%	...	73.2%	...	73.7%	...	73.6%	...
PF Operating Margin	45.1%	...	45.6%	...	42.8%	...	43.3%	...	43.4%	...	43.9%	...
PF EPS	\$1.66	-0.4%	\$1.64	-1.6%	\$5.55	8.4%	\$5.58	8.8%	\$6.21	11.8%	\$6.05	8.5%
FCF	\$3,305	-21.7%	\$3,547	-16.0%	\$8,470	68.5%	\$8,470	68.5%	\$10,769	27.1%	\$12,071	42.5%

Source: BofA Global Research estimates, company report

BofA GLOBAL RESEARCH



Price objective basis & risk

Oracle Corporation (ORCL)

Our \$144 PO is based on 23x our C25E EPS estimate of \$6.31 and is a premium to where the S&P500 is trading. We believe the premium is justified given possible revenue acceleration, sustainability of EPS growth in the long term, diversity of the company's product offering, sticky customer base, and margin profile.

Risks to our price objective are a severe downturn in enterprise software spending, currency headwinds, issues with the integration of past acquisitions, database competition from IBM, Amazon, and Microsoft, apps competition from SAP, Microsoft and others, and the development of viable open source database and middleware alternatives.

Analyst Certification

I, Brad Sills, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Enterprise Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	8x8	EGHT	EGHT US	Michael J. Funk
	Adobe	ADBE	ADBE US	Brad Sills
	Alarm.com	ALRM	ALRM US	Michael J. Funk
	Amplitude, Inc.	AMPL	AMPL US	Koji Ikeda, CFA
	Asana	ASAN	ASAN US	Michael J. Funk
	BILL	BILL	BILL US	Brad Sills
	CCC Intelligent Solutions	CCCS	CCCS US	Michael J. Funk
	Dynatrace	DT	DT US	Koji Ikeda, CFA
	Elastic NV	ESTC	ESTC US	Koji Ikeda, CFA
	GitLab Inc.	GTLB	GTLB US	Koji Ikeda, CFA
	Global-e Online Ltd.	GLBE	GLBE US	Koji Ikeda, CFA
	HubSpot	HUBS	HUBS US	Brad Sills
	Informatica Inc.	INFA	INFA US	Koji Ikeda, CFA
	Intapp Inc.	INTA	INTA US	Koji Ikeda, CFA
	Intuit	INTU	INTU US	Brad Sills
	JFrog Ltd	FROG	FROG US	Koji Ikeda, CFA
	MeridianLink, Inc.	MLNK	MLNK US	Koji Ikeda, CFA
	Microsoft Corporation	MSFT	MSFT US	Brad Sills
	Monday.com	MNDY	MNDY US	Michael J. Funk
	MongoDB Inc	MDB	MDB US	Brad Sills
	nCino, Inc.	NCNO	NCNO US	Adam Bergere
	NICE Ltd.	NICE	NICE US	Michael J. Funk
	NICE Ltd.	NCSYF	NICE IT	Michael J. Funk
	PagerDuty	PD	PD US	Koji Ikeda, CFA
	PowerSchool Holdings, Inc.	PWSC	PWSC US	Koji Ikeda, CFA
	RingCentral	RNG	RNG US	Michael J. Funk
	Salesforce.com	CRM	CRM US	Brad Sills
	ServiceNow	NOW	NOW US	Brad Sills
	UiPath	PATH	PATH US	Brad Sills
	Unity	U	U US	Michael J. Funk
	Weave	WEAV	WEAV US	Michael J. Funk
	Workday Inc.	WDAY	WDAY US	Brad Sills
	Zeta Global	ZETA	ZETA US	Koji Ikeda, CFA
	ZoomInfo	ZI	ZI US	Koji Ikeda, CFA
NEUTRAL				
	Autodesk	ADSK	ADSK US	Michael J. Funk
	Bentley Systems	BSY	BSY US	Michael J. Funk



US - Enterprise Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	BigCommerce Holdings, Inc.	BIGC	BIGC US	Koji Ikeda, CFA
	Coveo	YCVO	CVO CN	Koji Ikeda, CFA
	Datadog Inc	DDOG	DDOG US	Koji Ikeda, CFA
	DocuSign	DOCU	DOCU US	Brad Sills
	Freshworks, Inc.	FRSH	FRSH US	Adam Bergere
	HashiCorp	HCP	HCP US	Brad Sills
	Jamf	JAMF	JAMF US	Koji Ikeda, CFA
	Lightspeed Commerce Inc.	LSPD	LSPD US	Koji Ikeda, CFA
	Lightspeed Commerce Inc.	YLSPD	LSPD CN	Koji Ikeda, CFA
	Oracle Corporation	ORCL	ORCL US	Brad Sills
	Paycom	PAYC	PAYC US	Adam Bergere
	Paylocity	PCTY	PCTY US	Adam Bergere
	Shopify, Inc.	SHOP	SHOP US	Brad Sills
	Snowflake	SNOW	SNOW US	Brad Sills
	Veeva Systems, Inc.	VEEV	VEEV US	Brad Sills
	Vertex, Inc.	VERX	VERX US	Brad Sills
	Zoom Video Communications	ZM	ZM US	Michael J. Funk
UNDERPERFORM				
	AvidXchange, Inc.	AVDX	AVDX US	Brad Sills
	Blackbaud, Inc.	BLKB	BLKB US	Koji Ikeda, CFA
	BlackLine, Inc.	BL	BL US	Koji Ikeda, CFA
	C3.ai	AI	AI US	Brad Sills
	Confluent	CFLT	CFLT US	Brad Sills
	CS Disco, Inc.	LAW	LAW US	Koji Ikeda, CFA
	Dropbox	DBX	DBX US	Michael J. Funk
	Enfusion, Inc.	ENFN	ENFN US	Koji Ikeda, CFA
	Five9	FIVN	FIVN US	Michael J. Funk
	Guidewire Software, Inc.	GWRE	GWRE US	Michael J. Funk
	Smartsheet	SMAR	SMAR US	Michael J. Funk
	Twilio	TWLO	TWLO US	Michael J. Funk
RSTR				
	Splunk	SPLK	SPLK US	Brad Sills

IQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

IQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of IQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

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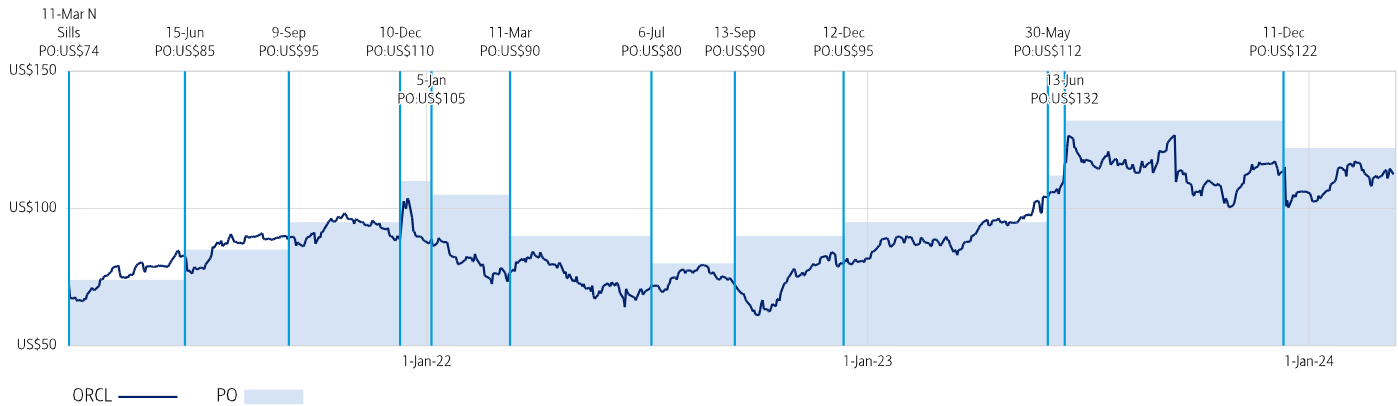
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Disclosures

Important Disclosures

Oracle (ORCL) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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