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Oracle Corporation (ORCL) CEO Safra Catz on Q1 2020 Results - Earnings Call Transcript

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FQ1: 09-11-19 Earnings Summary



Press Release



10-Q

EPS of \$0.81 beats by \$0.00 | Revenue of \$9.22B (0.21% Y/Y) misses by \$-67.88M

Earning Call Audio



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Oracle Corporation (NYSE:ORCL) Q1 2020 Earnings Conference Call September 11, 2019 5:30 PM ET

Company Participants

Ken Bond - Senior Vice President, Investor Relations

Safra Catz - Chief Executive Officer

Larry Ellison - Chairman & Chief Technology Officer

Conference Call Participants

John DiFucci - Jefferies

Brad Zelnick - Credit Suisse

Phil Winslow - Wells Fargo

Heather Bellini - Goldman Sachs

Mark Moerdler - Bernstein

Raimo Lenschow - Barclays

Operator

Welcome to Oracle's First Quarter 2020 Earnings Conference Call. I'd now like to turn today's call over to Ken Bond, Senior Vice President. Ken?

Ken Bond

Thank you, Holly. Good afternoon, everyone, and thank you for joining us on short notice. Welcome to Oracle's first quarter fiscal year 2020 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 Chairman and Chief Technology Officer, Larry Ellison; and CEO, Safra Catz.

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-K and 10-Q 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 to 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 Catz

Thanks, Ken, and thank you, all, for joining us on such very short notice. Of course September 11th is an important day for our country and for us at Oracle. Many of you know that we lost 11 of our employees and many friends that day and we honor all the victims today and every day. May their memories be a blessing to all of us.

We originally planned to hold this call tomorrow. However, as Mark will be taking a leave of absence for health-related reasons, we felt it made sense to share all of our news at once.

Mark was extremely engaged with the business through the end of the quarter, but now he needs to focus on his health and taking care of himself. As the three of us have always worked as a team on managing Oracle, Larry and I will cover Mark's responsibilities during his absence with support from the rest of our strong management team.

Now, switching to the first quarter, I will review our non-GAAP results using constant dollar growth rates unless I state otherwise. And though the effects of the currency movements in Q1 were modestly more than expected with a 1.3% headwind to total revenues and \$0.01 headwind to earnings per share, both results were in line with my guidance range.

Total Cloud Services and License Support revenues for the quarter were \$6.8 billion, up 4% and accounting for nearly three quarters of total company revenues and most of all of this revenue is recurring.

Cloud and On-Premise License revenues were \$812 million, down 6% coming off 15% license growth last quarter. And as a reminder, because Q1 is normally our smallest quarter, we tend to see more volatility in new software license growth rates in Q1.

In terms of ecosystems, GAAP applications ecosystem revenues were \$2.8 billion, up 3% with Fusion apps up nearly 40% including Fusion ERP, up mid-40s and Fusion HCM up low 30s. NetSuite ERP was up in the mid-20s. Vertical SaaS was up high single-digits while Data Cloud was down in the low teens.

On a trailing 12-month basis, more than 90% of our application ecosystem revenue is now recurring. GAAP infrastructure ecosystem revenues were \$4.8 billion, up 3% with total database revenue up similarly highlighted by BYOL and Autonomous Database revenues,

both up triple digits, but also small base for now.

On a trailing 12-month basis, more than three quarters of our infrastructure ecosystem is now recurring. In terms of geographies, we saw double-digit revenue growth in cloud revenue in all regions, with especially strong results in Latin America and Asia Pacific. The gross margin for Cloud Services and License Support was 86%. And as we continue to scale and grow, I expect our cloud gross margins will go higher, driving an acceleration in our gross profit growth.

Total revenues for the quarter were \$9.2 billion, up 1% from last year. Non-GAAP operating income was \$3.8 billion, up 4% from last year; and the operating margin was 42%, up from 41% last year.

The non-GAAP tax rate for the quarter was at 9.8%, slightly below our base tax rate of 20% and EPS was US\$0.81 and up 16% in constant dollar and 14% in US\$. The GAAP tax rate was 13.9% and GAAP EPS was US\$0.63 and up 13% in constant currency and 11% in US\$.

Operating cash flow over the last four quarters was \$13.8 billion. Over the last four quarters, capital expenditures were \$1.7 billion and free cash flow was \$12.2 billion. We now have approximately \$36 billion in cash and marketable securities and the short-term deferred revenue balance is \$10.9 billion.

As we've said before, we're committed to returning value to our shareholders through technical innovation, strategic acquisition, stock repurchases, prudent use of debt and the dividend. This quarter, we repurchased 89 million shares for a total of \$5 billion. Over the last 12 months, we've repurchased 611 million shares for a total of \$31 billion. And over the last five years, we have reduced the shares outstanding by more than 25%. The Board of Directors increased the authorization for share repurchases by an additional \$15 billion and again declared a quarterly dividend of \$0.24 per share.

My guidance today is on a non-GAAP basis and in constant currencies. Assuming, current exchange rates remain the same as they are now, currency should have a 1% negative effect on total revenue and \$0.01 negative on EPS. Of course, that could change. So, for

Q2, total revenues are expected to grow 1% to 3% in constant currency. And assuming a 1% currency headwind, total revenues are expected to grow from 0% to 2% in U.S. dollars.

Non-GAAP EPS in constant currency is expected to grow between 10% to 12% and be between \$0.88 and \$0.90 in constant currency. And assuming the \$0.01 headwind, non-GAAP EPS in U.S. dollars is expected to grow between 9% and 11% and be between US\$0.87 and US\$0.89.

For fiscal 2020 and the third consecutive fiscal quarter, I expect that we will report double-digit EPS growth in constant currency. Total CapEx for fiscal year 2020 is expected to be around \$2.2 billion, but it could move a little depending on our bookings, and how much we need to invest to accommodate them.

My EPS guidance for Q2 and fiscal 2020 assumes a base tax rate of 20%. However, onetime tax events could cause actual tax rates for any given quarter to vary from our base tax rate. But I expect that in normalizing for these onetime tax events our tax rate will average around 20% for fiscal year 2020.

I'm turning the call over to Larry for his comments, who will spend a little time highlighting some of the key wins we had during the quarter with emphasis on back-office applications, and then talk about autonomous database.

Larry Ellison

Thank you, Safra. As you're already aware, our back-office applications business has been reporting excellent growth for a number of quarters now. And we have a massive opportunity ahead of us in both ERP and HCM. Not only do we have an enormous installed base of existing ERP and HCM customers, who can operate to the cloud, but more than half of the current ERP and HCM market is served by companies, who have no SaaS upgrade path. These companies products are vulnerable to being replaced, and we're in the process of replacing them.

Our investments in Fusion has not only enabled our strong back-office results over the last few years, but they've positioned us to become not just the biggest back-office player in the cloud, which we already are but the biggest back-office player period. Cloud on-premises all of it.

So with that, here are some key Fusion ERP wins from Q1. DP World, Shaw Communications, Bangkok Bank of Thailand, who's upgrading their e-business suite with our Fusion Financials Cloud Service and our Fusion Financial Enterprise Performance Management, Envision Healthcare where we beat Workday and we're replacing Envision Healthcare's legacy system, which is an Infor Lawson system.

Express Scripts who's in the process of migrating from Hyperion on-premise to the Fusion EPM in the cloud this is their first cloud application. Lyft who's operating a portion of their ERP system that was – started out as NetSuite but is now Fusion as they plan for growth going forward. Media newsroom another competitive win against Workday. National Oilwell Varco in a nice expansion both their EPM and supply chain management that we closed last year. So they're just – they're adding more products, they're adding – adding more of our overall Fusion suite.

NGL Energy Partners has also bought our Fusion ERP suite and supply chain management. Penn National Gaming is an online gaming company and that was a competitive win against the unnamed German company located at a town called Waldorf.

Standard Group Limited a large garment manufacturer where we beat that same Waldorf German Company. Southern Company is a utility that was running E-Business Suite and PeopleSoft E-Business Suite Financials and PeopleSoft HCM and they're moving to the Fusion Cloud suite overall Financials HCM everything.

Continuing, we've got some great – some great additional just HCM wins. BAE Systems chose Fusion HCM to upgrade their HR technology and standardize on the cloud. Dubai Holdings where we're expanding our relationship by adding both Fusion HCM and Taleo for recruiting. Envision Healthcare is adding infusion HCM to the already-purchased Fusion ERP suite. A very large transportation entity in the U.K. an airport who is a long-term E-Business Suite customer is moving from on-premise to the Fusion suite in the cloud.

Here's a company everyone's always heard of and probably has visited many times McDonald's. McDonald's chose our HCM. They chose our payroll. And they -- this was a battle between us and Workday. We won. And we're displacing their on-premise legacy system. Nestle; Southwest Gas where we're displacing SAP and we beat Workday, as Southwest Gas decided to move from SAP on-premise to the cloud and they picked us.

The University of Texas and we're actually engaged with them on not only providing cloud technology, but also consulting support to migrate them from PeopleSoft on-premise to the Fusion HCM in the cloud. And it's just not a bunch of customer wins that marks our success. Industry analysts including IDC are taking notice as they survey their customers.

In the 2019 SaaS/PaaS survey that IDC released in May of 2019, it surveyed over 1,500 of their SaaS customers on their experience with all SaaS vendors including Oracle, SAP, Salesforce, Workday, Microsoft all of them. Oracle SaaS had the highest rating among all SaaS vendor survey period.

So you can see we're at the beginning of a back-office upgrade cycle that will benefit our applications ecosystem for years to come. We're already overwhelmingly the largest ERP system in the cloud. And again, it won't be long before we're just the largest ERP supplier period.

The second area I'd like to talk about is the Autonomous Database, because we think this is a game changer. All right game changer interesting term. It sounds like a cliché a little bit of marketing hype. Let me explain how important this is. Autonomous technology is the key element that differentiates a second-generation cloud from a first-generation cloud.

Now in the first-generation cloud, your real benefit was you were going to rent computers and you only pay for what you use. And the benefit of a second generation -- and not so great benefit, obviously the first-generation cloud pay for what you use when you use it.

Second-generation cloud, not only do we deliver the benefits of pay per use, we also take the human labor out of running the cloud. That's an even bigger economic savings. Sharing computers and renting computers is not as costly as paying for the labor to run those computers.

So from an economic advantage, a second-generation autonomous cloud is much less expensive to run than a first-generation cloud. But that's not what's really important. What's really important is the second-generation autonomous cloud prevents data theft, which you can never do in a first-generation manual cloud.

Let me point out how reasonable Amazon was when they refused to accept responsibility for the configuration errors made by the people at Capital One. They have a policy so you have control of your data. You have control of your system. You are responsible for running your system. And if you make mistakes, it's on you, it's not on us. That is not an unreasonable position. When you have a totally manual system and your users are responsible for configuring the system, when your users are responsible for backing the system up, when your users are responsible for encrypting the data, when your users are responsible for patching the systems, user errors can lead to catastrophic results. In a manual system, there's no way to prevent that.

In an autonomous system, the Capital One data breach could never have happened, because the Oracle Autonomous Database doesn't let a human being configure the system, it configures itself automatically. The Oracle Autonomous Database system doesn't ask human beings to patch it to close security holes. The system automatically patches itself while running.

The Oracle Database doesn't ask if you want to back it up or if you want to encrypt your data, it does all of this automatically while it's running. The only way you can prevent data theft is to eliminate human error. The only way you can do that was with an Autonomous Database and we have one and our competitors don't. This is a very big deal.

What's the greatest thing about autonomous driving? I was looking forward to autonomous driving. Then they've seen the threat to Uber and all this other stuff. But okay, that's all interesting. The greatest thing about autonomous driving, it's going to reduce human pilot error and cut down on accidents by 90%, 95%, 98%, 99%. It's going to save lives. It's going to stop, come close to eliminating pilot error.

The Oracle Autonomous Database, the Oracle self-driving database prevents users from making catastrophic mistakes resulting in data loss. And there is no way to do it in a manual cloud, end of story. That's what I mean by game changer.

You want to prevent data theft, you better be prepared to pay less, because we take the labor out, huge cost savings and there are no human beings involved and they can't make those common mistakes. All right.

So we're still early on in the Autonomous Database in terms of -- it's only been around -- we announced it in Open World 2017 two years ago and really showed up in 2018 and now we're beginning to get some traction with this exciting new technology. It's proving to be the most exciting and successful new product offering in the history of our company.

So here -- I got it. I'm sorry, am I missing? I'm curious -- sorry, I got it. All right. So here's some recent data. In Q1, we added more than 3,700 new Autonomous Database trials. We now have over 2,000 customers, paying customers for the autonomous database. We're seeing incredible pull-through with the autonomous database. And you come to Oracle -- the Oracle Cloud to use the Autonomous Database and then you use a variety of other services.

About 45% of the people who are using Autonomous Database are also using our Oracle Analytics Cloud. By the way they're also using Microsoft analytics, they're using Cognos, they're using a variety of other tools. But primarily, they're using Oracle Analytics.

We've added many customers to Autonomous Database that weren't Oracle customers at all. 13% of the people using Autonomous Database had never bought a database from Oracle Corporation.

43% of the workloads that are going on to Autonomous Database are net new. They're not moving them from on-premise to the Autonomous Database, but half of them move from on-premise to Autonomous Database. Almost the other half 43% are just net new applications.

We've had some fabulous wins in the quarter. Obviously, I'm not going to mention all it. We have over 500 wins, Autonomous Database wins in the quarter. I'm not going to mention all 500. But 7-Eleven is moving all their point-of-sale data to the Autonomous Data warehouse Cargojet Canada, Johnson Controls, LATAM Airlines is moving their on-premise data centers to OCI to get the advantage and security of the Autonomous

Database. Siemens Energy, Stanley Black & Decker getting much faster data reporting on their analytics. Oh yeah, and one more company moving to the Autonomous Database is Uber.

And with that, let's turn it back to the operator.

Ken Bond

Thank you, Larry. Holly before we go to the Q&A, just a couple of clarifications, because I had a couple of e-mails on this. The non-GAAP tax rate for the quarter was 19.8%. And then for fiscal year 2020, we expect for the full year, this will be our third consecutive year of double-digit earnings growth.

With that, Holly, why don't we turn up to Q&A?

Question-and-Answer Session

Operator

[Operator Instructions] Our first question will come from the line of John DiFucci Jefferies.

John DiFucci

Thank you. I'm sure I speak for everyone just to briefly say that our thoughts and prayers are with Mark and his family at this time. But also knowing Mark for years, I'm sure he'd like us to sort of get back to business, so I'll move right to question here.

So, there was -- Cloud Services and License Support was strong this quarter, but License was not as strong as we modeled it anyway. And I realize it's a seasonally slow first quarter and you said it follows the strongest and yes really strong fourth quarter as strong as we've seen in quite some time. But is there anything else you can share on that line, any further color? For instance, BYOL has got a lot of traction right?

And could that cause your financials just to start to trend more seasonally sort of like it used to? I mean it started to get a little more even it's still seasonal, but a little more even. Should we be starting to think of seasonality how Oracle used to be even more seasonal,

or we're also hearing you guys you hear it too you hear from some other companies that talk about macro pressure. Are you seeing any of that at all? I'm just curious any color would be helpful.

Safra Catz

Sure. That's easy John. It was actually something very, very simple. First of all, outside of North America, our license was up, up quite a bit in fact internationally. What we had done in North America is we did do a split in the salesforce. We've been telegraphing that we were doing that before we split the North America tech salesforce between selling cloud -- a group selling cloud; and a group selling new licenses.

So, the group selling new license was a new group and so I expect that they will more than recover during the year. But that is the only -- that's the only weakness we had and it was simply just a slow start as we reorged the North America tech sales force since we split it. So, there's no macro issue. There's no actual regular issue. And of course the thing is that in Q1, small numbers make a big difference and so they just kind of outsized. But no we don't see anything and that's really all it was.

John DiFucci

Okay. That's really -- that's helpful Safra and that makes sense and sort of we're hearing things about that and just a quick follow-up maybe for Larry. Larry last quarter you had really strong results in the database options and most especially the ones related to the Autonomous Database.

I'm just curious in this quarter, again, a seasonally softer first quarter, but can you talk about the options themselves? And I'm thinking more about things like -- my favorite is multi-tenancy, but there's others that are important too.

Larry Ellison

I think multi-tenancy in memory all of the database options that are used with the Autonomous Database I think are selling very, very well. Again the reorg in North America had a great impact on that because those are license sales and then they bring those

licenses to the cloud. So, people buy multi-tenant. They buy rack. They buy in memory. They then pick up those options and their existing licenses up and they move them to the cloud.

So, some of those sales were delayed because of the reorg, but we think the demand is enormous. And we think the leading indicator is just the number of trials we've signed up in Q1. So, our cloud salesforce in terms of the cloud activity, we had incredible cloud activity. And we expect -- again we signed more than 500 deals Autonomous Database deals in Q1. 3700 new trials the 500 signed paying customers more of them and we expect to double that in Q2.

So, we expect to go from well over 1,000 paying customers and that pipeline to just start building. That is the best early indicator. And that will drive not only cloud revenue, but also license revenue because of the options.

Ken Bond

Next question, please.

John DiFucci

Great. Okay. Thank you.

Operator

Our next question will come from the line of Brad Zelnick, Credit Suisse.

Brad Zelnick

Great. Thanks so much. I'll start just by echoing John's sentiment and wish Mark a very speedy recovery. But getting on with business, I wanted to dig in a little bit to the great momentum that you're seeing in cloud ERP? And you gave a lot of color Larry in your comments, but perhaps if you can help us understand what the demand patterns look like amongst existing customers migrating versus new logo business that you're able to attract. And as well, that market has always been a fragmented market. And is there any evidence that you might be benefiting from consolidation finally in ERP which has so many players that's in the long tail? Thank you.

Larry Ellison

Well, I think -- let me talk about some of the easiest consolidations. We're picking on Lawson. We actually have sales territories which are Lawson Healthcare sales territories. So, we go out there -- the Lawson Healthcare customers and we've rolled up a bunch of those. I'd say about one-third of their customers of Lawson Healthcare customers are in our pipeline, either already converted or in our pipeline. So, we expect to win all of those. We've just added some new sales territories which are Lawson retail territories, which is a combination of our Fusion Financials and our retail merchandising products. And we think that's also a very vulnerable company that Infor really -- well they tried. A lot of people have tried to build cloud systems. It's not easy. I can attest to that. I have lots of scars. But I mean Fusion took 10 years to get going. I mean, it's a big deal.

And NetSuite that overnight success took 20 -- been in business over 20 years. Salesforce has been in business over 20 years. It takes a while to build these very complicated systems. And Lawson doesn't really have anything. So we're taking a bunch of their customers. But the one that's extraordinary is that SAP really does not have a true cloud system. SAP is doing some hosting. They don't have a true cloud system. And now we're seeing kind of some of their larger -- not the very largest companies, but some of their medium large companies, go ahead and pick us and we're converting them.

But we are in conversations with their very largest -- SAP's very, very largest customers. We're in the middle of converting one of their very, very largest customers. And we think that of course is the huge opportunity. We think we -- right now Oracle and SAP has about half the European market. I'm sorry; it's a very long answer. We have about half -- the two of us have about half of the European market. And the other half of the European market as you say highly fragmented. We started out by targeting the highly fragmented guys who are really weak and vulnerable, but we think the opportunity exists to roll it all up. If you look at our market -- I mean I'm almost afraid to mention what our market share in ERP and the cloud is. What is it, 95%?

Safra Catz

A lot.

Larry Ellison

I mean, I don't know. I mean just, I'm guessing, but I don't know because I don't know of any other cloud ERP system other than NetSuite and Fusion, so maybe 95% is low. I mean, it sound a little crazy. But SAP really did not rewrite their code. They really don't have a cloud system. And we have an opportunity to go after them and just put that aside and then that whole other half of the ERP marketplace which is companies that a lot of people have never heard of. And yes, I think we can consolidate virtually all of that. I mean, I don't know how to describe it. It's a crazy opportunity. You don't see this happen very often.

Ken Bond

Next question, please.

Brad Zelnick

Thank you.

Operator

Our next question will come from the line of Phil Winslow, Wells Fargo.

Phil Winslow

Hey, thanks for taking my question and I just wanted to echo Mark just wishing you the speediest recovery and all the best. And to the team, congrats on a solid start to the year. I just wanted to follow up on John's question on the database. One of the questions I get from investors is sort of the trajectory of database because obviously we're getting some metrics from you guys, that's showing an inflection in terms of customers, also just trials out there. How do you think about just I guess the shape of the curve of database growth going forward with all these different levers?

Larry Ellison

Okay. Well, because the growth rate is so extraordinary, we don't -- we're not forecasting it. I mean, when Safra gives you a forecast, she's not forecasting some -- this incredibly steep growth curve in Autonomous Database. So, we're giving you, I would say a conservative point of view especially in terms of Autonomous Database. And -- but again, this is the case where we have a technology that nobody else has, A, we are the dominant database supplier on the planet right now.

We're bigger than IBM and Microsoft combined. In the previous battles, in the previous war on-premise, we were bigger than Microsoft and IBM combined our two biggest competitors. The cloud based -- there are a bunch of open source cloud databases and there is a lot of more specialized, I mean there are probably a dozen of them, or more for that matter. But none of them are autonomous. None of them are secure. None of them task themselves, while running. None of them give you 99.995% availability. I mean, they're -- we're 100 times more reliable. I mean seriously a 100x more reliable than these guys.

We have the only system that we can pretty much ensure that your data can't be stolen, because you're -- because you can't make pilot errors. You can't commit -- you can't make mistakes, because all that's -- all of those decisions are automated. So, it's another -- I mean, so we're sitting in two markets that we have an opportunity of completely dominating and owning.

One is ERP, where we've been in it for a while and you actually can see the data -- you can actually see the curve and the curve -- and the curves -- the curve we have enough years of data that you can see the slope of the curve and you can do these market share studies. There are always analyst reports and all that. And we've made great progress in that and you can see it.

In the Autonomous Database, all you can do is listen to me talk about this extraordinary technology. And we're so early on in the curve we've got such little data in the curve. I understand -- and even we're playing let's wait and see what this turns out to be. But we have this gigantic installed base that's I think going to go with Autonomous Database. But it's not just that it's not safe to go to any other database. That's a pretty good differentiator.

And it's our second extraordinary opportunity. ERP back-office in the cloud, Autonomous Database in the cloud, we're successful in those two markets, should be enough to make a living.

Phil Winslow

Thanks, guys.

Operator

Thank you. Our next question will come from the line of Heather Bellini, Goldman Sachs.

Heather Bellini

Great. Thank you so much. And again, I'm going to echo everyone's thoughts for Mark and thoughts with him and his family. Just wanted to ask two quick questions. One, if I could, Safra I know John DiFucci asked some questions about the environment. You talked about the North American sales reorg. I was wondering, just you've seen a lot of results since August, early August come in where maybe results haven't been as good as people wide. I'm just wondering if you're seeing – if you saw any elongation in the sales cycles, if there's anything you can share with us there just globally from what you've been seeing.

And then secondly, just a question related to OCI and – I know obviously Open World's next week. There'll be a lot of partners to talk to. But a lot of the partners we've been speaking to of late have talked about a real pickup in momentum there. And just wondering, if you can share with us what you're seeing? Thank you.

Safra Catz

Sure. Actually, we feel like we've got a lot of momentum here at Oracle. The issue regarding markets either abroad, or in the United States we're not seeing it. The – we're on very, very positive momentum from a product cycle point of view. Our Fusion products are basically killing it. That's doing amazingly. Autonomous Database and the whole OCI is so compelling. And we are on the field, and we are expanding globally that we have just so much good news happening around the world that we're not seeing the weaknesses.

And so to the extent that there are, we just have a lot of company, product, momentum, ourselves, I know that I will not be able to hold Larry back from answering your second question. So I'm just unleashing him in advance of Open World. Go ahead Larry.

Larry Ellison

Okay. So next week at Open World, we're going to be talking about – we started with Autonomous Database in 2018. We continued to make improvements there and speeding it up. And – but we're not at Autonomous Database.

At Open World, we'll be announcing a whole bunch of new autonomous services. No one is doing this. But we're not talking about Autonomous Database. So you're going to see a bunch of arguments where we take that same machine learning technology to develop other autonomous services. And we're on our way. I mean, it's our goal to deliver the world's first and only completely autonomous cloud, the most important thing in keeping your data sites. But we'd like -- I mean, you really should have an autonomous operating system.

You should have a bunch of autonomous services in that to operate that cloud, so human beings aren't given the opportunity to make mistakes and people can concentrate on building applications rather than managing the plumbing of the cloud, which is complicated and error prone and expensive. So we want to take -- get rid of the expense, get rid of the errors.

Starting with Autonomous Database, you'll see a bunch more announcements of new autonomous services in OCI. And OCI is definitely on a roll. If people come to look at Autonomous Database, they look around in the Oracle Cloud and they see our analytics, our compute I can talk about all these other things, but we have -- we really have a second-generation cloud that's highly differentiated from our friends in Amazon or Google.

Heather Bellini

Thank you.

Ken Bond

Next question, please.

Operator

Our next question will come from the line of Mark Moerdler, Bernstein.

Mark Moerdler

Thank you very much for taking question. Again, I echo everyone else. Please tell Mark that our thoughts are with him and his family. Larry, Safra given autonomous adoption commentary how good it's going, can you give us some more color based off this quarter on how the revenue lift is occurring as customers moving to the Autonomous Database based on what you're seeing in sales that is going now, how that's trending? And any sense to how to think about how large Autonomous Database revenue is, any color would be appreciated?

Larry Ellison

Well, our approach, I mean, sometimes they're critical of Amazon. Sometimes I'm just -- I try to learn from what they do. I mean they were the innovator in cloud and I give them credit for that. And I think the strategy of land and expand, which is what Amazon has used in marketing their products, so you get in for one project and you're successful on that project, then you go to the next project, it's been very different than the way Oracle has been selling in the past.

We have adopted with Autonomous Database. We've adopted that land start small, get in there on a project just demonstrates how great this technology is and then get another project and another project after that.

So we've adopted this land-and-expand approach. And we have many examples where people have been successful in their first projects and have moved on to two more moved on to -- then moved on to 10 more after that, so we see -- again, the opportunity is gigantic. The fact that we have four -- that we added 4,000 -- almost 4,000 trials, short of 4,000 trials in Q1 is an example of how we're really getting traction now and the word is getting out about how good the Autonomous Database is, how big is it as an overall market.

Safra Catz

It's brilliant. The reality is that most of our customers have been waiting for us. They've not brought those critical large and security-conscious workloads. They've not brought them to the cloud so far. They didn't bring them to the other vendors. The other vendors are all actually having trouble in the enterprise with these important workloads. They have been waiting for us. And so as they've started to bring smaller workloads in, they can start quite small. And then their next buy is 10 times the size and the opportunities often 1,000 times the size. And that's what we're starting to see. How long will it take? I don't know.

We're not -- we're trying to just go with it. You have to understand that many of these can also go just pay as you go, they're never forecasted. A customer just tries it and before you know it it's expanding. The opportunity is literally enormous, because many of these workloads, they can't go to the cloud any other way. Those that have tried have been either unsuccessful or it's been both expensive and risk their security situation.

So this is a very, very powerful moment for us. We're not going to overplay it here. We're just going to ride along with it. You're going to hear at Open World from some of these customers. And it's very much like originally, when we start to talk to you about our Engineered Systems, where a customer would try a little bit, they'll try one a quarter. And before you know it, they had dozens and they grew. Now this is the next level for those critical workloads that only can work in our cloud.

Mark Moerdler

Thank you. Appreciate it.

Ken Bond

Next question, please.

Operator

And our last question for today is going to come from the line of Raimo Lenschow, Barclays.

Raimo Lenschow

Hey, let me echo as well all our prayers are with Mark and his family. Just going back, I have two quick questions, one number question, which was on deferred Safra, in theory that should grow, can you just maybe talk a little bit about why that declined this quarter?

But then the bigger question was more for me around ERP. Larry you talked about like you saw some medium-sized SAP customers starting to look. And is it -- kind of in terms of going bigger, is it kind of a question of functionality and capability or more around referenceability? Because if I look at your -- you just deleveraged full quarter's numbers. You closed the quarter in 11, 12 days and were able to deliver that, which is kind of a record I've seen. And you guys are using Oracle Fusion. So it's really power -- it seems like a very powerful solution. So I'm just wondering what's holding it back at this point. Thank you.

Safra Catz

Well, first, I'd like to thank you for noticing the amazing close we did on Fusion Financials and we actually -- I got to tell you the team, I think is pretty happy with this result and realize that all of our customers should be easily doing the same thing. So, first, yes, this was a very quick close, but we've got the technology and the people to do it.

Let me just answer your deferred revenue comment. So I just want you to understand gross deferred revenue is actually up 3%, okay? But we net it to a bunch of things that ultimately are simply timing changes related to collections. And so that's really the only thing. There's nothing unusual next quarter you may see something different. It's literally a matter of when we pay some things and that kind of shows up in the operating cash flow.

But in deferred revenue, it's simply timing of collections. There's a little bit impacted by currency, but the gross deferred revenue number is actually up 3%. It's just netted down and it's just a matter of the timing of our collections, so nothing to see here.

Larry Ellison

Okay. The question about SAP, what are our big SAP customers waiting for before they make a decision to move to Oracle. It's been very interesting. We've -- I've spent a lot of time in Germany and talking to some customers and they want to move. I mean, I talked

to several very large customers saying, we'd like to move to the cloud. We'd like to move to Fusion. Because I mean some of the -- I mean, moving to another SAP system -- and I mean some of these guys are facing bills of \$1 billion to migrate -- for this SAP upgrade all of the consultants. So I mean, it's a big pill to swallow to do the upgrade HANA, what they call S/4HANA in the cloud except, it's not really a cloud.

Safra Catz

And for no benefit.

Larry Ellison

And for virtually, it's the same code you had before. It really is pretty much the same code you had before. So the customers really want to do it. What they're waiting for is one really large customer who's already done it. They are worried. They don't want to be first. No one wants -- none of these big -- these customers are conservative. They don't want to be first.

We are in the middle of one of their largest customers converting them to Fusion. And as soon as we can talk about that publicly and use that as a reference, which will be probably will take another six months before we can do that, maybe less. But that's close, it's pretty close before they're live and several of their divisions are on Fusion.

Almost every business leader I talk to in Germany wants to make the migration they just have to be assured that it will work. Now we're going to get -- we've won some deals in the high and at mid-market against SAP incumbents, and they're in the process of converting. And if we can get them converted much faster and get them live much faster then we can this one jumped in this one of the largest enterprises on earth that we're converting.

But as we get a few of these references, we think people -- customers want to use modern technology, they want to move to the cloud. And we can -- they can do that with Fusion and they cannot do it with SAP. So we think it's a huge opportunity for us, but we have to have a core of references before these big guys are going to move.

Raimo Lenschow

Okay. Thank you. That's very clear.

Ken Bond

Thank you, Larry. A telephonic replay of this conference call would be available for 24 hours. Dial-in information can be found in the press release issued earlier today. Please call the Investor Relations department with any follow-up questions from this call. We look forward to speaking with you. Thank you for joining us today on short notice. And with that, I'll turn the call back to Holly for closing.

Operator

Thank you for joining us for today's Oracle first quarter 2020 conference call. We do appreciate your participation. You may now disconnect.