

Research Team

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Credit Snapshot

Rating (Moody's, S&P, Fitch)

Baa2, BBB, BBB

Option Adjusted Spread (TRSY)

83

Duration

5.888

Maturity

11/09/2032

Yield-to-Worst

5.40%

Coupon

6.25% Semi-Annual

Amount Outstanding

\$2,250,000,000

Optional Call

08/09/2032 at 100
Make Whole Call: +35.0 bps

Rank

Senior Unsecured

Key Credit Metrics

Interest Coverage Ratio

4.57x

Current Ratio

0.81x



Executive Summary

We recommend a **BUY** on Oracle Corporation (ORCL) 6.250% 2032 bond [68389XCJ2] with a 1.1% allocation in the TCM Tactical Portfolio using cash. The bond is rated BBB/Baa2 with an Option Adjusted Spread (Treasury) of 83, duration of 5.888 years, and yield-to-worst of 5.40%. The duration is 74 bps lower than the current Tactical Portfolio due to inflationary expectations in the US economy.

Business Overview

Oracle is North America's second-biggest software infrastructure company. It offers cloud systems, databases, and enterprise software to businesses. Businesses can build, manage, and run their services, operations, and products through Oracle Cloud Infrastructure and enterprise software. Their database provides servers, storage, and data security to their clients.

Catalysts

Our recommendation is based on three factors:

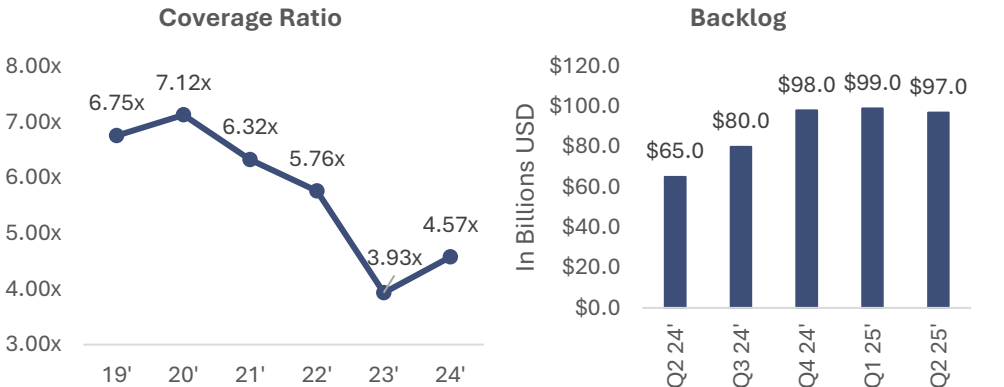
- 1. **Strategic Initiatives of Management:** Oracle's ability to generate higher revenue and free cash flow in recent years puts management in a strong position to manage debt effectively while investing in key strategic initiatives.
- 2. **Data Center Contracts:** Contracts with leading information technology firms for their cloud services increased their revenue and backlog, improving their long-term financial stability.
- 3. **Oracle Cloud Infrastructure's Competitive Edge:** Oracle's strong competitive positioning in the cloud infrastructure market ensures stable revenue growth in the next few years.

Investment Risks

Competitive Pressure in Cloud Computing: Oracle faces significant competition in the cloud space from industry giants like Amazon Web Services (AWS), Microsoft Azure, and Google Cloud.

Cybersecurity and Data Breaches: As a major provider of cloud and database services, any significant data breach or cybersecurity incident could harm Oracle's reputation, lead to regulatory fines, and result in lost business.

Interest Rate Sensitivity and Refinancing Risk: Oracle has substantial outstanding debt primarily used to fund acquisitions and shareholder returns. If interest rates continue to rise, the cost of refinancing maturing debt will increase, leading to higher interest expenses and tighter margins.



Sources: FactSet, Oracle 10K Report (SEC), Oracle Earnings Calls

Company Overview

Oracle Corporation (NYSE: ORCL), founded in 1977 by Larry Ellison, Bob Miner, and Ed Oates, is a leading global technology company headquartered in Austin, Texas. It is initially known for its relational database management systems (RDBMS). Oracle has expanded to offer various enterprise software, hardware, and cloud computing solutions. Today, Oracle is a key player in IT, helping leverage technology to help businesses automate operations and enhance decision-making.

Business Model

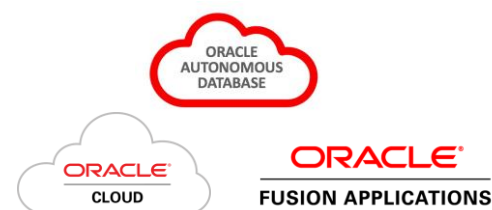
Oracle's business model revolves around three main segments: **Cloud Services, License Support, and Hardware.**

Oracle's cloud portfolio includes Oracle Cloud Infrastructure (OCI) and Software-as-a-Service (SaaS) offerings such as Oracle Cloud ERP, HCM, and SCM. Cloud services now account for 37% of Oracle's revenue in fiscal 2024. Oracle also offers software licenses, including its renowned database products and enterprise applications (ERP, HCM, SCM, CRM). The company also designs and sells hardware such as servers and storage systems.

Product Portfolio

Oracle Database: A highly secure, scalable relational database used across industries like banking and healthcare.

- **Oracle Cloud Infrastructure (OCI):** Cloud solutions for storage, databases, and computing, enabling secure, scalable deployments.
- **Oracle Fusion Cloud Applications:** A suite of SaaS offerings including:
 - **Fusion Cloud ERP:** Real-time financial management.
 - **Fusion Cloud HCM:** Human resources management solution.
 - **Fusion Cloud SCM:** Supply chain optimization.
 - **Fusion Cloud EPM:** Financial performance management.
 - **Fusion Cloud CRM:** Customer relationship and sales management.
- **Oracle Autonomous Database:** Uses of AI and machine learning to automate database management, including tuning, patching, and backups.



Industry Overview

The software publishing industry, in which Oracle operates, is experiencing significant growth driven by digital transformation, the rise of cloud computing, and the increasing importance of AI/ML integration. The industry's shift towards subscription-based SaaS models provides stable revenue streams, while cybersecurity and data privacy innovations are essential in maintaining competitiveness. Companies are consolidating to achieve economies of scale, and emerging healthcare, finance, and manufacturing market opportunities are expanding. As demand for advanced software tools increases, Oracle's focus on data security, AI, and cross-platform integration positions it well for sustained growth.

SWOT Analysis

Strength:

- Recurring Revenue Model
- High Profit vs Sector Average
- Growth Life Cycle Stage
- Low Volatility

Opportunities:

- AI & Machine Learning Integration
- Increasing Businesses Conducted Online
- Industry – Specific Software Growth

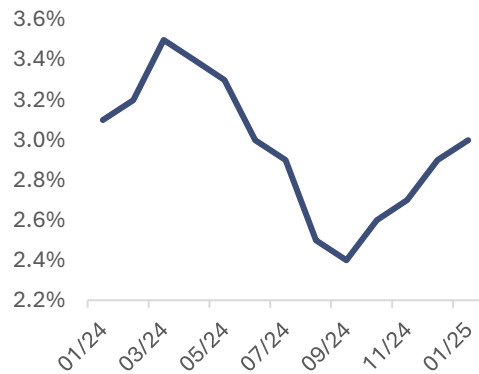
Weaknesses

- Low & Steady Barrier to Entry
- High Competition
- High Customer Concentration
- High Product/Services Concentration

Threats

- Cyber Attacks
- Regulatory & Compliance Risk
- Open-Source & Low-Cost Alternative

CPI YoY



Economic Overview

Inflation remains a key challenge, with headline CPI rising 3.0% YoY, marking an upward trend over the past four months. Additionally, headline PCE stands at 2.6%, while Core PCE is at 2.8%, aligning with analyst expectations. The persistence of inflation is driven by multiple factors, including recent tariffs on steel and aluminum, which have contributed to higher input costs.

Given that inflation remains above 3.0% and the yield curve is expected to stay flat, we anticipate limited rate cuts in 2025 (two rate cuts), possibly only one in late 2025. As a result, short-term rates may remain elevated, posing headwinds for short-duration bonds. However, with U.S. GDP projected to grow at a moderate pace and fiscal policy uncertainty, we are maintaining a measured approach to duration positioning, keeping it slightly similar to the index to balance risk and return in the current environment.

Catalysts

1. Strong Debt Coverage

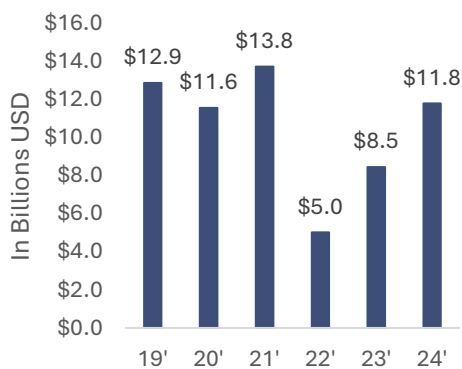
Although Oracle had lower free cash flow in FY 2022 and 2023, it does not threaten its financial stability. Restructuring expenses and net debt reduction caused a dip in free cash flow in FY 2022. The relatively lower free cash flow in FY 2023 was caused by a \$28.6 billion acquisition of Cerner Corporation, which provides healthcare information technology services. Therefore, the decrease in cash flow for these two fiscal years does not pose any fundamental issues with debt coverage, putting them in a strong position to cover their debt. Although they incurred \$12.9 billion in debt through the acquisition, their free cash flow enables them to repay it fully within two years. Their revenue increased by 17.7% (\$7.5 billion) in FY 2023, around \$6 billion due to revenue from the acquired company. This shows strong revenue synergy, putting them in a strong position to repay their debt.

In FY 2024, their free cash flow increased to \$11.8 billion, slightly lower than \$13.7 billion in FY 2021. Although revenue increased by around 30% compared to 2021, the lower cash flow in FY 2024 was a result of higher capital expenditures, specifically on data center expansion. Their ability to increase capital expenditures shows their financial stability, as they already have sufficient cash flow to cover their expenses.

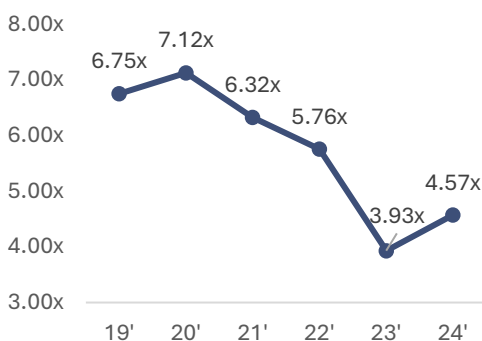
Their interest coverage ratio of 4.57x shows their strong capability to cover their interest expenses. Even though the interest coverage ratio has decreased from FY 2020 to 2023, it is expected to increase in the next few years. The decrease in FY 2021 and 2022 was caused by new debt issuance and a reduction in cash flow, respectively. The dip in FY 2023 was due to higher interest expenses caused by the issuance of more debt for the acquisition. Thus, it shows that management effectively controls their debt for significant decisions such as restructuring and strategic acquisitions. With expected stable revenue growth caused by high demand for Oracle's products and services, they can repay their debt and increase their cash flows, increasing their coverage ratio.

Even though their earnings per share decreased in FY 2022, their dividends have steadily increased in the last 6 years. This is another sign of their strong financial position, as they can continue growing their dividends per share despite fluctuations in their earnings.

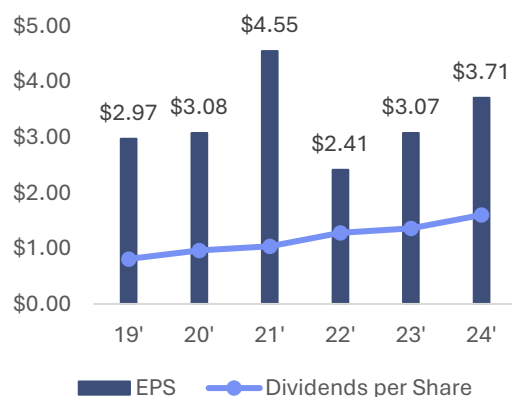
Free Cash Flow

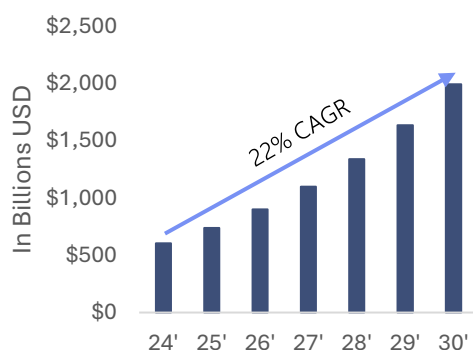


Coverage Ratio



EPS and Dividends per share



Cloud Service Market Forecast**Catalysts (cont.)****2. Data Center Contracts**

Oracle signed contracts with major technology companies to build new data centers and provide their cloud infrastructure. Their position in Project Stargate, a \$500 billion partnership with SoftBank and OpenAI as a data center provider, allows them to effectively capture the increasing demand for cloud services caused by AI development. The cloud services market is expected to increase at a compounded annual growth rate of 22% until 2030. In addition, Oracle signed over 30 contracts for AI development in Q4 of 2024, totaling \$12.5 billion in revenue. This includes contracts with OpenAI to train ChatGPT and Meta to develop AI agents in Oracle Cloud. These recent contracts show the increasing demand for Oracle's cloud infrastructure as the demand for AI development increases, allowing it to position itself as a leading cloud infrastructure provider and capture more revenue.

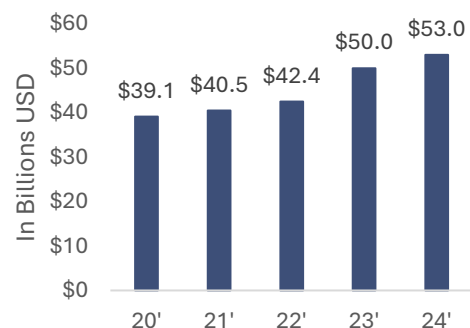
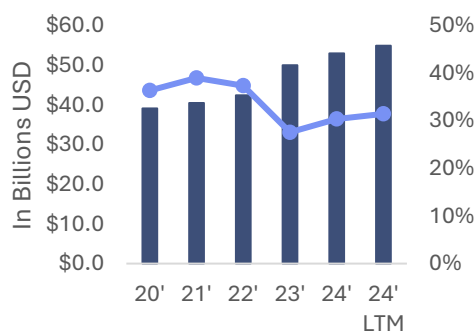
Oracle currently has strategic partnerships with Microsoft, Google, and Amazon to develop multi-cloud services for their customers, allowing access to Oracle's database services through Microsoft Azure, Google Cloud, and Amazon Web Services. By Q1 of 2025, Oracle Cloud Infrastructure was live at seven Microsoft Azure data centers and four Google Cloud data centers, giving access to customers in those data center regions. They are currently working on installing their cloud infrastructure in 24 data centers at Microsoft and 14 data centers at Google, expanding their regions. This will provide more consistent revenue for Oracle as they can leverage the customer base of their partners to offer Oracle Cloud Infrastructure.

Their backlog has increased significantly in the last three quarters due to contracts for their cloud services, stabilizing at around \$100 billion. This ensures stability in their future revenue, putting them in a strong financial position to cover their interest expenses.

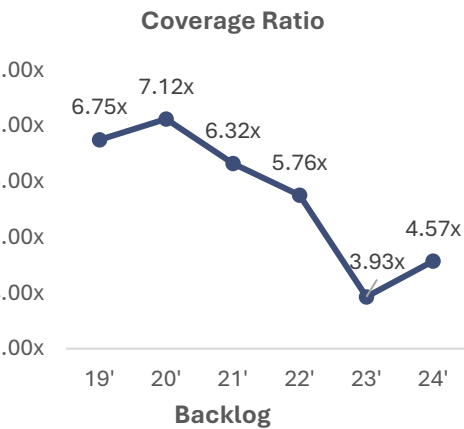
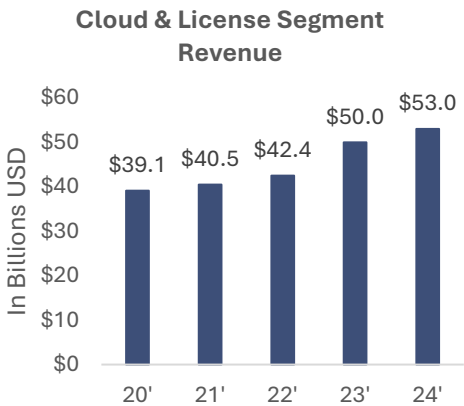
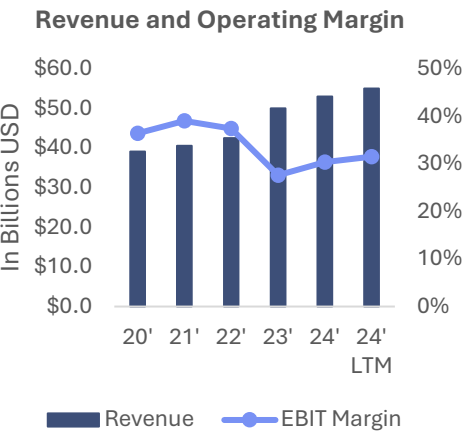
3. Oracle Cloud Infrastructure's Competitive Edge

Through strategic investments in research and development, Oracle maintains a strong foothold in the competitive cloud service and license products landscape. Its high processing power capabilities and cost-efficient solutions set Oracle Cloud Infrastructure apart from its competitors. Chairman and CTO Larry Ellison mentioned in the Q1 2025 earnings call that "Oracle Cloud Infrastructure trains several of the world's most important generative AI models because we are faster and less expensive than other clouds." Oracle's cloud infrastructure is favorable as it makes it easy for customers to migrate their existing workloads from another application. Their competitive edge and increasing demand for cloud infrastructure have contributed to their substantial increase in revenue in the past few years. This increasing revenue trend is expected to continue because of their competitive edge in a high-growth market.

The operating margin decreased in FY 2023 due to the higher cost of goods sold and SG&A expenses, primarily caused by a \$28.6 billion acquisition in FY 2022. Their operating margin is not expected to decrease unless another acquisition happens, as it has been stagnant historically.

Cloud & License Segment Revenue**Backlog****Revenue and Operating Margin**

■ Revenue —● EBIT Margin



4C's of Credit

1. Character

Oracle is an investment-grade bond with a strong track record of consistent financial performance and successful strategic expansion. The company has significantly grown its cloud services revenue, increasing from \$39 billion in 2020 to \$53 billion in 2024. This growth is supported by strategic partnerships with major players like Microsoft, Google, and Amazon, positioning Oracle for continued success in the competitive cloud market. Additionally, the cloud services industry is projected to grow at a compound annual growth rate (CAGR) of 22% from 2024 to 2030, which provides Oracle with the opportunity to expand its market share and further solidify its financial position.

2. Capacity

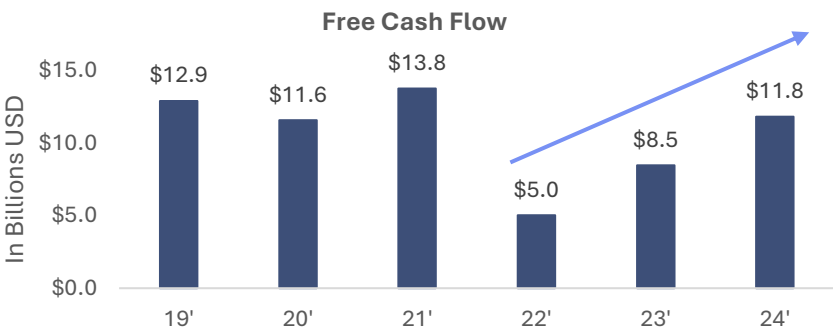
Oracle demonstrates strong capacity to service its debt, backed by a growing free cash flow and robust operating margins. With an interest coverage ratio of 4.57x, Oracle has a solid ability to manage its debt obligations, even after its \$28.6 billion acquisition of Cerner Corporation in 2022. Oracle's backlog has increased significantly in recent quarters, primarily driven by cloud services contracts, stabilizing at approximately \$100 billion. This ensures a steady revenue stream and bolsters Oracle's ability to cover its interest expenses moving forward.

3. Collateral

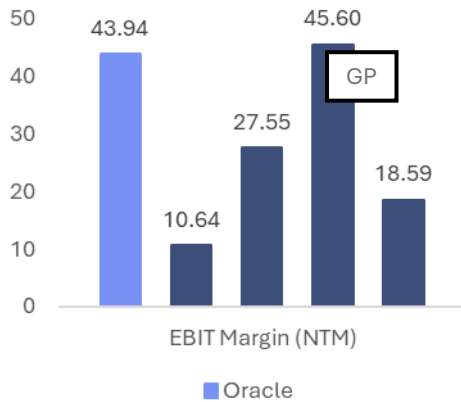
Although the bond is unsecured, Oracle's strong balance sheet, featuring valuable assets like intellectual property, data centers, and its cloud infrastructure, offers implicit collateral. These assets not only support the company's competitive positioning but also provide value in case of a liquidity event.

4. Covenant

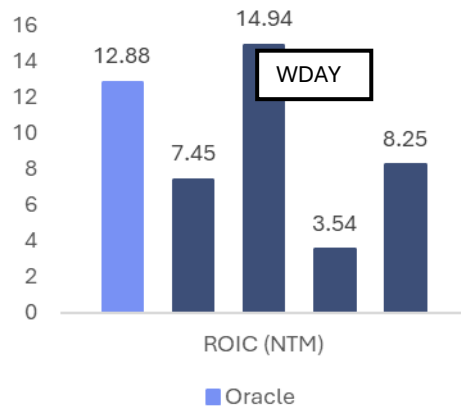
Oracle's bond covenants offer some protection but also grant the company significant flexibility. The limitation on liens and sale/leaseback restrictions apply only to Oracle Corporation itself, not its subsidiaries, which allows these subsidiaries to take actions without direct bondholder protection. The limitation on liens includes exceptions for "permitted liens," giving Oracle the ability to incur additional debt, which may subordinate bondholders. Furthermore, the indenture does not include financial covenants, which provides Oracle with greater operational freedom. While these covenants allow Oracle to maintain flexibility in its capital structure, its strong management and ability to generate robust earnings minimize the risk to bondholders.



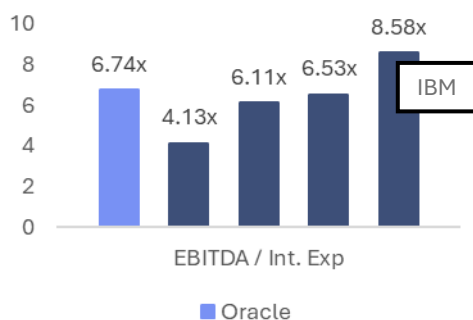
Peer Comparison: Profitability



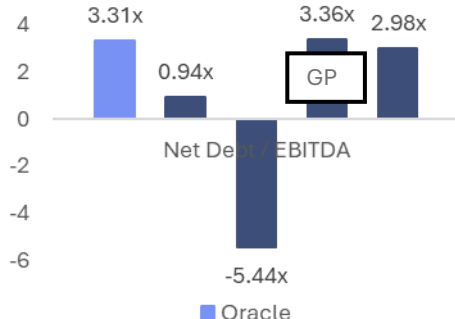
Peer Comparison: Profitability



Peer Comparison: Liquidity, Leverage, Beta, Yield



Peer Comparison: Liquidity, Leverage, Beta, Yield



Financial Peer Comparisons

1. EBIT Margin

Oracle ranks second among its peers with an EBIT margin of 43.94%, slightly below Global Payments' 45.60% but well ahead of Hewlett Packard, IBM, and Workday. This substantial margin highlights Oracle's ability to generate consistent profits, which is critical for covering debt obligations. While the small gap between Oracle and Global Payments is negligible regarding credit risk, Oracle's broader business model—spanning enterprise software, cloud infrastructure, and AI—provides a more stable revenue base. Its high-margin cloud services continue to grow, further strengthening its profitability outlook.

2. Return on Invested Capital

Oracle holds the second-highest ROIC at 12.88%, just behind Workday's 14.94% and well above Hewlett Packard, IBM, and Global Payments. This suggests that Oracle is highly efficient in generating returns from its investments. The company's strategic acquisitions, including the \$28.6 billion Cerner deal and ongoing investments in AI and cloud technology, have positioned it well for future growth. While Workday edges out Oracle in ROIC, Oracle's scale and enterprise customer base provide a more stable foundation for long-term profitability.

3. EBITDA / Interest Expense

With an EBITDA/Interest Expense ratio of 6.74x, Oracle ranks second, slightly below IBM's 8.58x but ahead of Workday (6.11x) and Global Payments (6.53x). This means Oracle generates nearly 7x its interest obligations in EBITDA, reinforcing its ability to service debt comfortably. While IBM's stronger coverage ratio suggests a more conservative debt profile, Oracle's \$100 billion contract backlog and growing cloud revenue provide strong visibility into future cash flows. Therefore, Oracle has ample room to meet its debt obligations, though continued cloud growth will be crucial to maintaining this position.

4. Net Debt / EBITDA

Oracle's Net Debt/EBITDA ratio of 3.31x is fourth among its peers, slightly below Global Payments (3.36x). While this suggests Oracle carries more leverage than some competitors, it's not necessarily a red flag. These debts have funded R&D and acquisitions, helping Oracle expand its cloud and AI offerings. A leverage ratio of around 3x is typically considered a balanced approach—enough to fuel growth without taking on excessive risk. Given Oracle's strong cash flow, strategic partnerships with Amazon, Microsoft, OpenAI, and Google, and continued demand for cloud services, its ability to manage this debt effectively remains strong.

Peer Comparison

Ticker	Maturity	Outstanding	Rating	Z-Score	YTW	OAS	Duration	Spread	Yield	Int. Rate	Default	Liquidity	Rank
ORCL	11/9/2032	2250	BBB	2.8	5.40%	83	5.89	2	2	2	2	1	1.8
HPE	10/15/2031	1250	BBB	0.9	5.20%	71	5.53	4	4	1	4	2	3.0
WDAY	4/1/2032	1250	BBB	5.6	5.36%	80	6.01	3	3	4	1	2	2.6
GPN	8/15/2032	750	BBB-	1.2	5.47%	90	5.96	1	1	3	3	4	2.4

*Peers were chosen upon industry, credit rating, and duration.

Oracle's bond, as well as its credit quality and duration, is the best choice compared to bonds in similar industries. Due to its superior ratings, Oracle ranks first among its peers.

Although Global Payments' bond has a higher spread and yield than Oracle's, Oracle's lower default risk and higher liquidity put them at a higher overall ranking. Global Payments' Z-score of 1.2 puts them in the distress zone, indicating a high risk of bankruptcy. Along with their lower credit score of BBB, the default risk premium compared to Oracle's bond is unattractive. Therefore, Oracle's bond with higher financial stability and liquidity is more attractive.

Although Oracle's Z-score of 2.8 puts them at a disadvantage compared to Workday's 5.6, Oracle's bond has a higher default risk premium. Considering Oracle's backlog and expected revenue growth, they are in a strong position to generate higher free cash flow and increase their coverage ratio. Oracle's bond is more attractive because of its high default risk premium and financial stability.

Investment Risks

1. Competitive Pressure and Cloud Transition Risk

Oracle competes with Amazon Web Services (AWS), Microsoft Azure, and Google Cloud, which have larger market shares and stronger ecosystems. Though Oracle Cloud Infrastructure has been growing, it remains fourth in market share. If Oracle struggles to attract enterprise cloud customers or fails to differentiate and gain an edge against itself in AI and database services, its revenue mix will decline. This will pressure margins, impact long-term cash flow growth, and weaken its ability to service debt. Oracle is constantly looking for strategic partnerships and diversifying revenue streams to mitigate this.

2. Cybersecurity and Regulatory Risks

Oracle is a leading enterprise cloud, database, and software solutions provider serving governments, corporations, and financial institutions worldwide. Given the nature of its business, it processes and stores vast amounts of sensitive customer, corporate, and government data. This makes Oracle a high-value target for cyber threats, including data breaches, ransomware attacks, and state-sponsored cyber espionage. A major data breach will have severe financial and reputational consequences, leading to regulatory fines and penalties under strict data privacy laws, such as the General Data Protection Regulation (GDPR) in Europe and the US's California Consumer Privacy Act (CCPA). Oracle must continuously adapt to evolving global regulatory data security and privacy requirements. We also continue to invest in AI-driven threat detection, encryption, and multi-layer security measures to prevent cyberattacks.

3. Interest Rate Sensitivity and Refinancing Risk

Oracle carries significant outstanding debt, primarily used to fund acquisitions and shareholder returns. This exposes the company to interest rate fluctuations, as higher rates increase refinancing costs for maturing debt, leading to rising interest expenses and margin compression. Elevated borrowing costs can reduce financial flexibility, limiting Oracle's ability to invest in R&D, pursue strategic acquisitions, and maintain operational efficiency. If Oracle misallocates capital between debt obligations, growth initiatives, and shareholder returns, it could face heightened default risk, particularly if cash flows weaken. Efficient capital management and proactive debt structuring will be critical to maintaining liquidity and creditworthiness in a high-rate environment.

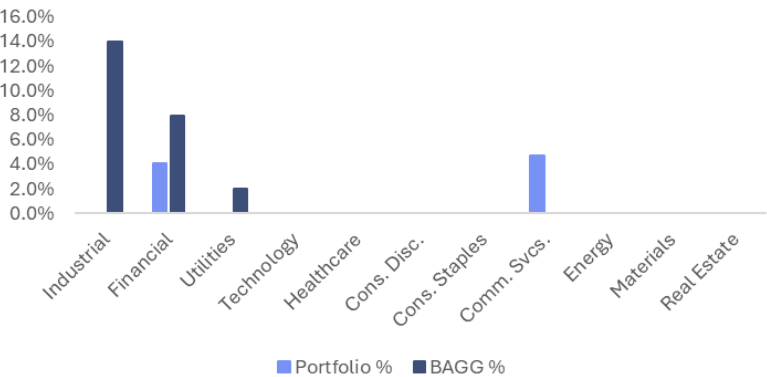
Portfolio Impact

We recommend using cash to add a 1.0% allocation of Oracle Corporation's (ORCL) 6.250% 2032 bonds to the TCM Tactical Portfolio. This allocation is appropriate for the tactical portfolio because it improves benchmark alignment with the Bloomberg U.S. Aggregate Bond Index (BAGG) by increasing investment-grade bond exposure, optimizing cash utilization, and enhancing portfolio stability through strong credit quality and reliable income generation.

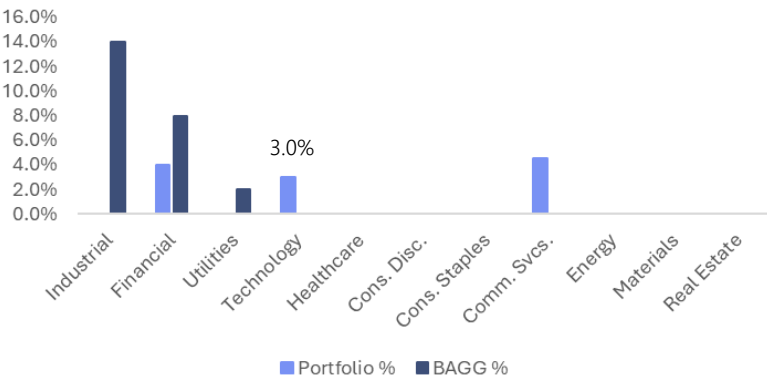
This trade increase the portfolio's tech exposure to 3.0%, followed by a 2.4% increase in investment-grade bonds, keeping the portfolio closer to the benchmark and putting cash to better use. This shifts the portfolio allocation to 71% equity, 27% fixed income, and 2% cash.

This allocation is appropriate as it optimizes cash utilization by deploying idle capital into a high-quality fixed-income asset, enhances sector diversification by increasing tech exposure, and maintains a balanced asset allocation that aligns with long-term investment objectives while managing risk effectively.

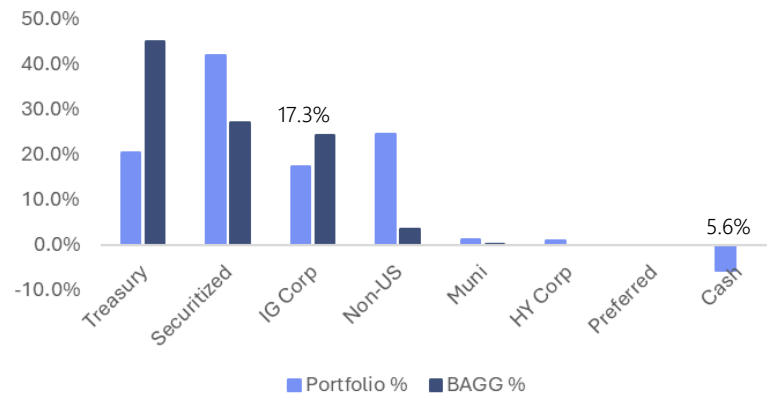
Industry Allocation (Before)



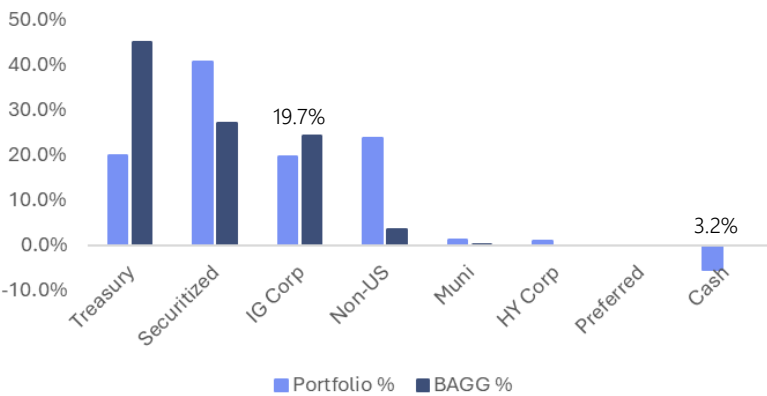
Industry Allocation (After)



Asset Allocation (Before)



Asset Allocation (After)



	Credit Rating	Duration	YTM
Before	AA	6.62	4.82
After	AA	6.58	4.83
Benchmark	AA	6.12	4.86

Appendix

Company Name	Sales Growth (3 yr.)	Gross Margin (NTM)	EBIT Margin (NTM)	ROIC (NTM)	ROE (NTM)	Sales	EBITDA	Total Debt	Sales Growth	Gross Margin	EBIT Margin	ROIC
Oracle	32.69	71.61	43.94	12.88	67.10	\$54,933	\$42	\$88,624	2	2	2	2
Hewlett Packard	7.91	31.53	10.64	7.45	10.59	\$30,068	\$17	\$19,816	4	5	5	4
Workday A	65.88	79.91	27.55	14.94	20.20	\$8,121	\$9	\$3,363	1	1	3	1
Global Payments	21.36	70.27	45.60	3.54	13.60	\$10,024	\$43	\$17,557	3	3	1	5
IBM	-15.95	58.60	18.59	8.25	32.29	\$62,581	\$25	\$60,126	5	4	4	3
Average	22.4%	62.4%	29.3%	9.4%	28.8%	\$33,146	\$27	\$37,897				

Company Name	Curr Ratio	EBITDA / Int. Exp	Net Debt / EBITDA	LT Debt/ Ttl Capital	FCF Yield	Dividend Yield	Beta	Diluted Shares	Curr Ratio	EBITDA / Int. Exp	Net Debt / EBITDA	LT Debt/ Capital	Dividend Yield
Oracle	0.81	6.74x	3.31x	78.60	1.63%	0.94	1.87	2,869.0	5	2	4	5	3
Hewlett Packard	1.28	4.13x	0.94x	33.19	7.66%	2.45	1.74	1,375.0	2	5	2	2	2
Workday A	2.00	6.11x	-5.44x	27.20	3.64%	0.00	1.01	268.5	1	4	1	1	5
Global Payments	0.93	6.53x	3.36x	37.69	9.95%	0.89	0.62	254.9	4	3	5	3	4
IBM	1.03	8.58x	2.98x	65.90	5.51%	2.61	0.53	923.6	3	1	3	4	1
Average	1.21	6.42x	1.03x	48.52	5.68%	1.38%	1.15						

TITAN

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