Presentation

Operator

Welcome to Oracle's First Quarter Fiscal 2015 Earnings Call. As a reminder, this call is being recorded for replay purposes. I'd like to now turn the call over to Ken Bond, Vice President of Investor Relations.

Ken Bond

Thank you, Victoria. Good afternoon, everyone, and welcome to Oracle's First Quarter Fiscal Year 2015 Earnings Conference Call. A copy of the press release and financial tables, which includes a GAAP to non-GAAP reconciliation and other supplemental financial information, can be viewed and downloaded from our Investor Relations website.

On the call today are Executive Chairman and Chief Technology Officer, Larry Ellison; CEO, Safra Catz; and CEO, Mark Hurd. As a reminder, today's discussion will include forward-looking statements, including predictions, expectations, estimates or other information that might be considered forward-looking.

Throughout today's discussion, we will present some important factors relating to our business, which may potentially affect these forward-looking statements. These forward-looking statements are also subject to risks and uncertainties that may cause actual results to differ materially from statements made today. As a result, we caution you against placing undue reliance on these forward-looking statements, and we encourage you to review our most recent reports, including our 10-Q and 10-K and any applicable amendments, for a complete discussion of these factors and other risks that may affect our future results or the market price of our stock.

And finally, we are not obligating ourselves to revise our results or publicly release any revision of these forward-looking statements in light of new information or future events.

Before taking questions, we'll begin with a few prepared remarks. And with that, I'd like to turn the call over to Safra.

Safra Ada Catz
CEO & Director

Thanks, Ken. I'm going to focus on our non-GAAP results for Q1. I'll then review guidance for Q2, then turn the call over to Mark and Larry for their comment. Those of you who have followed us for a while know that Q1 is a seasonally smaller quarter, which can mean more volatility in our results, and that's what we saw this quarter. Currency was a 1% tailwind to total revenues. Today, my comments generally reflect constant dollar growth rates.

Cloud revenue totaled $477 million, growing 29%. In that, cloud, SaaS and PaaS were $339 million, up 31% from last year and up 4% sequentially. Cloud Infrastructure as a Service was $138 million, up 25%. Q1 results in the cloud were better than expected and with us now 3x bigger than Workday. Now that's not enough for us, as our goal is to be bigger than Salesforce and faster growing than Workday while growing cash flow and improving our already high levels of profitability.

New software licensed was $1.4 billion, down 2% from last year, and software updates and product support was a record $4.7 billion, up 6%. Software and Cloud revenue totaled $6.6 billion in Q1, growing 6%.

Customers have started to move from on-premise systems to the cloud, but with so many on-premise customers and only 30% of our support based in applications, we haven't seen a reduction in software update and product support renewal rates, which continue at their usual high levels. However, as the movement to the cloud grows, we expect this transition will affect our revenue to the positive. These customers will essentially replace their software support payment with a cloud subscription, which will mean substantially more revenue to Oracle. That is because not only will we be providing the most up-to-date software but we'll also be providing the hardware, the application management and complete operation.

Of course, we expect that as the customer pays more to Oracle, this increase will be more than offset by a reduction in their cost of implementing and running their own systems. And because we control nearly all of our own supply chain and benefit from enormous economies of scale, we expect most customers converting their premise-based software support payments to cloud subscription will be immediately accretive to operating income as well.

In the case of new or existing customers taking cloud subscriptions in lieu of buying new or additional software licenses, there will be a short-term delay in revenue. But over the medium and long term, we also expect more revenue and operating income as well as increased cash flow.

As for the details in this quarter, GAAP Software and Cloud results in the Americas grew 6%, helped by a very strong performance from our North America application team and our Global Business Unit. Thanks to the fantastic EMEA management team, considering the geopolitical situation in Europe and the Middle East, EMEA was up an outstanding 7%. Asia Pac grew 2%.

Engineered Systems continued to grow and were over 1/3 of hardware product revenue over the last 12 months. However, hardware revenue in total was down 8% as other servers and storage revenues, especially tape declined. Hardware system product revenue was down 14% while hardware system support was down 2%.

Consulting services, which I don't usually comment on because they are not as strategic to our business, also suffered from some execution issues in North America.

Total revenue for the quarter was $8.6 billion, up 2% from last year. The quarter was not dependent on any one large deal. Our non-GAAP operating income was $3.8 billion, was 1% higher than last year, and operating margin was 44.4%, down just 22 basis points from last year because the sales shortfall in hardware -- in some hardware and consulting happened late in the quarter and did not allow us time to adjust our expense base in the quarter.

Free cash flow increased to a record $14.7 billion over the last 4 quarters to an all-time high of $6.5 billion for the quarter, up 6% from Q1 last year. The non-GAAP tax rate for the quarter was 21.5%. EPS for the quarter grew 4% in U.S. dollars to $0.62 on a non-GAAP basis.

The GAAP tax rate was 19.7% due to some one-time events and the mix of earnings. On a GAAP basis, EPS for the quarter was $0.48 in U.S. dollars, up 2%. At quarter end, deferred revenue was at a record $8.9 billion, up 5% from last year, and we had nearly $52 billion in cash and marketable securities.

Net of debt, our cash position was $19 billion, so both of these balances are roughly $5 billion lower now that we've closed the MICROS transaction. This quarter, we repurchased nearly 49 million shares for a total of $2 billion. Over the last 12 months, we repurchased more than 5% of the shares outstanding a year ago and paid out more than $2.1 billion in dividend, as nearly 75% of our cash flow was returned to shareholders.

We recently increased our share buyback authorization by an additional $13 billion, and we now have a total authorization of more than $15 billion available. The Board of Directors declared a quarterly dividend of $0.12 per share.

As I move to guidance, I need to make some comments first regarding MICROS, which we closed a few days ago. First, we will not own it for the whole quarter; secondly, and much more importantly, because our revenue recognition policies and our operating procedures are strict, the contributions from MICROS will not be consistent with their historical run rate.

For example, I am only expecting about $14 million in on-premise new license revenue for the quarter from MICROS. Also given recent currency movements, we expect to see a currency headwind of 1% for cloud revenues, 2% for Software and Cloud revenue combined and 2% for both hardware and total revenue, and that could very much change.

So taking all that into account, SaaS and PaaS, on a non-GAAP basis, is expected to grow between 40% to 45% in constant currency, 39% to 44% in U.S. dollars. On a GAAP basis, SaaS and PaaS revenue is expected to grow 39% to $0.44 -- 44% in constant currency and 38% to 43% in U.S. dollars. Cloud IaaS on a GAAP and non-GAAP basis is expected to grow 40% to 44% in constant currency and 39% to 43% in U.S. dollars.

Software and Cloud revenue on a GAAP and non-GAAP basis, including SaaS, Pass, IaaS, new software licensed and software support, is expected to grow 5% to 8% in constant currency, 3% to 6% in U.S. dollars. Hardware system revenues on a GAAP and non-GAAP basis, which includes hardware system product and hardware system support, is expected to be negative 8% to positive 2% in constant currency, negative 10% to 0% in U.S. dollars.

Total revenue growth on a GAAP and non-GAAP basis is expected to range from 2% to 6% in constant currency, 0% to 4% in U.S. dollars. Non-GAAP EPS is expected to be somewhere between $0.68 to $0.72 in constant currency, $0.66 and $0.70 in U.S. dollars. GAAP EPS is expected to be somewhere between $0.53 and $0.57 in constant currency and $0.55 and -- $0.51 and $0.55 in U.S. dollars.

This guidance assumes a GAAP tax rate of 22.5% and a non-GAAP tax rate of 23%. Of course, it may end up being different. As you've seen in the last few minutes, we announced that Larry was elected Executive Chairman and appointed Chief Technical -- Technology Officer. Mark and I have been appointed CEO. Other than Mark and I reporting to the Board of Directors, of which Larry will be Executive Chairman instead of to Larry directly, no other reporting relationships will change at the company.

In addition, though I will no longer go by the CFO title, I will be the Principal Financial Officer for all regulatory purposes. We will not be hiring a CFO, and my teams will continue to report to me.

With that, I will turn it over to Larry for his comments.

Lawrence J. Ellison
Co-Founder, Chairman & CTO

Thank you, Safra. Next week at Oracle OpenWorld, we will be rolling out our new Database Cloud service, with our new multi-tenant Database as a Service offering. Our customers and ISVs can move any of their existing applications and databases to the Oracle cloud with the push of a button.

With the push of a button, your data is automatically compressed 10:1 and encrypted for secure and efficient transfer to the cloud. With the push of a button, your existing application automatically becomes a multi-tenant application and is moved to the Oracle cloud. No reprogramming is required.

Every single Oracle feature, even our latest high-speed in-memory processing, is included in the Oracle Cloud Database Service. Hundreds of thousands of customers and ISVs have been waiting for exactly this. Database is our largest software business, and database will be our largest cloud service business. Mark, over to you.

Mark Vincent Hurd
CEO & Director

Yes, listen. Before we take questions, I'd thought I'd just give you 7 or 8 facts about our cloud business in the quarter. First, bookings grew 54%, 3x last year's growth rate. Fusion bookings, ERP, HCM and SFA all grew triple-digits. Two, revenue grew 32% USD, 2x last year's growth rate. Three, we got 500 new cloud customers in the quarter. Four, 170 of them were HCM customers. Based on what I heard Workday report, they got something like 25. We got 60 Fusion HCM new customers in the quarter.

Four, in CX, we had 290 new customers, 90 including Fusion -- 90 Fusion SFA and almost 200 marketing new customers in the quarter. Five, ERP, we added 90 new customers in Fusion ERP and a like number in our EPM cloud. And all I'm talking about now here is ERP cloud and EPM cloud.

Fusion overall had triple-digit bookings growth, triple-digit revenue growth. We added nearly 200 net new Fusion customers and had many tens of go-lives. And while the transition to the cloud is in the early stages, we're already at a run rate of nearly $2 billion.

A couple of comments on hardware. We declined in SPARC this quarter while we grew Engineered Systems double-digits. As Safra mentioned, Engineered Systems now makes up 1/3 of our hardware. While we're growing double-digits, our competitors are declining double-digits.

We shipped our 10,000th Engineered System in Q1. Lifetime bookings in hardware alone for Engineered Systems now exceed $3 billion. Hardware support margins are now approaching 70%, as a testimony to the change in our overall hardware mix and the stickiness of this business.

And with that, I'll turn it over to you all for questions.

Ken Bond
Victoria, we'll go to the Q&A portion of the call, please.