

Oracle Co. (NYSE: ORCL)

Sector: Technology

Intrinsic Value	Current Price	52 Week High	52 Week Low	Beta	P/E	Market Cap	Dividend Yield
\$44.00	\$37.10	\$38.77	\$29.86	1.15	15.95	\$168.43B (Large Cap)	1.28%

Industry Trends

The three biggest trends in the Technology Sector right now are...

- 1) The shift from physical infrastructure to the cloud
- 2) The shift from installed software to "as-a-service" also known as SaaS
- 3) The shift from desktop/PCs to mobile computing

These recent trends have intensified the competitive nature of this sector. Technology companies are battling one another more than ever in hopes of capitalizing on these recent trends. Aside from competition, we also noticed that technology companies are "cheap" relative to other sectors. Right now, technology companies are experiencing above average free cash flow yields. It is a good time for us to build up our position in the Technology Sector in order to reap the benefits from these current shifts.

Investment Thesis

Oracle is a database giant that has recently expanded into other areas such as software, middleware, hardware, applications and services. Oracle owns 48% of the database market and is using their size and resources to break into cloud computing. What started off as a database company has now evolved into a complete enterprise IT solutions company. They are able to offer customized software and applications to go along with their databases. With their recent acquisitions of Sun Microsystems, BEA systems and Peoplesoft as well as many others, they are able to provide customers with the complete IT solution. In addition, they are heavily investing in cloud computing while still being able to increase margins, ROE, dividends, and stock buybacks.

Business Summary

Oracle invests in and owns software, hardware, middleware, applications, databases, servers – and customers simply rent it. What started off as an enterprise database company has evolved into much more. Since 2005, Oracle has made over 80 acquisitions in various areas such as hardware, software, middleware, applications and services. Through the acquisitions they are now able to offer their customers a complete solution for their IT needs. The way that Oracle earns its revenues is by making their customers sign yearly contracts and pay licensing fees for using their products and services. Growth opportunities are related to shifts from physical infrastructure to cloud computing. Oracle continues to invest in research and development that is related to cloud computing. Oracle plans to use the cloud to improve the integrability between their products and services while reducing costs.

Oracle's business breakdown is, 74% software, 14% hardware, and 12% services. Software is broken down into two groups, Licenses & Subscriptions and Software Support. Fees earned from providing customers access to their databases, middleware, applications and software fall under Licenses & Subscriptions. This part of their business accounts for 28% of their total revenue in 2013 and the total margin associated with this area is 29%. For an additional fee, customers can receive automatic software updates, assistance with new software rollouts, maintenance, and customer support. This is classified as Software Support and accounted for 46% of Oracle's revenues in 2013. This area had a total margin of 88%. The hardware business has much lower margins but Oracle uses hardware as an opportunity to attach the higher margin software to the sale. The service aspect of their business includes consulting, managed cloud services and education services. This is an area where Oracle wants to grow.

Report Prepared By:

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Source: Bloomberg Terminal, Value Line Investment Survey, Google Finance

ORCL 5-year stock performance vs. S&P 500:



Competition:

Five of Oracle's major competitors are:

- Microsoft, Inc. (\$307.25bn)
- International Business Machines Co. (\$195.06bn)
- SAP AG (\$92.46bn)
- Hewlett-Packard Co. (54.38bn)
- Salesforce.com, Inc. (35.22bn)

Pros:

- 48% market share in the database market
- Acquired 80 companies since 2005, which allowed them to grow their product portfolio into other areas that compliment their database business
- Growth within their software business, which has a much higher margin than their other business areas
- Well positioned to capitalize on the current shift toward cloud computing
- More focused on increasing dividends and stock buybacks when compared to the past

Cons:

- Slight decrease in hardware sales
- Risk that there will be an unsuccessful shift into the cloud computing area
- Risk that their database market share could decrease as a result of competition

Corporate Social Responsibility:

ESG Disclosure Rating	26.03 (Ind. Avg.: 26.32)
Environmental Disclosure Score	N/A (Ind. Avg.: 27.39)
Carbon Disclosure Score	N/A (Ind. Avg.: 68.75)
Social Disclosure Score	N/A (Ind. Avg.: 28.36)
Governance Disclosure Score	N/A (Ind. Avg.: 52.86)
Equal Opportunity Policy	1 (Ind. Avg.: 1)
Community Spending	N/A (Ind. Avg.: 227.37M)
Total Energy Consumption	N/A (Ind. Avg.: 2.22)

Value Estimate:

- \$65 - \$105 (2018 - 2023)
- Estimated Real Annual Return: 10% - 12%

Overall Rating:

Expected inflation	2%
Current EPS	2.38
Forecasted EPS Growth	15.08%
Credit Quality	A++
ROE	25.40%
ROA	13.41%
Price/Book	3.87
Debt/Equity	54.84
Debt/Capital	35.42
Current Ratio	3.38
Price/Cash Flow	11.47
10 yr. Risk Free Rate	2.7%
WACC	10.30%



Student Managed Fund