

Wednesday, March 13, 2019

ORACLE CORPORATION

ORCL | \$52.66

In Line | TARGET PRICE: \$53.00

Earnings Preview

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Company Statistics

Market Capitalization (B)	\$177
Shares Outstanding (M)	3,817
Float (M)	2,650
Average 10-Day Volume (M)	24,854
Enterprise Value (B)	\$186
52-Week Range	\$42.57 - \$53.48
Fiscal Year End	May

Earnings Summary

		2017	2018	2019E
Revenue (M)	Q1	\$8,613	\$9,129	\$9,201A
	Q2	\$9,070	\$9,597	\$9,567A
	Q3	\$9,274	\$9,678	\$9,579
	Q4	\$10,942	\$11,020	\$11,360
	FY	\$37,899	\$39,421	\$39,708
EPS	Q1	\$0.55	\$0.61	\$0.71A
	Q2	\$0.61	\$0.70	\$0.80A
	Q3	\$0.69	\$0.81	\$0.84
	Q4	\$0.89	\$0.94	\$1.04
	FY	\$2.74	\$3.04	\$3.40

1 Year Price History



Source: FactSet

Running In Place: Expect Largely In Line Results As Buyback Drives EPS Growth

Oracle reports F3Q on Thursday, March 14th, and we expect results that are largely in line with our/Street revenue estimates of \$9.58B/\$9.59B as Oracle is facing a slightly tougher F/X backdrop but going up against easier compares for both apps and infrastructure. Overall, we believe the pace of revenue acceleration in 2H will be nominal (2-3%) and the majority EPS growth will continue to come from buybacks (vs. operating income growth). More importantly, as it relates to any potential revenue upside, we believe the lack of insight into the source of revenue acceleration (i.e. how fast is Cloud ERP business growing and off what revenue base) caps the 're-rate' potential. Oracle should deliver double digit EPS growth in FY19 due to its buyback activity (\$20bn over the last two quarters) and our partner conversations bode positively for the ERP business, but until op. income growth accelerates or there is more insight into the drivers of the apps business, we believe the stock is likely locked in a trading range. On the product front, we believe that Oracle's position in the cloud ERP market remains solid and NetSuite is doing well. However, investors will need some patience in terms of any impact from the launch of 18c, Oracle's autonomous database given the size of the revenue base and the fact that we expect a very long migration path for most customers. We expect Oracle shares could grind higher from here given the washed out valuation (15x CY19 EPS and 13x CY20 EPS) and we believe that there are some steps Oracle could take as it relates to its public cloud strategy or providing more visibility into its SaaS growth that could help reignite investor interest in the story. However, we believe growth is going to remain a challenge for the foreseeable future and the risk/reward is balanced as a result. Maintain In Line rating and PT of \$53 based on 13.5x CY20 EPS and 15x EV/CY20 FCF.

F3Q and FY19 expectations: For F3Q we expect total revenue of \$9.58B (down 1% y/y) vs. consensus at \$9.59B. We project cloud services and license support revenue of \$6.67B (+1% y/y) vs consensus of \$6.65B and we estimate cloud license and on-premise license of \$1.25B (down 10% y/y) vs consensus at \$1.24B. We expect F3Q EPS of \$0.84, vs. consensus at \$0.84. For FY19 we project total revenue of \$39.71B (+0.7% y/y) vs. consensus of \$39.54B. We project cloud services and license support revenue of \$27.05B (2.9% y/y) vs. consensus of \$26.91B, and we project cloud license and on-premise license of \$5.67B (down 7.4% y/y) vs. consensus of \$5.58B. Finally, we expect FY19 EPS of \$3.40 (+11.7% y/y), which is in line with consensus of \$3.40.

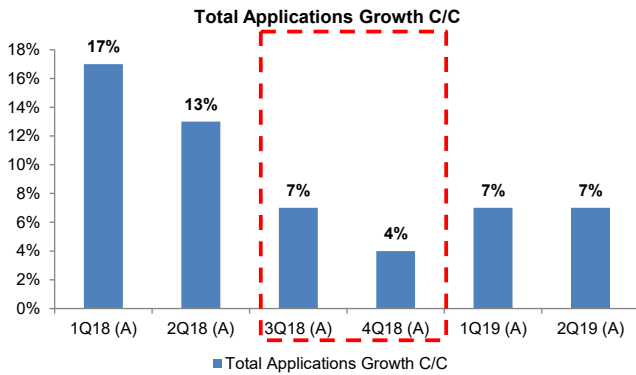
Figure 1: ORCL variance table

	FY19 (E)			3Q19 (E)			4Q19 (E)			FY20 (E)		
	Previous	Updated	Variance	Previous	Updated	Variance	Previous	Updated	Variance	Previous	Updated	Variance
Total revenue	\$39,708	\$39,708	\$0	\$9,579	\$9,579	\$0	\$11,360	\$11,360	\$0	\$40,573	\$40,573	\$0
Total revenue y/y	0.7%	0.7%	+0 bps	(1.0%)	(1.0%)	+0 bps	3.1%	3.1%	+0 bps	2.2%	2.2%	+0 bps
Consensus revenue	\$39,540			\$9,592			\$11,154			\$40,529		
Operating margin	42.3%	42.3%	+0 bps	43.0%	43.0%	+0 bps	42.4%	42.4%	+0 bps	41.5%	41.5%	+0 bps
Operating margin y/y	-116 bps	-116 bps	+0 bps	-27 bps	-27 bps	+0 bps	-354 bps	-354 bps	+0 bps	-76 bps	-76 bps	+0 bps
Non-GAAP EPS	\$3.40	\$3.40	\$0.00	\$0.84	\$0.84	\$0.00	\$1.04	\$1.04	\$0.00	\$3.77	\$3.77	\$0.00
EPS y/y	11.7%	11.7%	+0 bps	3.6%	3.6%	+0 bps	10.8%	10.8%	+0 bps	10.9%	10.9%	+0 bps
Consensus EPS	\$3.40			\$0.84			\$1.05			\$3.66		
Operating cash flow	\$15,618	\$15,618	\$0	\$3,763	\$3,763	\$0	\$4,587	\$4,587	\$0	\$15,850	\$15,850	\$0
OCF y/y	2.1%	2.1%	+0 bps	13.7%	13.7%	+0 bps	(1.6%)	(1.6%)	+0 bps	1.5%	1.5%	+0 bps

Source: Company Data, Evercore ISI Research

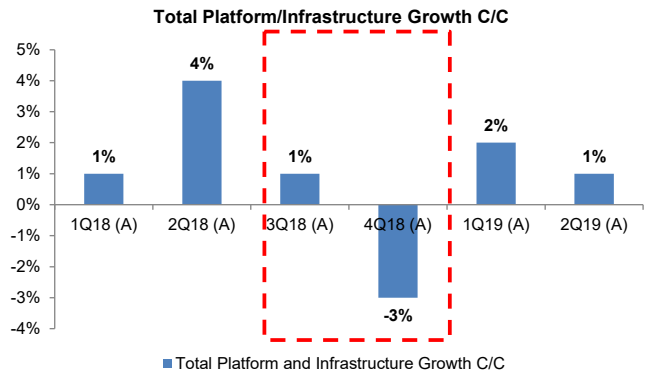
Expecting some upside to 2H revenue as we see modest acceleration (2-3%) off easier comps, however, lack of insight into source of acceleration caps re-rate potential. We believe ORCL is well positioned to modestly reaccelerate revenue growth in 2H given comps get significantly easier for both the application ecosystem and the platform/infrastructure business. For example, in FY18, total c/c application revenue growth (both SaaS and on prem) was 17% y/y in Q1, 13% y/y in Q2, 7% y/y in Q3, and 4% y/y in Q4. These numbers indicate the total applications business clearly has a much easier comp in 3Q vs 1H (7% growth vs mid-teens in 1H) and as it relates to guidance, 4Q looks to be the easiest comp of the year for the applications business. The dynamics are similar when looking at the platform/infrastructure business, for instance, in 1Q, 2Q, 3Q, and 4Q of FY18, c/c infrastructure / platform growth was 1%, 4%, 1%, and -3% respectively.

Figure 2: The application comps going into 2H become materially easier vs. comps in the first half of the year



Source: Company Data, Evercore ISI Research

Figure 3: The platform/infrastructure comps going into 2H become materially easier vs. comps in the first half of the year



Source: Company Data, Evercore ISI Research

VALUATION METHODOLOGY**OUR PRICE TARGET IS BASED ON THE SHARES TRADING TO ~13.5X OUR CY20 EPS.RISKS**

1) ANY BROADER PULLBACK IN ENTERPRISE IT SPEND; 2) LACK OF DISCUSSION AROUND THE LONG-TERM MARGIN/EPS IMPACTS OF THE CONTINUED SHIFT TOWARDS THE CLOUD COULD CONSTRAIN MULTIPLE EXPANSION; AND 3) ATTRACTIVE M&A TARGETS, ESPECIALLY ON THE HARDWARE SIDE, MAY PROVE MORE CHALLENGING TO IDENTIFY& INTEGRATE COMPANIES UNDER COVERAGE BY AUTHOR

Symbol	Company	Rating	Price (2019-12-03)	Evercore ISI Target
ADBE	Adobe Systems Inc.	Outperform	\$260.96	\$300.00
BLKB	Blackbaud Inc.	Underperform	\$78.69	\$70.00
CRM	salesforce.com Inc.	Outperform	\$157.65	\$175.00
CTXS	Citrix Systems Inc.	In Line	\$100.14	\$110.00
HUBS	HubSpot, Inc	In Line	\$166.04	\$165.00
INTU	Intuit Inc.	Outperform	\$250.54	\$255.00
MSFT	Microsoft Corporation	Outperform	\$112.83	\$128.00
NOW	ServiceNow, Inc.	Outperform	\$239.86	\$245.00
ORCL	Oracle Corporation	In Line	\$52.66	\$53.00
PLAN	Anaplan, Inc	In Line	\$38.73	\$40.00
PSTG	Pure Storage, Inc.	In Line	\$19.98	\$23.00
RAMP	LiveRamp Holdings, Inc	Outperform	\$60.10	\$70.00
RHT	Red Hat, Inc.	In Line	\$181.79	\$190.00
SAP-ETR	SAP SE	Outperform	€95.84	€110.00
SPLK	Splunk Inc.	In Line	\$125.81	\$140.00
SWI	SolarWinds Corporation	Outperform	\$18.02	\$20.00
TYL	Tyler Technologies, Inc.	In Line	\$202.03	\$210.00
ULTI	The Ultimate Software Group, Inc.	In Line	\$334.73	\$331.50
VEEV	Veeva Systems Inc.	In Line	\$118.48	\$115.00
VMW	VMware, Inc.	In Line	\$173.37	\$185.00
WDAY	Workday, Inc.	In Line	\$185.50	\$200.00
ZEN	Zendesk, Inc	Outperform	\$79.21	\$85.00

TIMESTAMP

(Article 3(1)e and Article 7 of MAR)

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In Line- the total forecasted return is expected to be in line with the expected total return of the analyst's universe

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*Prior to October 10, 2015, the "Coverage Suspended" and "Rating Suspended" categories were included in the category "Suspended."

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Strong Buy- Return > 20%

Buy- Return 10% to 20%

Neutral - Return 0% to 10%

Cautious- Return -10% to 0%

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Overweight- the stock is expected to outperform the average total return of the analyst's coverage universe over the next 12 months.

Equal-Weight- the stock is expected to perform in line with the average total return of the analyst's coverage universe over the next 12 months.

Underweight -the stock is expected to underperform the average total return of the analyst's coverage universe over the next 12 months.

Suspended- the company rating, target price and earnings estimates have been temporarily suspended.

For disclosure purposes, Evercore Group's prior "Overweight," "Equal-Weight" and "Underweight" ratings were viewed as "Buy," "Hold" and "Sell," respectively.

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Stocks included in the model portfolio will be weighted from 0 to 100% for Long and 0 to -100% for Short. A stock's weight in the portfolio reflects the analyst's degree of conviction in the stock's rating relative to other stocks in the portfolio. The model portfolio may also include a cash component. At any given time the aggregate weight of the stocks included in the portfolio and the cash component must equal 100%.

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Evercore ISI rating (as of 03/12/2019)

Coverage Universe			Investment Banking Services I Past 12 Months		
Ratings	Count	Pct.	Ratings	Count	Pct.
Buy	369	52	Buy	246	67
Hold	278	39	Hold	138	50
Sell	39	5	Sell	18	46
Coverage Suspended	18	3	Coverage Suspended	13	72
Rating Suspended	8	1	Rating Suspended	5	63

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Price Charts

Oracle Corporation Rating History as of 03/12/2019



Ratings Key

B	Buy	OP	Outperform	L	Long	CS	Coverage Suspended
H	Hold	IL	In Line	NP	No Position	RS	Rating Suspended
S	Sell	UP	Underperform	S	Short		

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