



Oracle

(NYSE: ORCL)

Oracle is an American international software technology corporation that specializes primarily in designing, creating, and marketing database software and technology, cloud engineered systems, and enterprise software products. Most notable are its own brands of database management systems. Oracle's cloud consists of four main divisions: SaaS (Software as a Service), PaaS (Platform as a Service), IaaS (Infrastructure as a Service), and DaaS (Data as a Service).

Oracle also creates tools and solutions for database development and systems of middle-tier software, enterprise resource planning software (ERP), customer relationship management software (CRM), and supply chain management software (SCM). Today, 430,000 customers in 175 countries use Oracle technologies with consulting, financing, support, and training services. Its headquarters are in Redwood Shores, California.

Price	48.63	52 Week H-L	37.64 - 53.14	FY: Dec	12/31/2016	12/31/2017	12/31/2018	12/31/2019
Price Target	56.68	WACC	7.8%	Revenue (Bil)	37	38.3	39.7	41.1
Market Cap	204.6	EPS	2.64	Net Income (Bil)	11.3	11.1	12.6	13.5
ROA	7.56%	Debt/Assets	42.9%	Op Margin	34.02	33.69	44.32	45.00
ROE	18.46%	Debt/Equity	94.54%	EBITDA	15.1	15.5	18.8	19.8
ROIC	10.05%	Debt/EBITDA	3.44%	EPS (Cal)	2.62	2.68	2.9	3.18
Avg Daily Vol (Mil)	14.5	Beta	1.07	FCF (Bil)	12.5	12.6	13.6	14.3
DPS	.19	Liabilities (Bil)	80	P/E	18.65	19.77	16.5	15.28
Yield	1.56%	Sales % YOY	5%	EV/EBITDA	10.26	11.81	10.08	9.56

Recommendation

Since 1979, Oracle's business model has centered around the creation and sale of one time purchase database software. In 2015 Chairman and CTO Larry Ellison announced that any business using Oracle software was able to transfer that data onto their newly constructed cloud. Since this announcement, Oracle has started to shift its business model focus toward a more long term cloud based subscription service. As a result, Oracle has seen consistent and constant growth within its cloud division. Comparing Q4 2017 to Q4 2016, SaaS (Software as a Service) cloud revenues were up 67% to \$964 million and Cloud PaaS (Platform as a Service) plus IaaS (Infrastructure as a Service) revenues were up 40% to \$397 million. Total cloud revenues rose 58% to \$1.4 billion

Staying on top of the newly emerging market that is cloud computing has remained Oracle's strategy going forward. To get ahead and stay on top, Oracle invests heavily in research and development: US \$6.2 billion in FY 2017 alone. On Nov 16th 2017, Oracle announced the availability of a range of new Oracle Cloud Infrastructure compute options, providing customers with unparalleled compute performance based on Oracle's recently announced X7 hardware.

Oracle has also leveraged its market share through a multitude of strategic acquisitions carried out over the past five years. In total, Oracle has spent ~20 billion dollars acquiring various cloud companies such as Moat, NetSuite, Opower, and Textura. Oracle also seeks to differentiate itself from other cloud providers by offering unique value added services. While other cloud companies like Salesforce.com concentrate on software services, and Amazon concentrates largely on infrastructure services, Oracle offers the full cloud services from bottom to top. They also offer a Bring Your Own License (BYOL) service that allows customers with existing licenses to use Oracle Database Cloud at a fraction of the old price.

Investment Thesis

- **Market Dominance:** Oracle's strength lies in its database and middleware offerings. To this day, Oracle remains one of the most used and most well known database companies controlling over 40% of the entire market with over 430,000 customers in 175 countries. We believe that the transition to cloud computing is still in its early stages. However, as time goes on, the shift to cloud based solutions is becoming more apparent. Oracle contains a large competitive advantage over other cloud based offerings due to its high install base of previous customers.
- **Cloud Conversion:** Going forward, we believe that Oracle will seek to capitalize converting this large install base of customers using its old software products to the cloud. Through programs such as the Bring Your Own License (BYOL), transitioning to the cloud is easier than ever. In the long run, transitioning to cloud based computing will save companies effort, time, and money. As a result of this cloud migration, Oracle will start to see a steady increase in revenues and net incomes due to continuous subscription payments and high margin cloud sales.
- **Acquisitions:** In 2012 Oracle began its strategy to move toward cloud computing. Since then, Oracle has spent roughly 25 billion dollars acquiring various cloud based companies. We believe these acquisitions to be a success based on cloud revenues showing continuous positive growth for the past ten quarters.

Free Cash Flow at Year 3	\$ 15,318
WACC	7.80%
Perpetuity Growth Rate	2.30%
Perpetuity Value at End of Year 3	\$ 282,979

PV of Perpetuity at @ WACC	\$ 194,283
(+) PV of FCF at @ WACC	\$ 34,445
(=) Current Enterprise Value	\$ 228,728

Equity Value	\$ 236,511
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Shares Outstanding	\$ 4,173
Estimated Value Per Share	\$ 56.68
Current Price (USD)	\$ 48.59

Valuation

To determine an intrinsic value for Oracle, we used a Discounted Cash flow model, with 3 years of future cash flows obtained from the Bloomberg Terminal. We then used a WACC of 7.80%, and found a target price of around \$57. From our DCF model we determined Oracle is roughly 14% undervalued in the current market with a range of \$49 to \$60 in 3 years. It should be noted that Oracle usually does pay dividends at around 1.55% of their stock price. Currently Oracle maintains around a 76% buy rating as listed on Bloomberg.

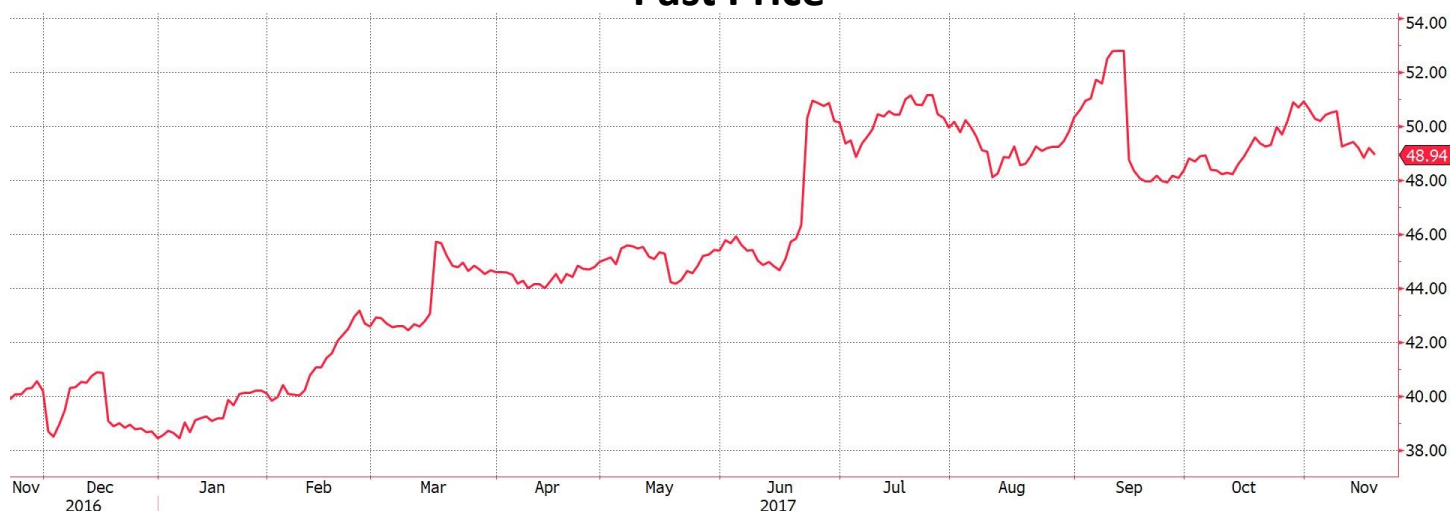
Risks

- **Slow Cloud Start:** Oracle may have the capital resources available to break its way into the cloud computing by force. However, their initial aversion to entering the market may prove costly due to lost market share. While Oracle was playing the safe game, companies like Amazon and Microsoft swiftly came in and took many of Oracle's old customers.
- **Declining Software Revenues:** Although Oracle is easily offsetting any lost revenue on software licenses with cloud revenues, on-premise software sales still constitute a large portion of net revenues. If Oracle doesn't transition properly from Software to cloud they stand to lose a significant chunk of revenues.
- **Potential Integration Issues:** Due to Oracle's strategy of acquiring talent through mergers and acquisitions a potential for integration issues may hurt or halt any synergistic gains by the company.

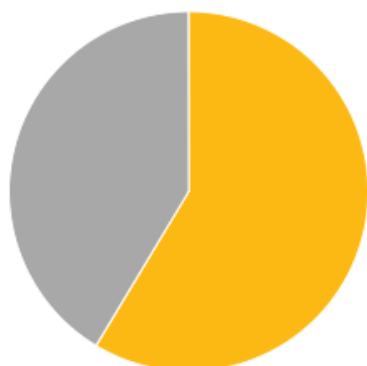
Management

On September 18, 2014, former Oracle CEO Larry Ellison appointed Mark Hurd to CEO of Oracle from his former position as president. Hurd brings with him more than 30 years of technology industry leadership, computer hardware expertise, and executive management experience to his role with the company. Safra Catz was also made co-CEO of Oracle being promoted from her former role as Oracle's CFO. Larry Ellison then moved to assume the positions of CTO and executive chairman.

Past Price



Ownership



Source: Nasdaq

Institutional Holdings **58.63%**

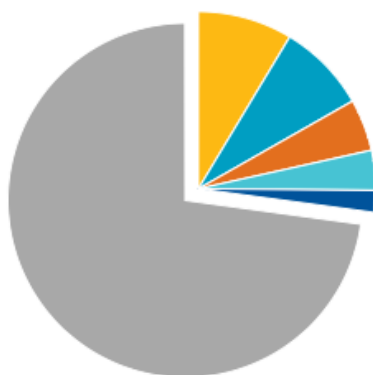
Total Number of Holders 1,722

Total Shares Held 2,446,822,705

Total Value of Holdings 119,747,503,183

Net Activity (10,020,468)

Top 5 Shareholders



Source: Nasdaq

1. **VANGUARD GROUP INC** 210,919,120
2. **BLACKROCK INC.** 199,456,127
3. **STATE STREET CORP** 116,094,731
4. **CAPITAL RESEARCH GLOBAL INVESTORS** 88,743,849
5. **BANK OF NEW YORK MELLON CORP** 48,925,405

Peer Analysis

Name	Ticker	Market Cap (BIL)	Sales (BIL)	Debt/Assets	EV/Sales (BIL)	Price/Earnings
Oracle	ORCL	204.6	37.7	42.9%	4.82	19.77
ServiceNow Inc	NOW	22	1.39	24.97%	11.21	107.46
VMWare Inc	VMW	50.7	7.09	9.01%	7.20	26.22
Microsoft	MSFT	636.7	89.95	35.75%	5.49	24.68
Fortinet	FTNT	7.1	1.28	0%	3.91	41.51
Logmein	LOGM	6.1	.336	6.77%	5.73	28
Peer Averages:		154.53	22.96	20%	6.39	40.73